



CONSTRUCTION SECTOR IN GEORGIA

TBILISI, 2018

Author:

Beso Namchavadze

Research Supervisor:

Levan Natroshvili

The Policy Paper was prepared with the financial support of the
Ministry of Foreign Affairs of the Kingdom of Norway



Norwegian Ministry
of Foreign Affairs

CONTENTS

Executive Summary	4
Introduction	6
Chapter I. Regulatory Framework of Construction Sector	7
1. Legislative framework	7
2. General practice of issuance of construction permits	10
Chapter II. Basic Indicators and Trends of Construction Sector	16
1. Basic economic indicators and trends	16
2. Completed constructions and construction permits	20
3. Large, medium and small businesses	25
4. Regional dimension of construction sector	29
5. Real estate sales and prices	37
Chapter III. Large construction enterprises: Participation in Public Procurement and Links with Politics	46
Conclusion	53
Recommendations	56

EXECUTIVE SUMMARY

In 2014-2017, construction sector has been the fastest growing sector (57%) of Georgia's economy. On the one hand, fast growth of construction sector strengthens Georgia's economy and creates additional employment opportunities, but, on the other hand, this process causes certain problems. Reasons for these problems are high concentration of constructions (80%) only in Tbilisi and Batumi, weak regulations and bad practice of issuance of construction permits.

In the first half of 2018, construction sector decreased by 0.3. Decreased number of permits issued for increase of K2 coefficient caused this reduction. As a result, the share of construction sector in Georgia's economy has decreased from 9.3% (2017) to 8.6%.

71 600 contracted employees work in construction sector, which is 9.6% of contracted employees working in all sectors. GEL 1 461 is an average nominal monthly salary in construction sector and this figure is only behind average salary in finance sector. Fast growth of construction sector leads to higher salaries. Since 2010, an average nominal salary has doubled in this sector.

In July 2018, the Parliament of Georgia adopted new Construction Code. In parallel to enforcing this Code, currently existing regulatory documents will lose their power. The Code mostly has a general character and defines the sphere of regulation. After adoption of this Code the Government should adopt 14 by-laws. The Code will be in full effect from 1 January 2022. However, local municipalities will have time to develop their plans until 1 January 2028.

According to the World Bank's Doing Business Index, Georgia ranked #27 in the world in terms of construction regulations. The World Bank considers quality control of constructions the weakest sides of Georgia.

Zoning agreements frequently cause so called chaotic development of Tbilisi. In the end of 2017, Tbilisi City Hall's zoning council was abolished and its functions were transferred to Urban Development Service of Tbilisi City Hall. As a result, number of permits issued for increase of K2 coefficient decreased. In the first half of 2018, only 53 permits were issued.

In 2014-2016, compared with 2009-2013, permits for increase of K2 coefficient has increased by 54%. Moreover, a possibility to raise K2 coefficient increases corruption risks, which is directly reflected in connections of the members of Tbilisi City Hall zoning council with construction business and politicians.

During 2006-2016, construction permits for building of 63.4 million m² have been issued. This means that construction area will significantly increase in future, which is good if not one issue: 51% of construction permits are issued in Tbilisi and 28% - in Adjara.

According to the census conducted in 2014, Tbilisi was the most densely populated territory in Georgia with 2 199 persons living on one km² on average. 79% of construction permits were issued for living purpose.

There are many large, medium and small enterprises in construction sector. There are no signs of monopoly or oligopoly in construction market. There are 43 large, 281 medium and 6 620 small enterprises in this sector. Although 43% of employees work in small enterprises, salaries are two times higher in large enterprises.

Real estate sales have a growth trend. In 2017, sales increased by 11%. The highest growth rate (34%) was in Adjara, mainly in Batumi.

In Tbilisi 43% of real estate sales are concentrated in Saburtalo and Vake. 54% of ongoing constructions are located in these districts too.

During the last three years, real estate prices have been stable In Tbilisi. The prices in USD have increased only by 1.6% and by 7% - in GEL. In Tbilisi the most expensive real estate (USD 1 124 per 1 m²) is in Mtatsminda district and the cheapest one is in Samgori (USD 547).

Another interesting issue is participation of large construction companies in public procurement and their links with politics, including donations made in favor of political parties. In 2017, 63% of public procurement was spent on construction works.

Companies connected with political donors often win public contracts through simplified procurement process. This contains corruption risks. Before 2012, all large construction companies, except those that were linked with Bidzina Ivanishvili, have been donating to the UNM. Since 2012, after the change of government, construction companies have not donated anything to the UNM. However, some of them became donors of the GD - new ruling party. During 2011-2018, construction companies, which had a status of large enterprise as of 1 November 2018, have donated up to GEL 2 million to various political parties. During the same period, these companies have received GEL 700 million from public tenders and GEL 90 million – through simplified public procurement.

INTRODUCTION

Transparency International Georgia (TI Georgia) periodically studies various large sectors of Georgia's economy, which can have an important impact on country development. During previous years, TI Georgia has published reports on fuel market, pharmaceutical and hospital sector, postal service market, gambling market etc. Now we present a report on construction sector.

Construction sector includes both private-funded constructions and state-funded infrastructure projects like building of roads, bridges etc.

In 2014-2017 construction sector was the fastest growing business in Georgia. Both private- and state-funded constructions have been growing during the mentioned period.

In most regions of Georgia there are no large-scale construction works. We have a different picture in Tbilisi and Autonomous Republic of Adjara (Adjara). Large-scale construction works in Tbilisi made this issue interesting for public. More specifically city development, regulations and corruption were among most viral issues. Reporting period is 2006-2018. However, the report heavily focuses on developments of last 4-5 years.

First chapter of the report reviews regulatory framework of the construction sector. Together with the quality of construction, practice of issuance of construction permits remain one of the challenges of regulatory framework. Therefore, we analyzed these issues too.

Second chapter reviews basic economic indicators and trends of the construction sector, the structure of construction market, completed constructions and issued permits, size of enterprises, regional dimension of this sector and basic data on real estate prices and sales.

Third chapter reviews information on large construction companies, their connections with politics and interests in public procurement.

Final part of the report summarizes key findings and presents recommendations.

CHAPTER I. REGULATORY FRAMEWORK OF CONSTRUCTION SECTOR

1. LEGISLATIVE FRAMEWORK

Legislative framework of the construction sector could be unified under name of “Spatial Development, City-building and Construction”, which includes four laws, one decree of the President and six decrees of the Government.¹ Moreover, local municipalities regulate certain construction issues.

Law of Georgia on Spatial Development and Basis for City-building regulates the spatial development and the process of city-building, including the development of the accommodations, settlements and infrastructure regarding the requirements of the cultural heritage and environmental policies. In this field, the law defines the rights and obligations of the state authorities, physical and legal entities, principles of spatial development and city-building, its priorities, goals and tasks, as well as the form and the role of the spatial-territorial planning and planning documents in terms of the development of the territorial development of Georgia.² This law will be in effect until 3 June 2018.

Product Safety and Free Circulation Code aims to: protect human life, health, property and environment; ensure safe products on the market and their free circulation; ensure competition and promotion of products during the process of delivery and entering the market; ensure compliance with the rules of exploitation of the objects of excessive technical risk through the state supervision and control; introduce inspection system through the risk analysis and assessment; establish the technical inspection system of objects of excessive technical risk and creation of legal basis for the activities of inspection bodies; define the powers of the legal entity of public law - technical and construction supervision agency and inspection bodies in the areas of exploitation and control of the objects of excessive technical risk; ensure the implementation of the construction activities in full compliance with the requirements of the Technical Regulations and the Georgian legislation as well as the best practices in standardization, metrology, and accreditation.³

Law of Georgia on Construction Activity - The Law defines legal, organizational and economic peculiarities of the relations between the participants of the construction activities on the territory of Georgia. It also defines the mechanisms for keeping and regulating the norms related to such activity.⁴

Law of Georgia on Architectural Activity – Apart from the development of architectural art, the purpose of the Law is to develop a comprehensive, ecologically safe, aesthetic

1 The Ministry of Economy and Sustainable Development of Georgia; <http://www.economy.ge/?page=ecoleg&s=21&lang=en>

2 Ibid

3 Ibid

4 Ibid

environment for the life and residence of human beings on the territory of Georgia.⁵

Decree N660 of the President of Georgia of November 24, 2007 on Adoption of the Rule of Approval of Legalization of Unlawful and/or Illegal Constructions or Parts of Constructions by the Issuing Authority of the Construction Permit - this rule defines the decision making process on unlawful and/or illegal construction and the ways of their legalization.

The Rule applies to unlawfully and/or illegally constructed projects or their parts, as well as unauthorized use of multistoried houses with end-to-end constructions dated no later than 1 January 2007, completion of which does not imply increasing or/and adding additional store (stores) or/and end-to-end constructions.

The Rule also applies to unfinished individual residential houses dated no later than 1 January 2007 with maximum space of 500 m², if their arrangement is completed at the ground level. ⁶

Decree N57 of March 24, 2009 of the Government of Georgia on Regulation of Permission for Construction and Permit Conditions - the Rule regulates the process of issuing construction permits on the territory of Georgia, as well as the fulfillment of the permit conditions and recognition of building facilities. The purpose of the Rule is to ensure the implementation of the requirements and principles of the Law of Georgia on Licenses and Permits in the area of its regulation.⁷

Decree N261 of August 25, 2010 of the Government of Georgia on Approval of the Law for Establishing the Boundaries for the Land Plots of the Commonwealth of the Ownership Members - the purpose of this regulation is to set the borders of the land plots of settlements of Georgia and define the management principles for the complete functioning. The Law regulates the establishment and approval of the borders of the land plots for the multi-dwelling houses.⁸

Decree N50 of March 7, 2013 of the Government of Georgia on Access of Operation of the Technical Regulations of Foreign Countries in Georgia, Recognition of Documents, Accrediting Products without Conformity Assessment Procedures and Free Access of Foreign Products to Georgian Markets Assigned to Regulated Areas – this Decree gives access to the Technical Regulations in the member-states of the European Union and the Organization for Economic Cooperation and Development of Georgia.⁹

Decree N59 of January 15, 2014 of the Government of Georgia on Use of Urban Areas and Main Provisions of Approval of Plant Regulation - the Rule regulates specific legal relationships of the city building and determines the legal rights and obligations of the participants as well as the third parties. Its aims to define the rules of housing and

5 Ibid

6 Ibid

7 Ibid

8 Ibid

9 Ibid

planting on the whole territory of the country, to define the composition of the land use master plan and plant regulation plan, to form, approve, edit or publicize the documents for the spatial-territorial development of settlements, as well as to determine the maximum heights and construction conditions of building.¹⁰

Decree N52 of January 14, 2014 of the Government of Georgia on Validity of Operation and Recognition of Technical Regulations of Construction in Georgia - this Rule regulates the existing technical regulations of Georgia remained from the period of former Soviet Union till 1992 and thereafter, which are not contrary to applicable legislation and/or the international treaties to which Georgia is a party.¹¹

Decree N41 of January 28, 2016 of the Government of Georgia on Approving Technical Regulations for the Safety Rules for Buildings - this Technical Rule regulates the planning, fire safety, provision of exit facilities and other requirements for the design, construction and use of buildings.

In July 2018, the Parliament of Georgia adopted **Code of Georgia on Spatial Planning, Architecture and Construction (Construction Code)**, which was written by the Ministry of Economy and Sustainable Development. The Construction Code aims to:

1. Consider clearly structured procedures for spatial planning and development and adoption of city-building plans;
2. Regulate special zoning agreements and the issue of so called “trade with building coefficients”;
3. Ensure legislative guarantees for proactive publication of city-building documentation;
4. Together with expropriation of land, introduce new institution of land exchange;
5. Separate regular construction works from higher technical hazardous constructions;
6. Introduce basic requirements for sustainability, reliability, seismic and fire resistance, energy efficiency and protection from noise;
7. Provide city-buildings safe for human life and health, introduce best construction practice and increase quality of constructions;
8. Ensure stable investment environment by simplification of procedures for construction permits and increase of effectiveness of construction supervision.

The author of the draft law states that the new Construction Code is pursuant with requirements of EU-Georgia Association Agreement. The Code significantly increases quality of construction supervision, which will be done through three ways: 1. Public supervision over construction. 2. Technical supervision over construction and 3. Supervision over construction safety.

10 Ibid

11 Ibid

Public supervision over construction is a mandate of administrative body to supervise fulfillment of the requirements of construction permits, construction safety, receive buildings for exploitation and other requirements of legislation.

Technical supervision over construction includes oversight of construction process in order to ensure fulfillment of requirements given in construction documentation.

In order to reduce risks related to construction of buildings the Construction Code requires developers or construction permit holders to appoint a person, which will be in charge of safety. This is supervision over construction safety.

The Construction Code mostly has a general character and defines the sphere of regulation. After adoption of this Code, the Government should adopt 14 by-laws, for instance, on: Development of Rules for Spatial Planning and City-building Plans, Rules for Issuance of Construction Permits and Exploitation of Buildings, Organization and Safety of Construction etc.

Timeframe for implementation of provisions of the Construction Code is another important issue. The Code will be in full effect from 1 January 2022. However, local municipalities will have time to develop their plans until 1 January 2028. Provisions relate to spatial development will also be implemented later. Mandatory certification of architectural activity will be introduced from 1 October 2020. Information system for spatial and city-building planning should be introduced from 1 January 2022.

2. GENERAL PRACTICE OF ISSUANCE OF CONSTRUCTION PERMITS

Municipal bodies define duties for construction permits. As for legislation, it defines ceilings of duties, which is maximum GEL 1 per one m² of regular buildings; GEL 5 per one m² of industrial buildings.

The issue of construction permits is a part of World Bank's Doing Business Index, which focuses on number of procedures, time, cost and building quality control. Based on these criteria, in 2018 Georgia ranked #27 in the world.¹² The World Bank studies warehouses in all countries in order to define rankings. Georgia took 27th place because getting a construction permit requires:

- **11 procedures** (Denmark has the best score – 7 procedures)
- **63 days** (South Korea has the best score – 28 days)
- **0.3% of warehouse value** (Slovakia, Mongolia and Thailand have the best scores – 0.1%)
- And Georgia got **7 points out of 15 in terms of building quality control** (UAE, New Zealand and Luxembourg have the best score - 15)

12 World Bank's Doing Business Index: <https://bit.ly/2yZrzV2>

According to the same research conducted in 2013, Georgia ranked #2 in the world in terms of construction permits. During the following years, Georgia’s position has worsened due to methodological changes, more specifically, due to adding building quality control index.

The building quality control index includes the following components:

- Quality of building regulations
- Quality control before construction
- Quality control during construction
- Quality control after construction
- Liability and insurance regimes
- Professional certification.

With seven points (out of 15) in building quality control Georgia is even behind some countries in the region: Armenia has eight points, Azerbaijan – 12, Belarus and Bulgaria – 13, and an average score for Eastern European and Central Asian countries is 11.4. More information about World Bank’s building quality control index is given in **table 1**.

Table 1. Building quality control index for Georgia		
Index components	Answer	Score
Building quality control index (0-15)		7.0
Quality of building regulations index (0-2)		1.0
How accessible are building laws and regulations in your economy? (0-1)	Available online; Free of charge.	1.0
Which requirements for obtaining a building permit are clearly specified in the building regulations or on any accessible website, brochure or pamphlet? (0-1)	List of required documents; Fees to be paid.	0.0
Quality control before construction index (0-1)		1.0
Which third-party entities are required by law to verify that the building plans are in compliance with existing building regulations? (0-1)	Licensed architect.	1.0
Quality control during construction index (0-3)		2.0
What types of inspections (if any) are required by law to be carried out during construction? (0-2)	Inspections by in-house engineer; Unscheduled inspections.	1.0

Do legally mandated inspections occur in practice during construction? (0-1)	Mandatory inspections are always done in practice.	1.0
Quality control after construction index (0-3)		3.0
Is there a final inspection required by law to verify that the building was built in accordance with the approved plans and regulations? (0-2)	Yes, final inspection is done by government agency; Yes, in-house engineer submits report for final inspection.	2.0
Do legally mandated final inspections occur in practice? (0-1)	Final inspection always occurs in practice.	1.0
Liability and insurance regimes index (0-2)		0.0
Which parties (if any) are held liable by law for structural flaws or problems in the building once it is in use (Latent Defect Liability or Decennial Liability)? (0-1)	Owner or investor.	0.0
Which parties (if any) are required by law to obtain an insurance policy to cover possible structural flaws or problems in the building once it is in use (Latent Defect Liability Insurance or Decennial Insurance)? (0-1)	No party is required by law to obtain insurance.	0.0
Professional certifications index (0-4)		0.0
What are the qualification requirements for the professional responsible for verifying that the architectural plans or drawings are in compliance with existing building regulations? (0-2)	There are no specific requirements.	0.0
What are the qualification requirements for the professional who supervises the construction on the ground? (0-2)	There are no specific requirements.	0.0

Source: World Bank, Doing Business Index, 2018

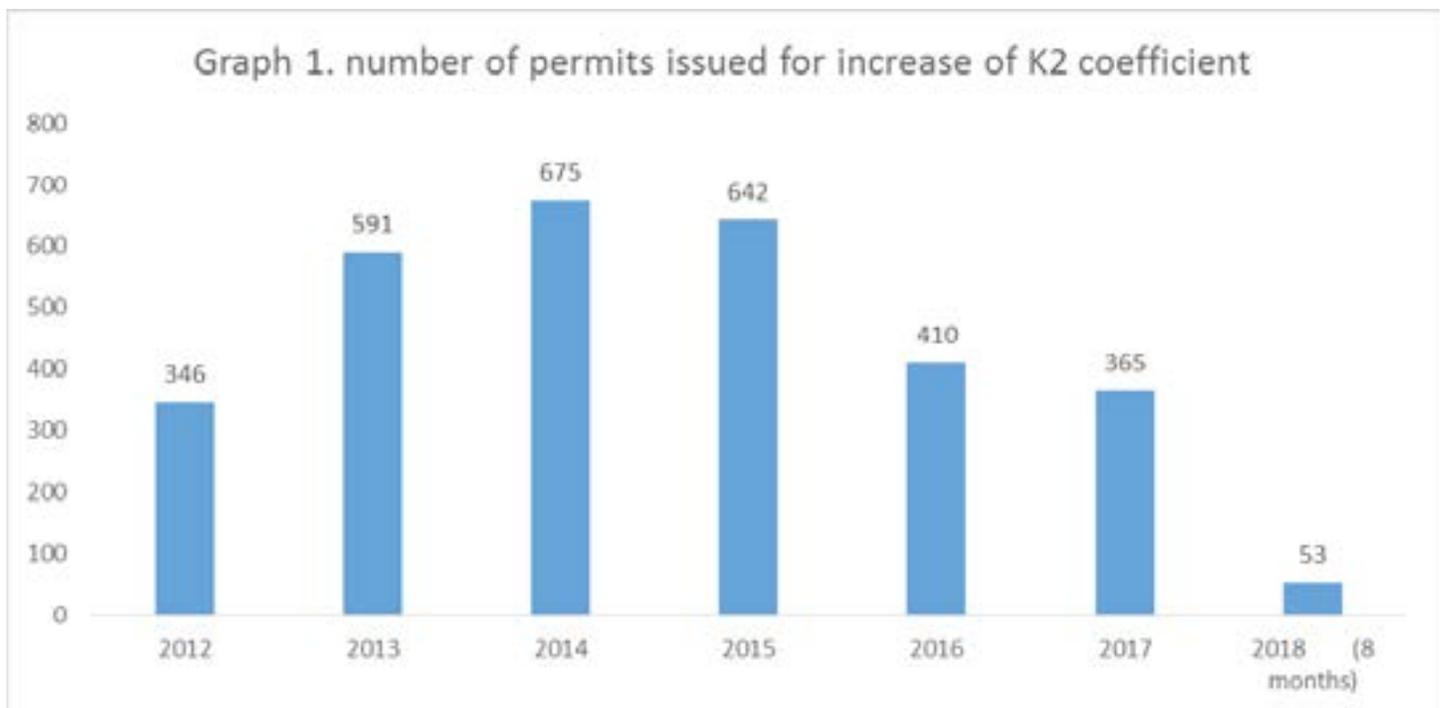
Together with construction permits, another important issue is so called special zoning agreements, which, after paying certain duties, allows a developer to increase coefficient of intensive construction (K2 coefficient). Coefficient of intensive construction is calculated by dividing area of stores of a building into area of land plot. A duty for increase of K2 coefficient was introduced in 2007. Except Tbilisi and Batumi, a permit for increase of

K2 coefficient is given by Construction Policy Department of the Ministry of Economy and Sustainable Development.

Practice of increase of K2 coefficient is a hot topic in Tbilisi, because many times it became a reason for public discontent and a matter of corruption risks. It is noted in an explanatory note of the new Construction Code that existing practice of special zoning agreements and so called trade with coefficients are problematic. On the one hand, it reduces the role of the concept of city-building planning and, on the other; it gives a broad discretion to an administrative body and allows establishing malpractice of different approaches. Moreover, it creates high risks of corruption.¹³

According to David Narmania, a former Tbilisi Mayor, an increase of K2 coefficient was one of the reasons for chaotic development of Tbilisi.¹⁴ According to 24 May 2016 decree of Tbilisi City Assembly, increase of K2 coefficient in central districts of Tbilisi was restricted.¹⁵

In 2015-2016, 1 037 permits were issued for increase of K2 coefficient. In 2009-2014, this figure stood at 1 948. From 2009 to August 2014, Tbilisi municipality on average has issued 336 permits for increase of K2 coefficient annually. From August 2014 to August 2016, this figure stood at 518.¹⁶ In 2017, this figure decreased to 365.



Source: Tbilisi City Budget

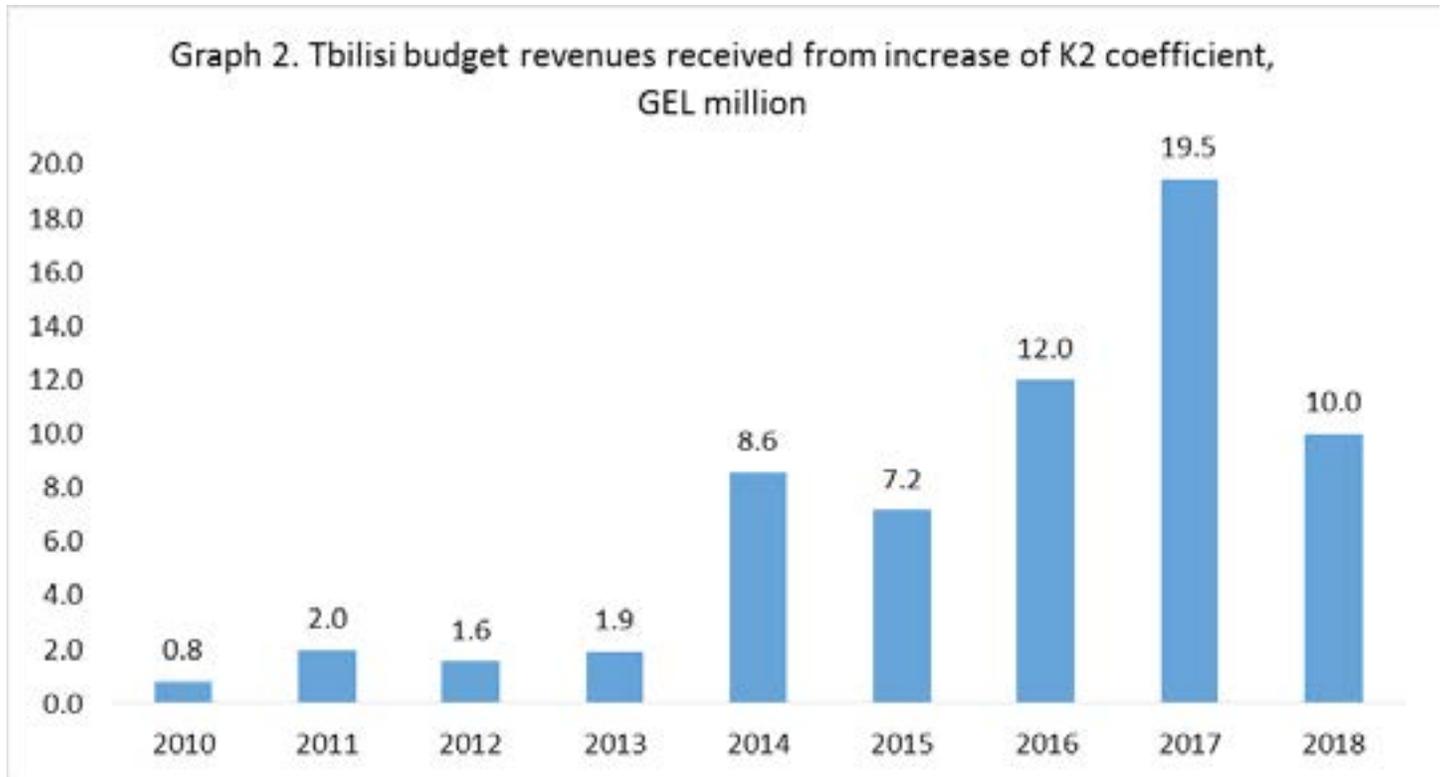
13 Explanatory note of the draft law on Construction Code

14 Fact meter: <https://bit.ly/2KZRPQI>

15 Resolution №14-39 of Tbilisi City Assembly, 24 May 2016

16 Fact meter: <https://bit.ly/2kv48sH>

During last years, revenues received from duties paid for increase of K2 coefficient has significantly increased. In 2009-2012, average annual budget revenue received from “trade with coefficients” was GEL 1.6 million, in 2014-2017 this figure stood at GEL 11.8 million, as for 2018, GEL 10 million is expected to be collected. The highest budget revenue from this source – GEL 19.5 million - was in 2017, regardless the fact that in the beginning of the year only GEL 6.5 million was planned.



Source: Tbilisi City Budget

* For the year of 2018 a planned indicator is given. As for the rest years, factual indicator is given

Such a sharp increase of “trade with coefficients” raised certain questions towards relevant decision makers. TI Georgia studied the issues of conflict of interest and corruption risks in Tbilisi City Hall zoning councils in 2014-2017. According to this research:

- High officials of the Architecture Service had direct or indirect connections to construction business companies and were, at the same time, applicants to the Architecture Service / zoning council. In parallel, they were actively involved in construction business (in the capacity of architects);
- With regard to invited members of the zoning council, we have encountered many instances when invited experts were themselves parties interested in a certain decisions (as applicants to the zoning council, authors and architects of specific projects);
- During the period covered by this study, we have found that persons who have or had direct connections to the ruling political party were among those interested in certain decisions by the zoning council. These persons were also among those who donated to the ruling political team. The cases related to the incumbent and former members of

parliament, Ivliane Tsulaia, Grigol Liluashvili, Gocha Enukidze and Valeri Gelashvili, were especially interesting.¹⁷

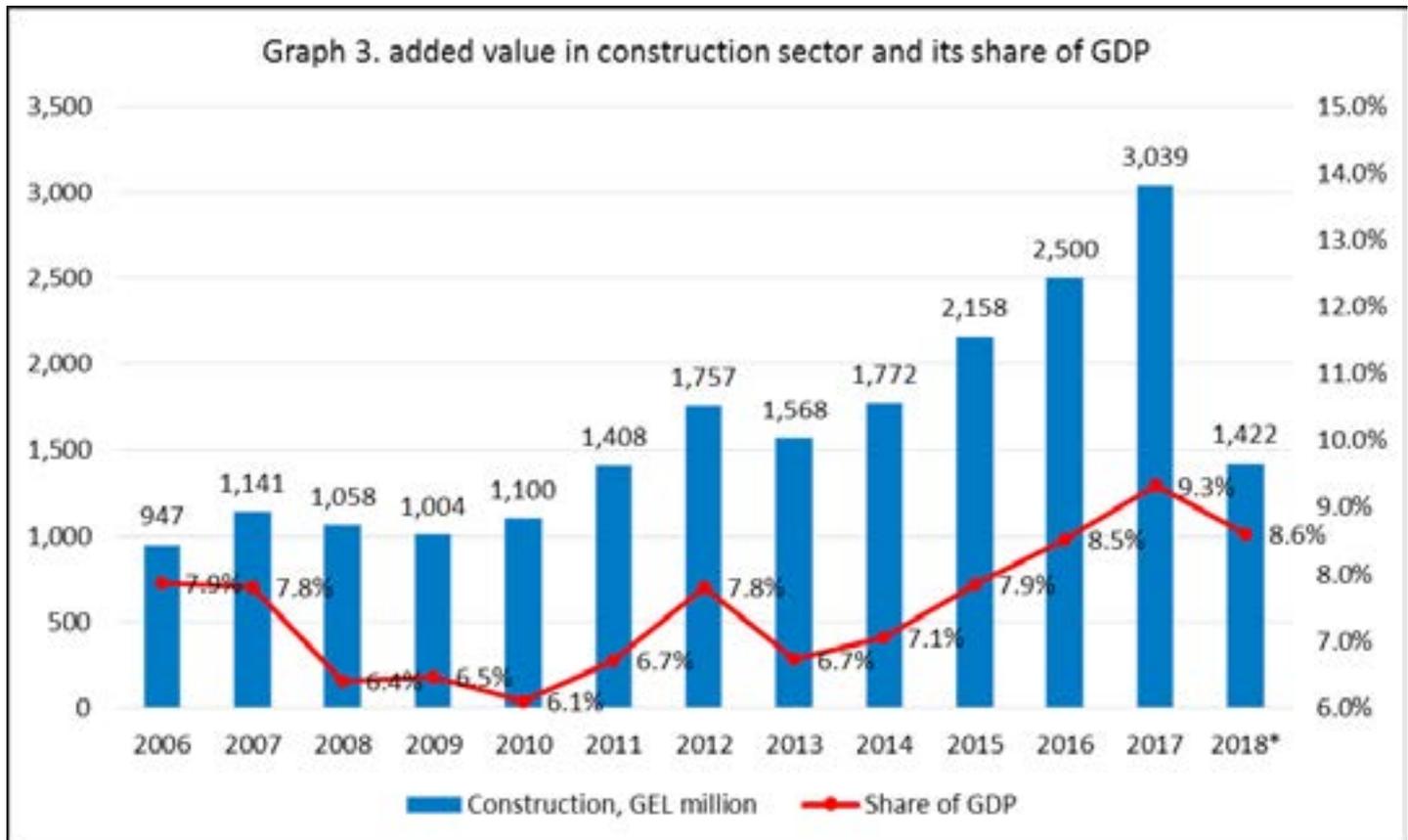
In December 2017, Tbilisi City Hall's zoning council was abolished and since February 2018, its functions were transferred to Urban Development Service of Tbilisi City Hall. From 22 February to 1 September 2018, 53 permits have been issued for increase of K2 coefficient. These permits have been distributed among Tbilisi districts in the following way: Saburtalo District – 10 permits, Chughureti District – 2, Isani District – 4, Vake District – 10, Samgori District – 7, Didube District – 2, Nadzaladevi District – 9, Mtatsminda District – 3, Krtanisi District – 1, and Gldani District – 5.

17 Conflict of Interest and Corruption Risks at the Tbilisi Municipality Regulatory Council on the Use and Development of Territories (Zoning Council), Transparency International Georgia, 2017: <https://bit.ly/2F9es5W>

CHAPTER II. BASIC INDICATORS AND TRENDS OF CONSTRUCTION SECTOR

1. BASIC ECONOMIC INDICATORS AND TRENDS

Construction sector is one of the largest parts of Georgia's economy. In 2017, added value in construction sector exceeded GEL 3 billion, thus, being 9.3% of Georgia's economy (Gross Domestic Product - GDP). Moreover, this indicator has had a growing trend. In 2006 construction sector was 6.7% of Georgia's GDP. In the first half of 2018, this figure was 8.6%.

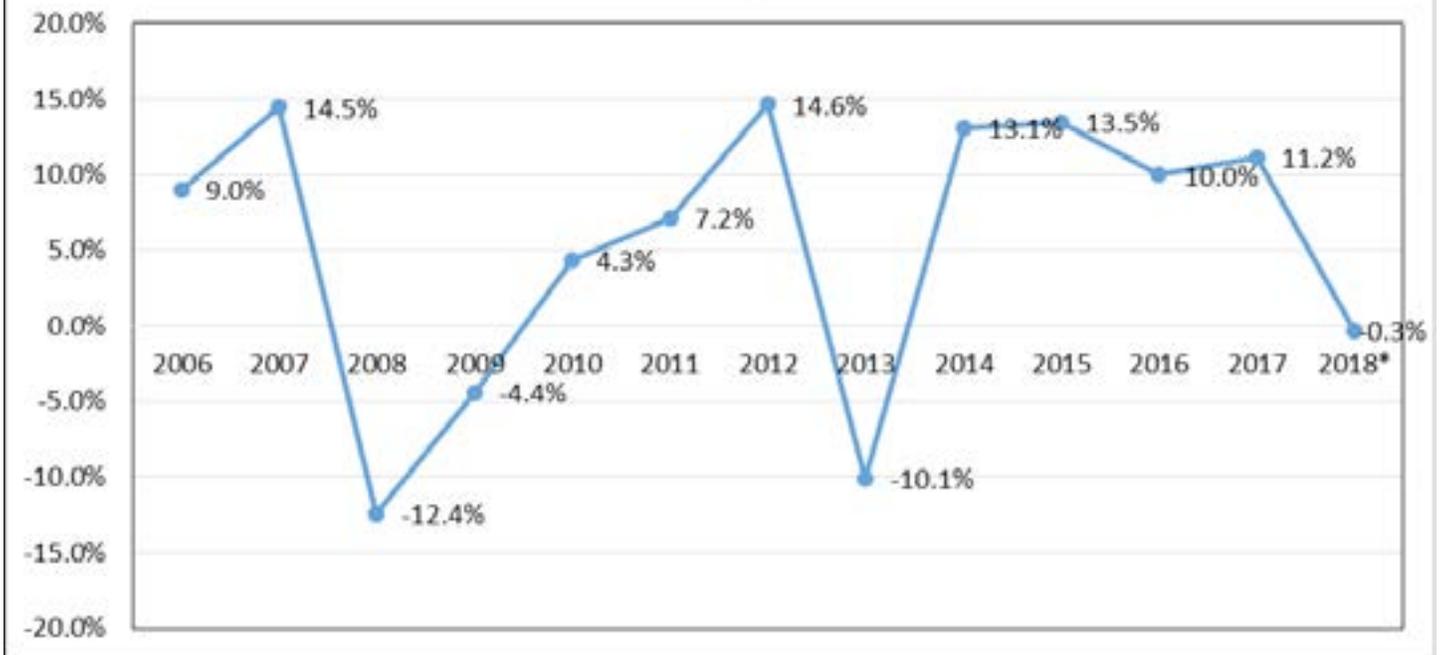


Source: GeoStat

* For 2018 only January-June figures are given

In 2014-2017, Georgia's economy on average has been growing by 3.8% annually, while during the same period an average annual growth rate of Georgia's construction sector was more than triple – 12%. Construction sector significantly decreased (by 10.1%) in 2013. This was caused by reduction of state funding on infrastructure projects. This decrease stemmed from the change of government – a new Georgian Dream (GD) government stopped certain projects initiated by previous government. Since 2013, construction sector decreased (by 0.3%) only once - in the first half of 2018. Decreased number of permits issued for increase of K2 coefficient caused this reduction.

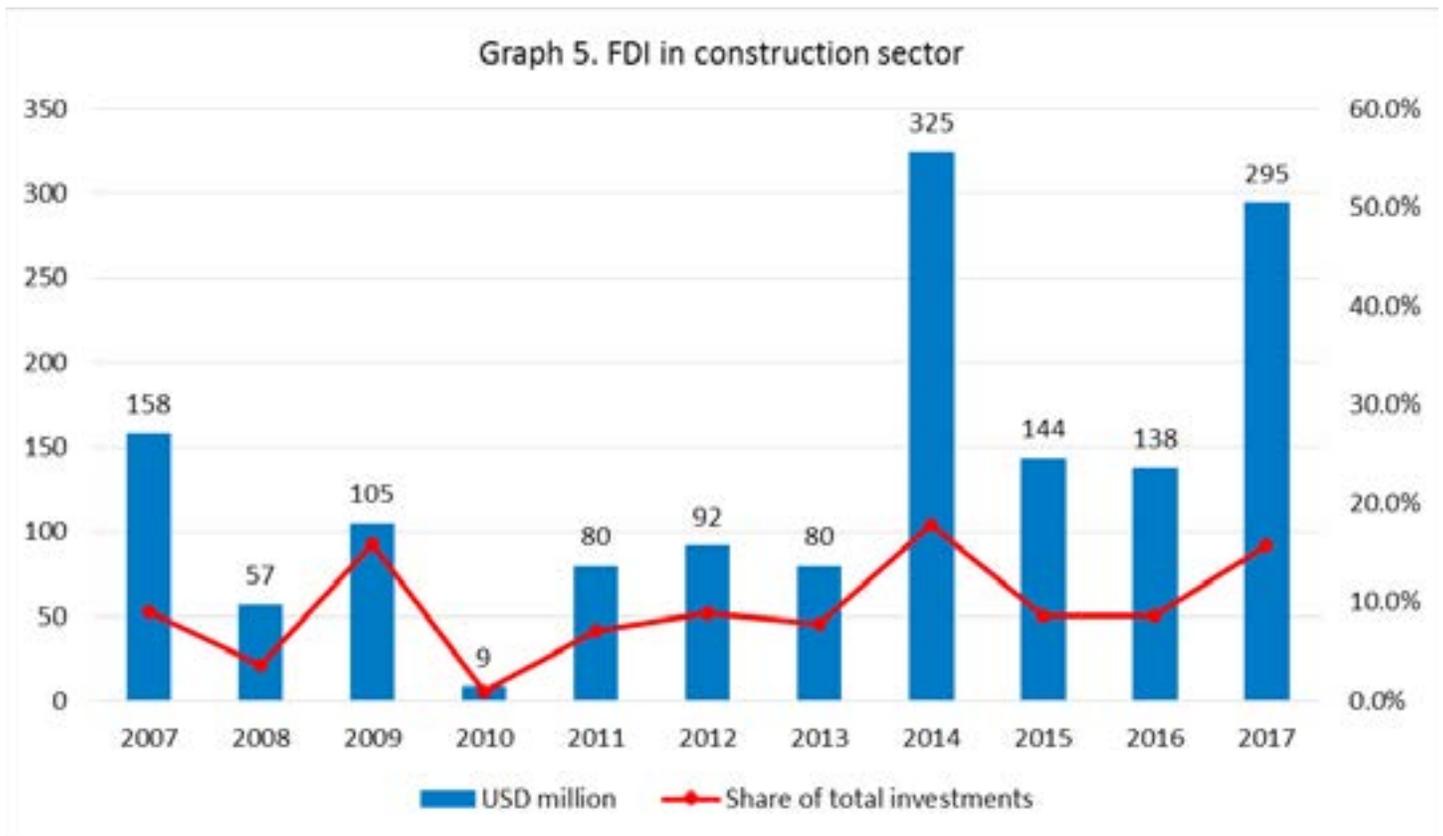
Graph 4. annual growth rate of construction sector (change of real added value)



Source: GeoStat

* For 2018 only January-June figures are given

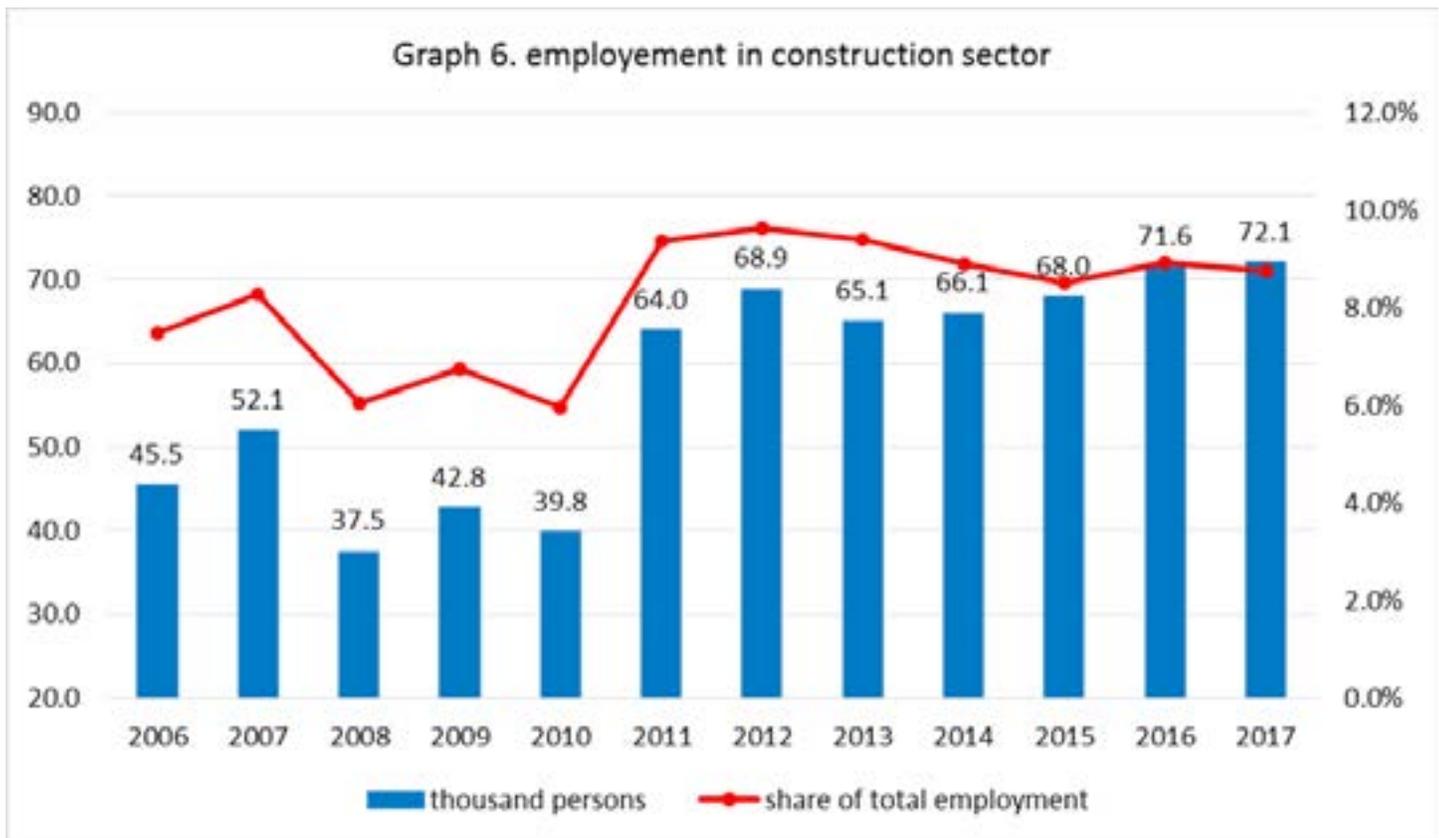
Foreign Direct Investments (FDI) had a positive impact on the growth of construction sector. FDI in construction sector has significantly increased in 2014-2017, when on average USD 225 million has been annually flowing to Georgia. FDI's share in construction sector has also increased and, in 2014-2017, it was on average 13% of total FDI. In 2017, investments in construction sector were only behind investments in transportation (USD 488 million) and finance (USD 304 million) sectors.



Source: GeoStat

Construction sector is one of the largest employers in Georgia. In 2017, 8.7% of total contracted employees worked in this sector. Employment in construction sector has an increasing trend. However, since 2012 share of employees working in construction sector has been decreasing. In 2016, number of employees working in construction sector reached its highest figure – 71 600.

Only 1.2% (901 persons) of contracted employees work in state-owned construction companies, therefore, 98.8% is employed in private construction companies. 53 709 persons (75.5% of employed in this sector) out of 71 203 are employed in local companies and 17 474 persons (24.5%) are employed in foreign companies.



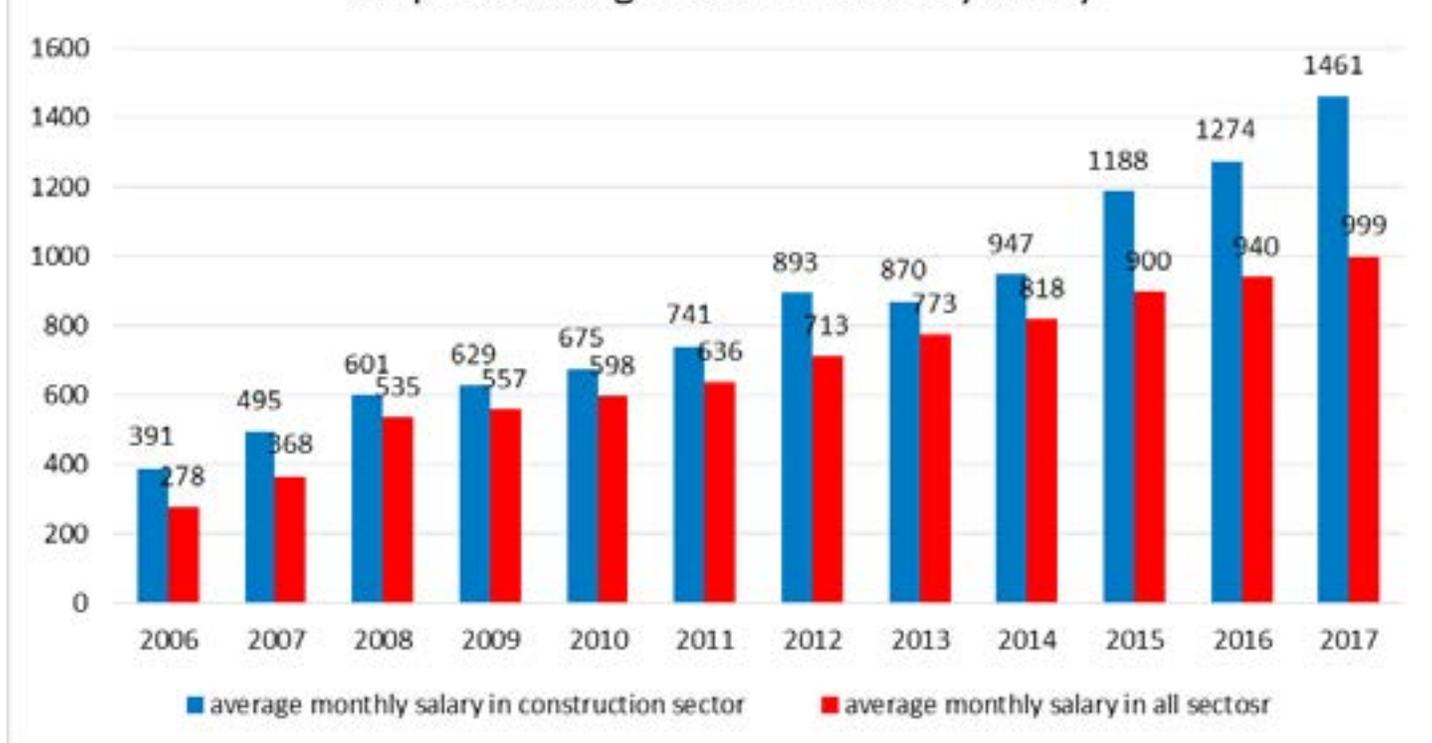
Source: GeoStat

In 2017, GEL 1 461 was an average nominal monthly salary in construction sector and this figure was only behind average salary in finance sector. An average monthly salary in construction sector is 46% more than the same figure for all sectors of Georgia's economy.

GEL 1 059 was an average monthly salary in state-owned construction companies, GEL 1 470 was – in local private companies and GEL 1 859 in foreign private companies.

Together with high average salary for Georgia's reality, the construction sector is also distinct with its high growth rates of salaries. Compared with 2016, in 2017 salaries in this sector grew by 15%. From 2011 to 2017, an average salary in construction sector has doubled. It should also be noted that during last years the practice of informal (without bank transfer) paying of salaries has decreased, which had a positive impact on increase of nominal salaries. Therefore, it is hard to say definitely, what the real growth of salaries since 2011 was.

Graph 7. average nominal monthly salary



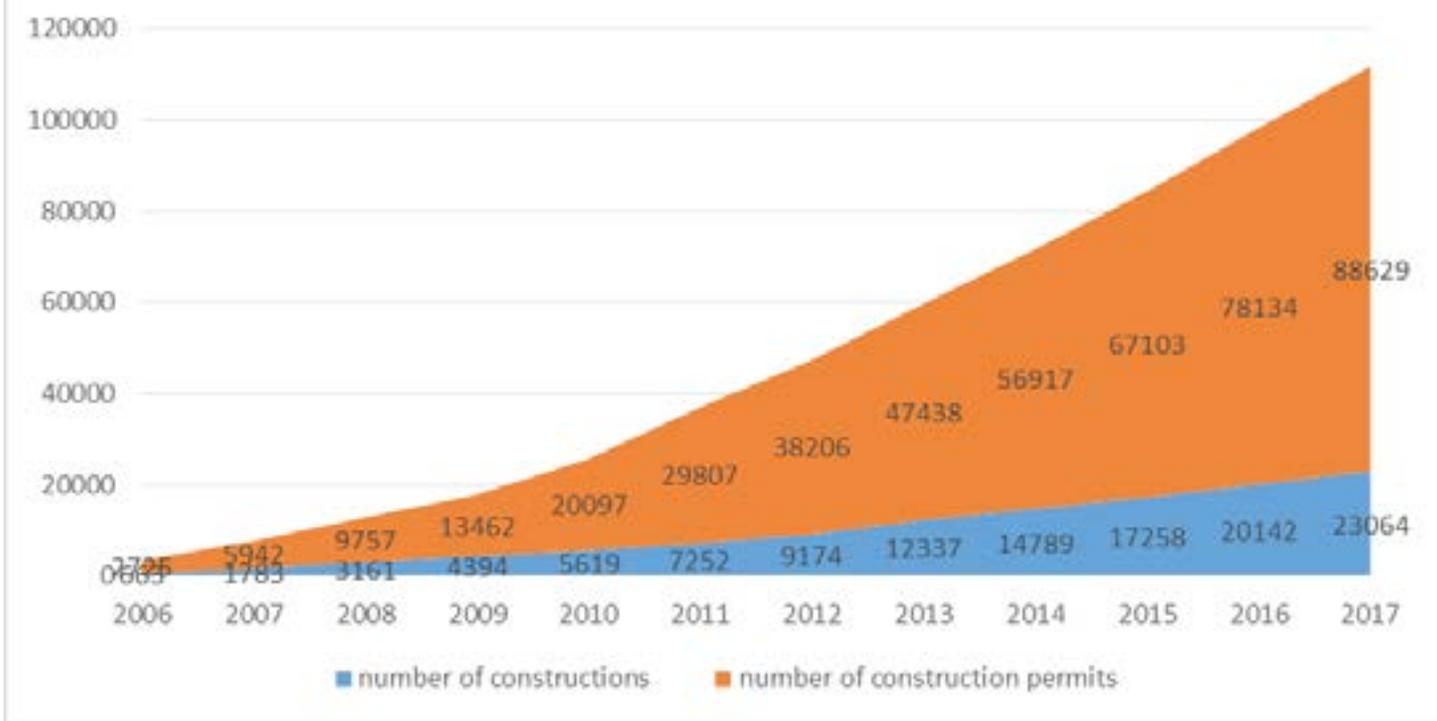
Source: GeoStat

2. COMPLETED CONSTRUCTIONS AND CONSTRUCTION PERMITS

From 2006 to 2017, 23 064 constructions have been completed. On average 1 922 constructions have been completed annually. During last years, this figure have had a trend of growth. However, the largest number of completed constructions (3 163) was in 2013. In 2014-2017, on average 2 682 construction have been completed annually (Graph 8).

During the last 12 years, in total 88 629 construction permits have been issued, therefore, on average 7 386 permits have been issued annually. This figure has had a clear trend of growth: for instance, 2 725 construction permits were issued in 2006, as for 2017, this number quadrupled and reached 10 495. During the last four years, on average 10 300 construction permits have been issued annually. During 2006-2017, number of issued construction permits have been 3.8 times more than number of completed constructions. It means that in the following years number of completed constructions will significantly grow.

Graph 8. total number of completed constructions and construction permits

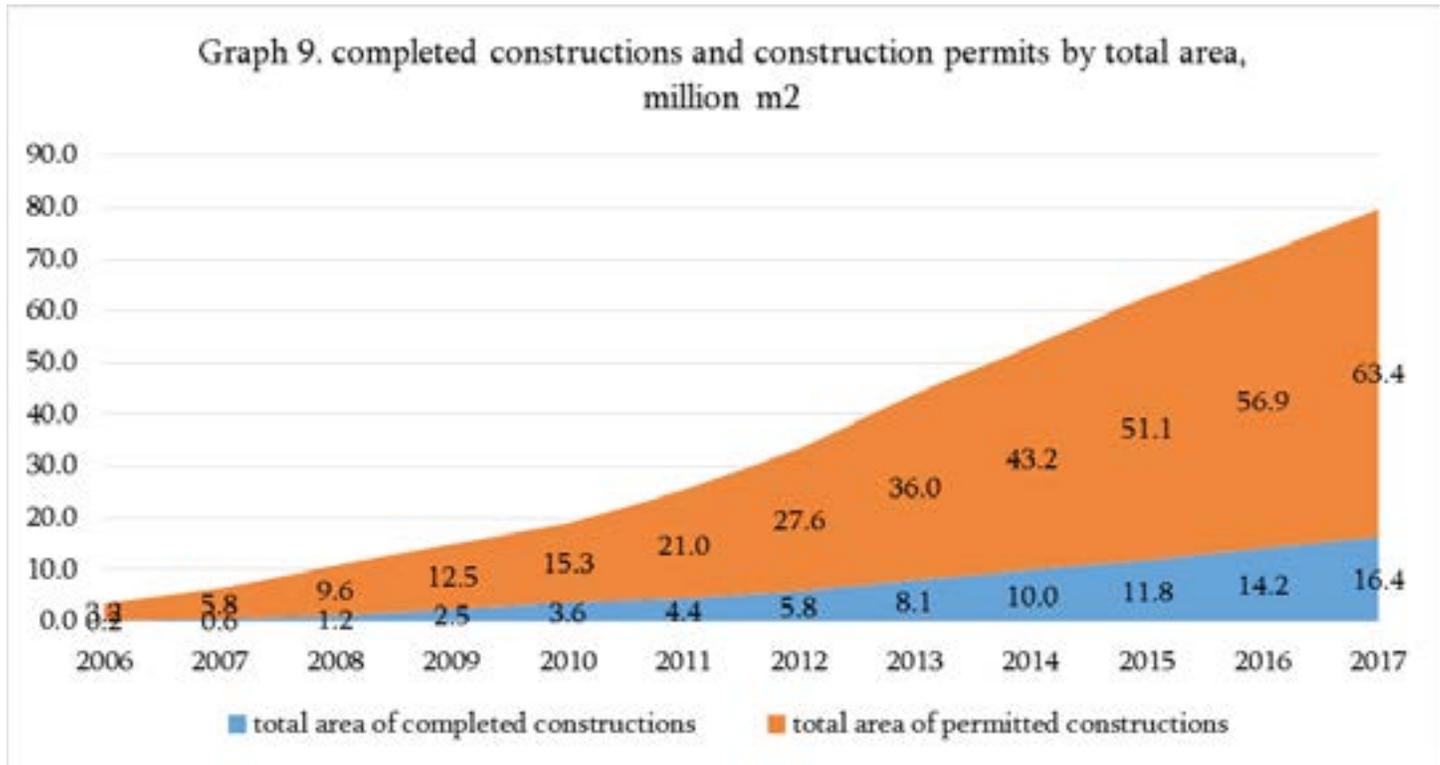


Source: GeoStat

Together with the number of completed constructions, it is interesting to know total area of completed constructions and permits.

During 2006-2012, 16.4 million m² of constructions have been completed, which was 3.9 times less than the area of construction that could have been built during the same period according to the construction permits. During the last 12 years, construction permits for building of 63.4 million m² have been issued.

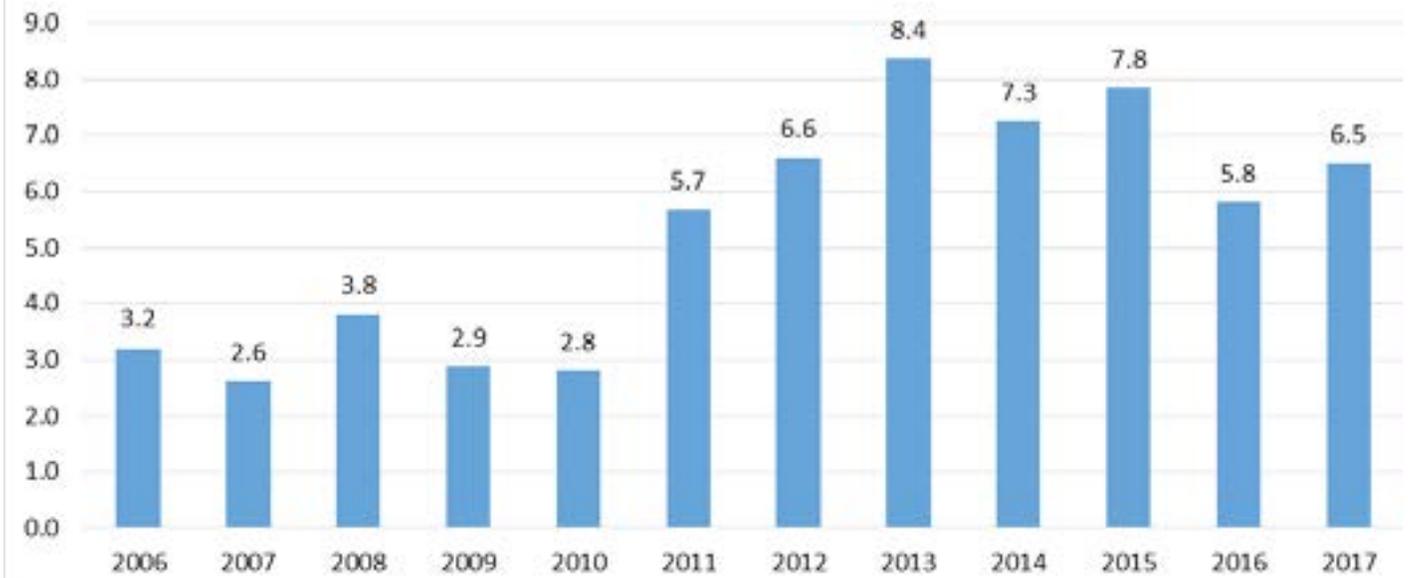
During the last four years, on average 2.1 million m² of constructions have been completed annually, which was 1.5 times more than the same figure for 2010-2013. In 2017, 2.2 million m² of constructions were completed, which was 270 thousand m² (11%) less than the area of constructions completed in 2016.



Source: GeoStat

Construction permits by the area of constructions have not had a clear growth trend. Construction permits for the largest building area – 8.4 million m² were issued in 2013. During the following years, the trend of reduction of this figure has been observed. In 2016, construction permits for building of 5.8 million m² were issued. This number is close to the figure of 2011. However, in 2017, this figure increased by 12%, compared to 2016, and reached 6.5 million m².

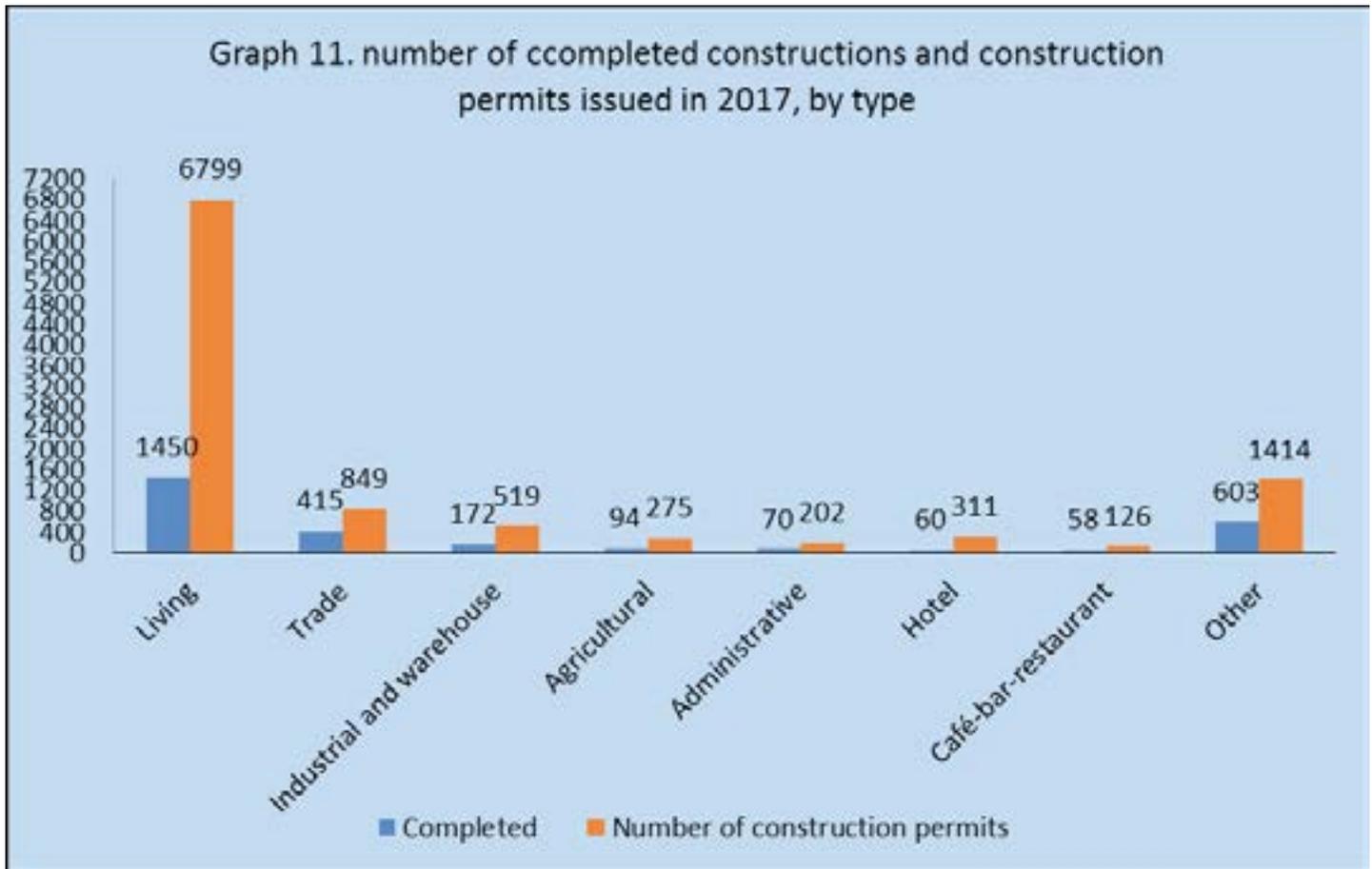
Graph 10. total area of permitted constructions, million m2



Source: GeoStat

It is interesting what kind of constructions are being built in Georgia. In 2017, 1 450 (50%) constructions out of completed 2 922 ones, were built for living purpose. During 2012-2016, this share on average has been almost the same – 51% and neither growth nor reduction trends have been observed. Next large portion of completed constructions – 415 - were trade buildings with 14% of all constructions. Industrial and warehouse constructions were on the third place with 172 constructions (6% of all constructions).

In 2017, constructions for living purpose also were the leading ones based on construction permits. In total 6 799 construction permits were issued in 2017 for that purpose, which is 65% of all permits issued the same year. Number of issued construction permits for living purpose was 4.7 times more than number of completed constructions of the same type. Difference between these two numbers was bigger only for construction of hotels. In 2017, 60 hotels were built, while 311 new construction permits for the same purpose were issued. In all other types of constructions, number of construction permits exceeded number of completed constructions by 2.5 times on average.



Source: GeoStat

If we look at completed constructions by area, here we will also see that constructions for living purpose have the lion's share. In 2017, constructions of 1 351 000 m² were built for living, which is 61% of total construction area. Hotels are next with 166 000 m² (8% of total construction area)

In 2017, the total area of completed constructions was 3 times less than the area of constructions, which were permitted that year. This biggest difference was in hotels – the area of permitted constructions were 6 times more than the area of completed hotels. Constructions for living purpose were next with the difference of three times. For all other types of constructions, this figure was two on average.



Source: GeoStat

3. LARGE, MEDIUM AND SMALL BUSINESSES

Based on methodology established in Georgia for defining size of enterprises, large, medium and small size enterprises are categorized in the following way:

Large enterprise is a business entity, which on average employees more than 249 persons annually or its average annual turnover is more than GEL 60 million.

Medium enterprise is a business entity, which on average employees from 50 to 250 persons annually or its average annual turnover is between GEL 12 million and GEL 60 million.

Small enterprise is a business entity, which on average employees up to 50 persons annually or its average annual turnover is up to GEL 12 million.

As of 1 March 2018, 17 013 enterprises were registered in Georgia's construction sector, out of which 6 944 enterprises had an active status. There were 43 large enterprises (0.6% of total number of enterprises registered in construction sector) out of which 12 were subsidiaries of foreign companies. 281 (4%) companies were labeled as medium enterprises out of which 26 were subsidiaries of foreign companies. Although number of large enterprises was quite small, in 2017, their annual turnover was 31% of total turnover of this sector. During 2011-2013, there has been a trend of decreasing share (24%) of large companies' in total annual turnover. However, during the following years the trend of increase has been observed and this proportion reached its highest point in 2016. As for

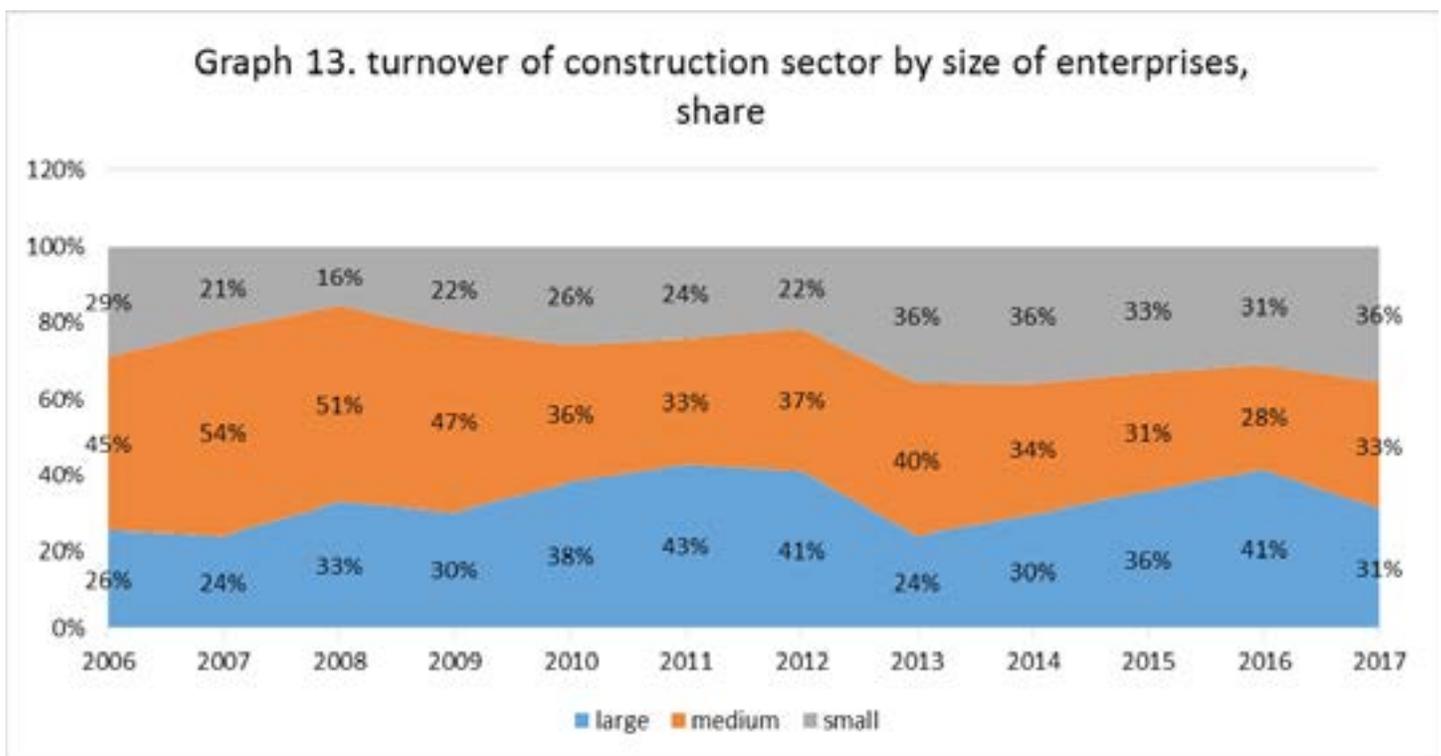
2017, this figure decreased once again to 31%. The share of medium and small enterprises in total turnover was 69%.

Table 2. Large enterprises registered in Georgia's construction sector as of 1 March 2018

Name of Enterprise	Legal Address	Legal Form	Director
Hualing international special economic zone	Tbilisi	JSC	Siaotsin Shao
Transmsheni	Tbilisi	JSC	Tamaz Kotishadze
Behlen Industries Georgia	Tbilisi	Subsidiary of Foreign Company	Sean Andrew Leper
Subsidiary of Azerbaijani Railway DSS Demiriolservice LLC	Tbilisi	Subsidiary of Foreign Company	Ali Ashraaf
Subsidiary of China Nuclear Industry 23 Construction Co	Tbilisi	Subsidiary of Foreign Company	Hu Wang
Georgian Subsidiary of Azerbaijani Railway	Tbilisi	Subsidiary of Foreign Company	Gurban Piriev
Georgian Subsidiary of Sinohydro Corporation	Tbilisi	Subsidiary of Foreign Company	Verbin Sui
Tav Construction Georgia	Tbilisi	Subsidiary of Foreign Company	Erdogan Karabagac
Permanent Subsidiary of 23 rd Bureau Group of China's Railway	Tbilisi	Subsidiary of Foreign Company	Baohua Tian
Georgian Subsidiary of Joint Enterprise Azpen	Tbilisi	Subsidiary of Foreign Company	Togrul Omarov
Georgian Subsidiary of Enka Insaat Ve Sanay Anonim Sirketi	Tbilisi	Subsidiary of Foreign Company	Hakan Cosan
Georgian Subsidiary of Far East Development B.V.	Tbilisi	Subsidiary of Foreign Company	Shemsi Jenk Javlaz
Georgian Subsidiary of Accord, Accord Georgia	Tbilisi	Subsidiary of Foreign Company	Alik Japarov

Peri LLC	Tbilisi	LLC	Ioseb Mtchedlishvili
Anagi LLC	Tbilisi	LLC	Irakli Gogolishvili
BK Capital LLC	Tbilisi	LLC	Revaz Kevanishvili
Burji LLC	Tbilisi	LLC	Giorgi Ksovreli
In-si LLC	Tbilisi	LLC	Zviad Toidze
Dagi LLC	Tbilisi	LLC	Mikheil Sharangia
Servive Net Group LLC	Tbilisi	LLC	Levan Urushadze
Black Sea Group Company LLC	Tbilisi	LLC	Amiran Mamutchadze
Zimo LLC	Tbilisi	LLC	Zurab Kiknadze
State Construction Company LLC	Tbilisi	LLC	Giorgi Shengelia
AS Georgia LLC	Tbilisi	LLC	Murad Ispandiarov
Saba Construction LLC	Tbilisi	LLC	Levan Targamadze
DT ENGINEERING LLC	Tbilisi	LLC	Emre Ozer
KavkazEnergо LLC	Tbilisi	LLC	Zurab Javelidze
Archeopolis JSC	Senaki	JSC	Nugzar Chvamania
Snergy Construction LLC	Akhaltsikhe	LLC	Gokan Karabekiroglu
Metro Mef JSC	Batumi	JSC	Raul Kakhadze
Orbi Group LLC	Batumi	LLC	Irakli Kverghelidze
Orbi Group Batumi LLC	Batumi	LLC	Irakli Kverghelidze
Georgia Gas Project LLC	Batumi	LLC	Giorgi Kadagidze
AGE BATUM LLC	Batumi	LLC	Iavuz Diker
Gza LLC	Batumi	LLC	Malkhaz Dumbadze
Road Construction Unit №1 LLC	Gori	LLC	Shota Abuladze
Ibolia LLC	Gori	LLC	Davit Goderdzishvili

Gas Construct LLC	Ozurgeti	LLC	Giorgi Danelia
Unimsheni LLC	Ozurgeti	LLC	Ghia Khmelidze
Georgian Subsidiary of Altcom Road Construction	Samtredia	Subsidiary of Foreign Company	Alexander Valuikin
Gazservice LLC	Kutaisi	LLC	Giorgi Dzotsenidze
Sakmilsadenmsheni LLC	Tskaltubo	LLC	Avtandil Lomtadze
Imereti Construction Enterprise Cooperation	Zestaponi	JSC	Ruben Chinchaladze



Source: GeoStat

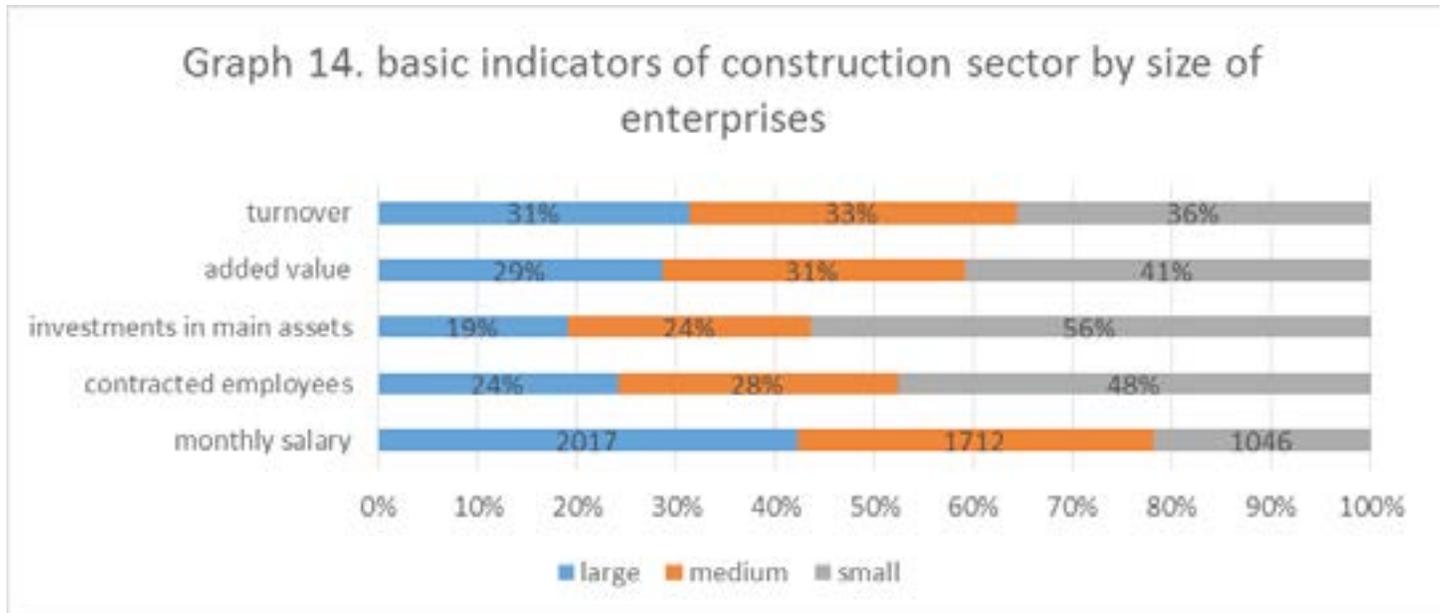
In general, 40% of total turnover in all sectors of Georgia’s economy comes from large enterprises. Therefore, this proportion in construction sector is pursuant with the overall picture.

As for other basic indicators of construction sector, 29% of added value and 19% of investments in main assets¹⁸ in this sector come from large enterprises.

Share of persons employed in large construction enterprises (24%) is less than large

¹⁸ Main assets are such assets, which are used multiple times or for a long term in production process

enterprises' share in terms of turnover. Small enterprises are distinct with this regard since 56% of employees work in small construction enterprises. However, large enterprises pay much more than medium or small ones. Average nominal monthly salary of an employee who works in a large enterprise is GEL 2 017, which is 1.2 times and 1.9 times more than in medium and small enterprises, respectively. Therefore, an average monthly salary in total construction sector is 27% less than that of large construction enterprises.



Source: GeoStat

4. REGIONAL DIMENSION OF CONSTRUCTION SECTOR

Geographically construction sector is unevenly developed in Georgia. Based on all criteria, 60% of construction sector is concentrated in Tbilisi. Tbilisi together with Adjara holds 75-85% of the sector.

In 2017, 71% of total turnover of construction sector (GEL 4.8 billion) came from Tbilisi and 13% - from Adjara. The remaining 16% was distributed among nine regions of Georgia. Racha-Lechkhumi - Kvemo Svaneti was the smallest shareholder (0.3%).

Graph 15. turnover, GEL million, 2017

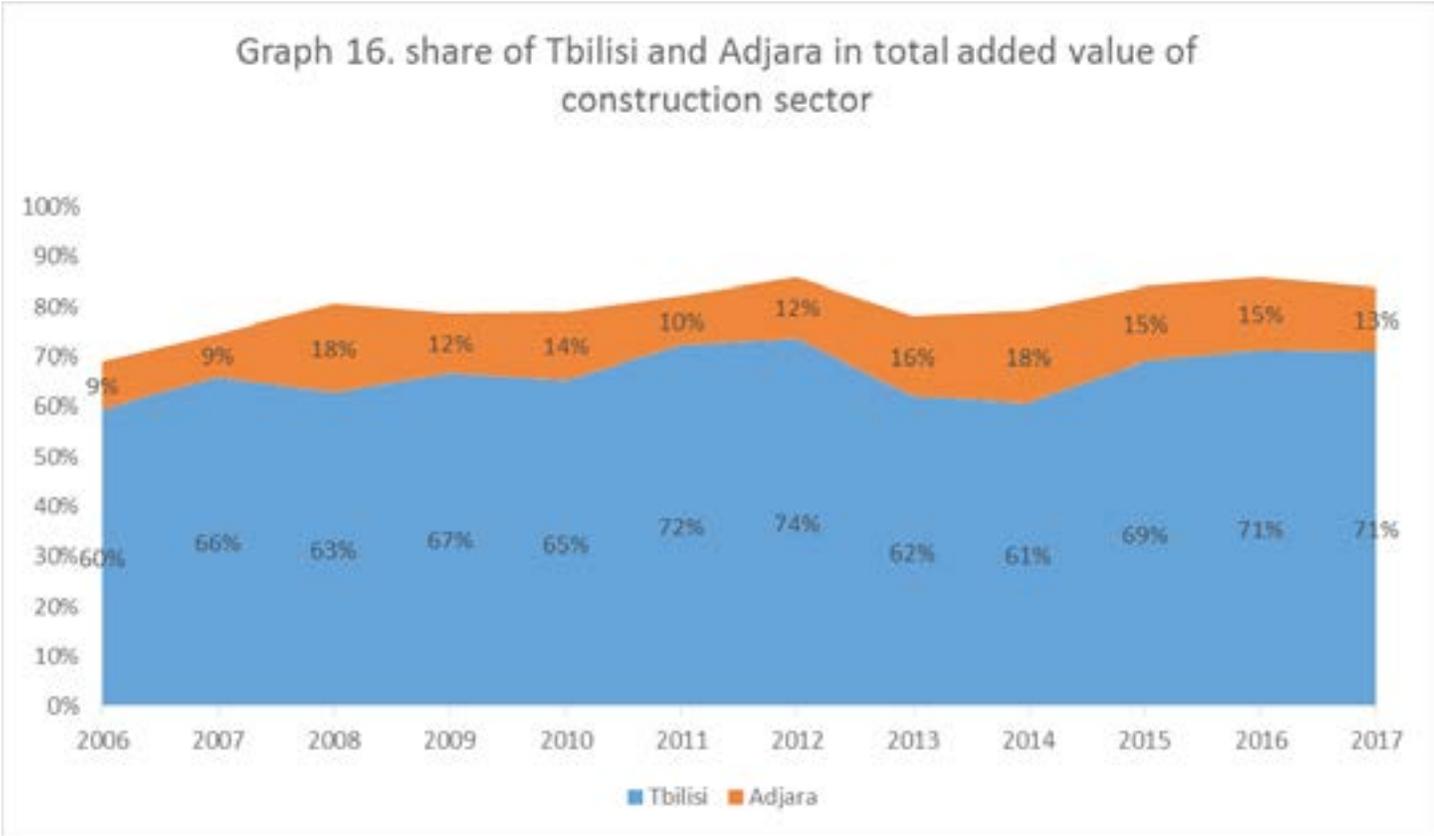


Source: GeoStat

Added value¹⁹ is the best indicator to measure share of country's economy. With this regard, in 2017, the share of Tbilisi was 71% (GEL 2.1 billion), and Adjara's share – 13%. Imereti held the third place with 4.5%. The remaining 12% was distributed among eight regions of Georgia.

If we look at the trend of 2006-2016, we will see the following picture: In 2006-2012, the share of Tbilisi in construction sector has increased from 60% to 74%, but later on in 2013-2014, it has dropped to 61%. In 2015-2017, the growth trend returned. In 2006-2008, the share of Adjara in construction sector has doubled and reached 18%, but later on, it has had negative growth rate until 2011 and dropped to 14%. In total, the joint share of Tbilisi and Adjara has had a growth trend.

¹⁹ Added value is net value of goods and services created by construction sector without contribution coming from other sectors. For instance, value of materials used in construction should be subtracted from final value of building because construction materials are made by industrial sector.



Source: GeoStat

In 2017, 82% of investments in main assets (GEL 325 million) were made in Tbilisi. In 2015, this figure stood at 87%, as for 2006-2016, an average figure was 72%. It means that long-term investments are mainly made in constructions in Tbilisi.



Source: GeoStat

61% (43 862 persons) of all employees work in Tbilisi. Adjara holds the second place with 13% (9 345 persons) and Racha-Lechkhumi – Kvemo Svaneti is the last placeholder with 0.8% (567 persons). Construction sector in Tbilisi employees more people than all sectors of economy in Mtsketa-Mtianeti and Guria together.

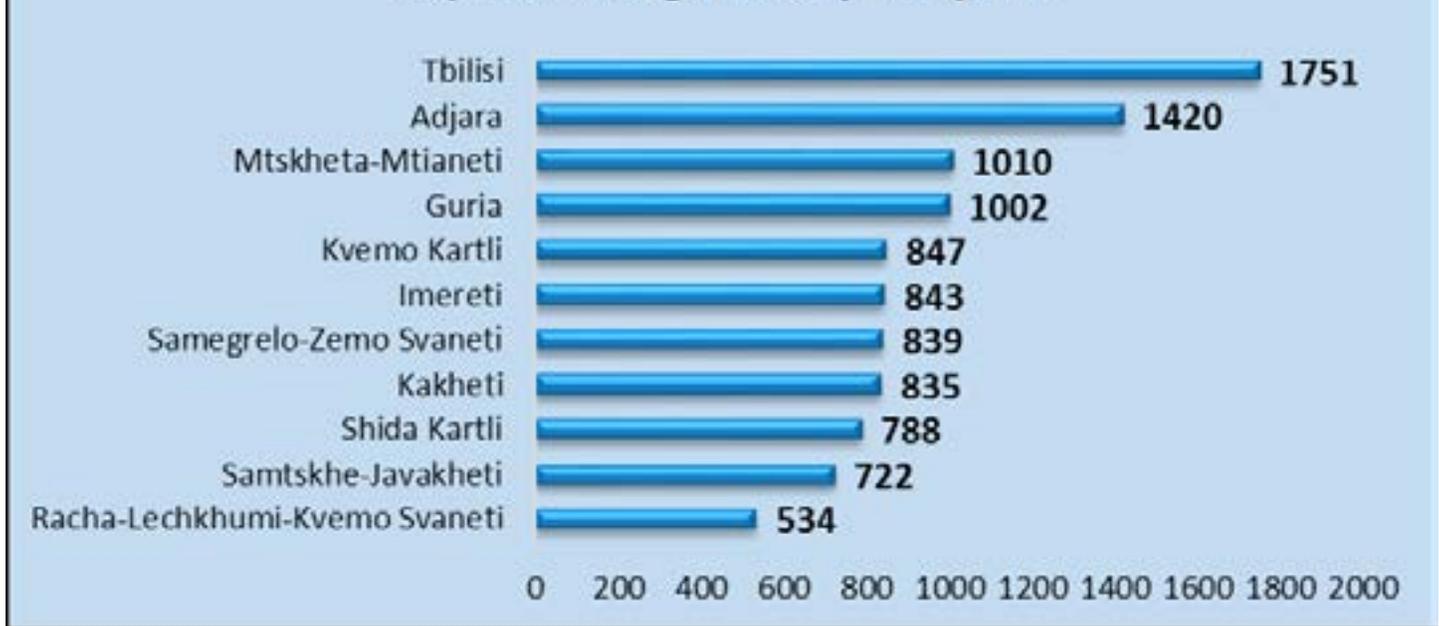
Since 2010, share of Tbilisi has not increased in employment indicators of construction sector. As for Adjara, it has had a growth trend.



Source: GeoStat

In 2017, GEL 1 751 was an average monthly salary in construction sector of Tbilisi. Adjara was next with GEL 1 420. The lowest average monthly salary (GEL 534) was in Racha-Lechkhumi – Kvemo Svaneti. From 2006 to 2017, an average nominal monthly salary has grown by 3.8 times in Tbilisi and 4.6 times – in Adjara.

Graph 19. average monthly salary, GEL

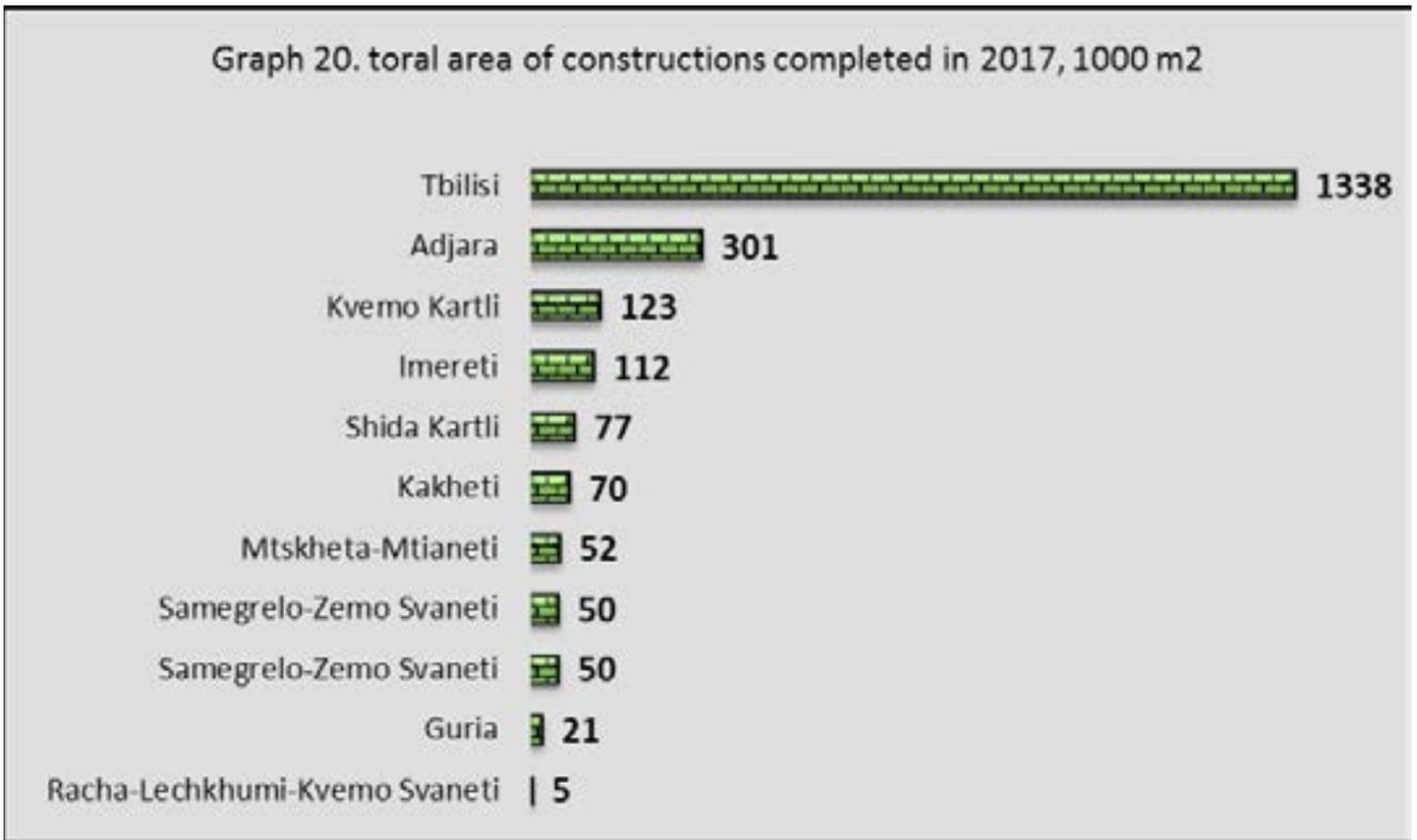


Source: GeoStat

Regional distribution of construction sector is also reflected in construction area. In 2017, 860 constructions were completed with a total area of 1 338 000 m², which was 61% of total area of all constructions in Georgia. Share of Adjara was 14%. In 2007-2012, an average share of Tbilisi was 41%, as for 2013-2017, it has increased up to 62%.

In 2017, one million m² of living constructions were completed in Tbilisi, which was 20% more than the total area of all other constructions completed in Georgia. Hotels are the only exceptions. In 2017, 99 000 m² of hotels (21 hotels) were built in Adjara, while this figure was only 29 000 m² (13 hotels) in Tbilisi.

Graph 20. total area of constructions completed in 2017, 1000 m2

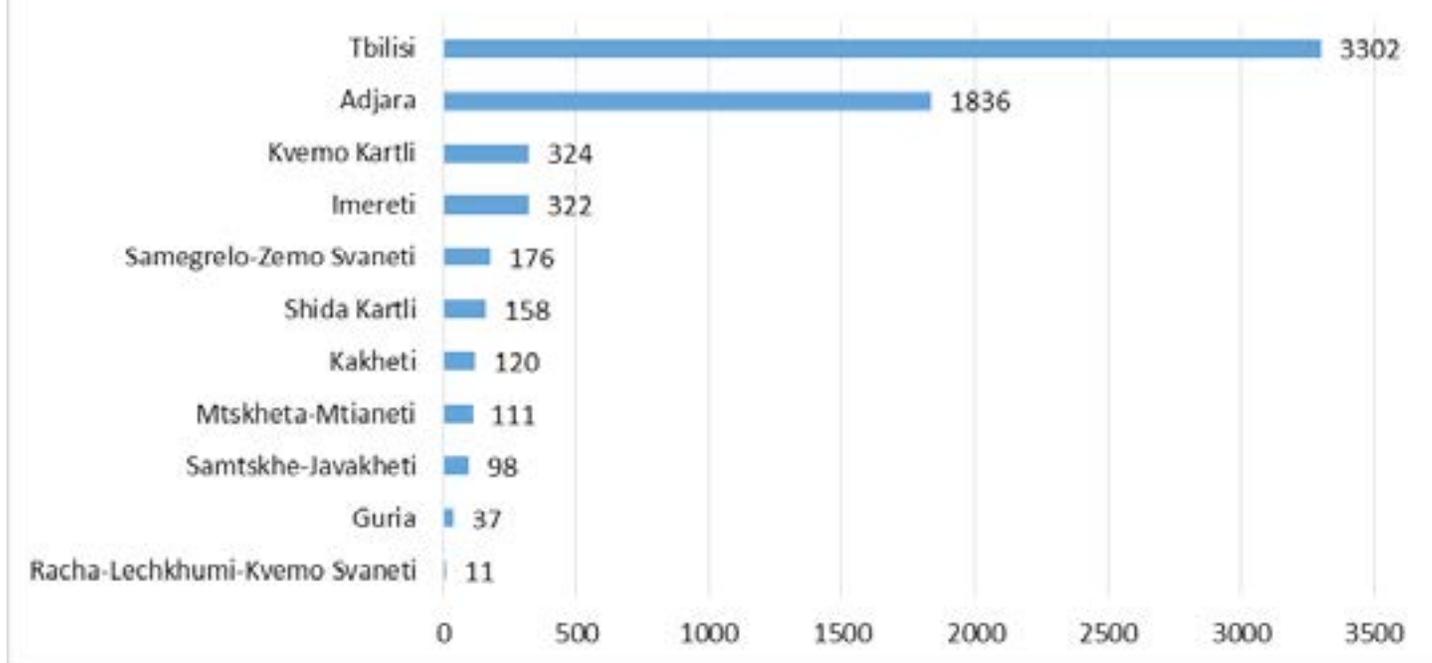


Source: GeoStat

In 2017, construction permits for building of 3.3 million m² were issued in Tbilisi. This figure is a bit less than the total area of construction completed in Tbilisi during last three years. In 2017, construction permits by area issued in Tbilisi was 51% of all issued permits. This figure together for Tbilisi and Adjara stood at 79%.

In Tbilisi 79% of the area permitted to build was for constructions for living purpose and 7% was for hotel constructions. In Adjara 56% of the area permitted to build was for constructions for living purpose and 38% was for hotel constructions.

Graph 21. area of constructions permitted in 2017, 1000 m2

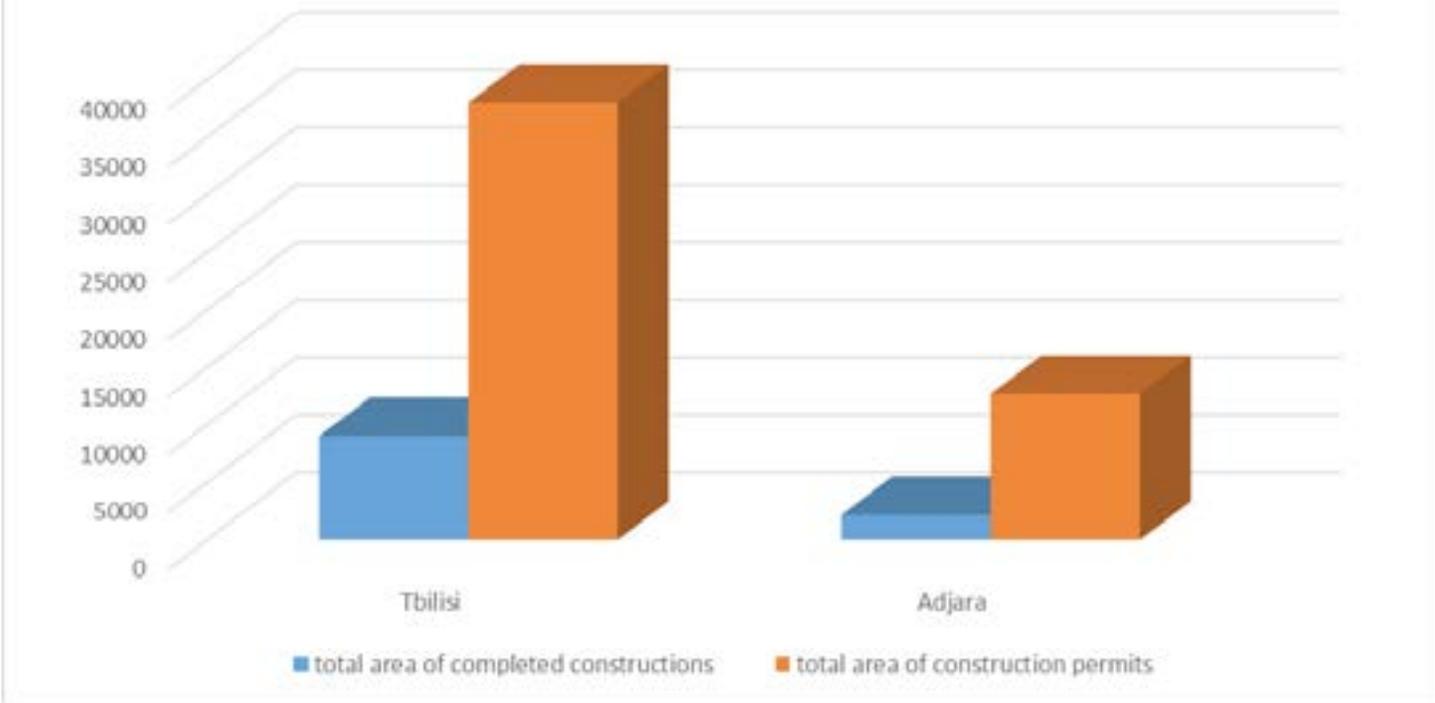


Source: GeoStat

In 2006-2017, construction permits for building of 38 million m² have been issued in Tbilisi. During the same period, constructions of 9 million m² have been completed. In 2006-2017, construction permits for building of 12.7 million m² have been issued in Adjara. During the same period, constructions of 2.2 million m² have been completed. According to the census conducted in 2014, Tbilisi was the most densely populated territory in Georgia with 2 199 persons living on one km² on average. Adjara was second with 115.2 persons.²⁰

20 Business Press News <https://bit.ly/2JsnpZM>

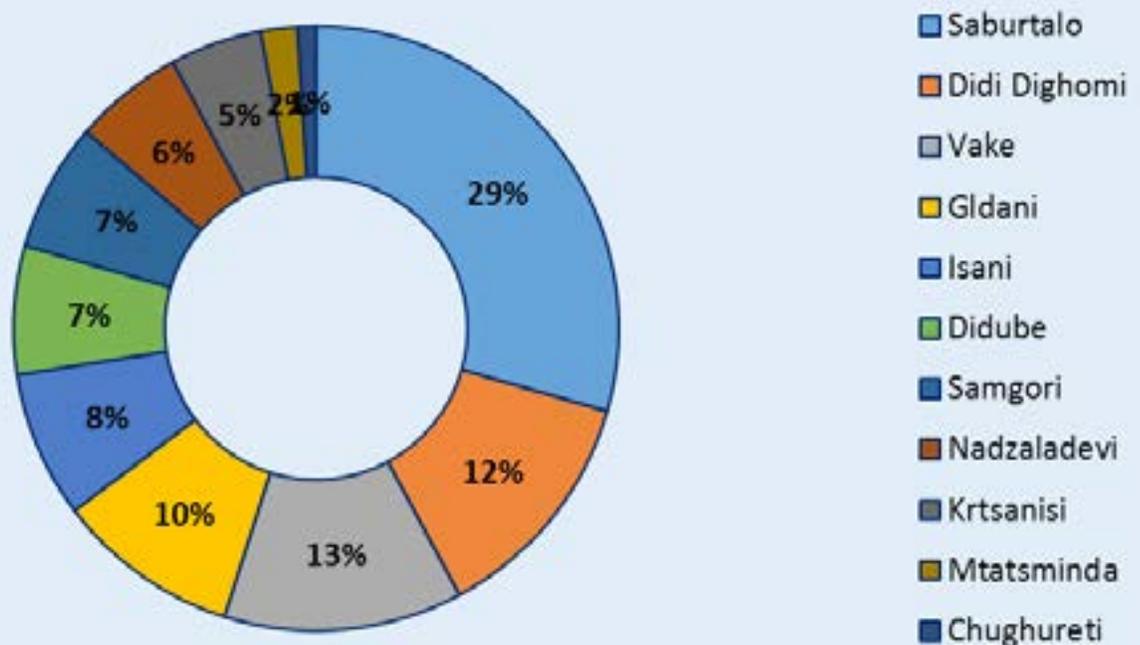
Graph 22. total area of completed constructions and construction permits issued in 2006-2017, million m²



Source: GeoStat

It is also interesting to look at constructions distributed in various districts of Tbilisi. In 2017, 29% of constructions for living purpose were built in Saburtalo. Didi Dighomi and Vake shared second place with 13% each. Therefore, 55% of construction were built in these three districts of Tbilisi. Chughureti and Mtatsminda were the smallest shareholders with 1% and 2%, respectively.

Graph 23. Ongoing constructions in Tbilisi, 2017, by district



Source: Residential Market in Georgia, 2017, Colliers International Georgia

5. REAL ESTATE SALES AND PRICES

The growth of construction sector has also been reflected on sales of real estate (without land plot). In fourth quarter of 2017, sales of real estate increased by 34%, compared to the fourth quarter of 2015, and reached the highest point – 27 477 transactions. In 2017, 98 609 real estate units were sold in total, which is 11% (9 489 transactions) more than those of 2016.

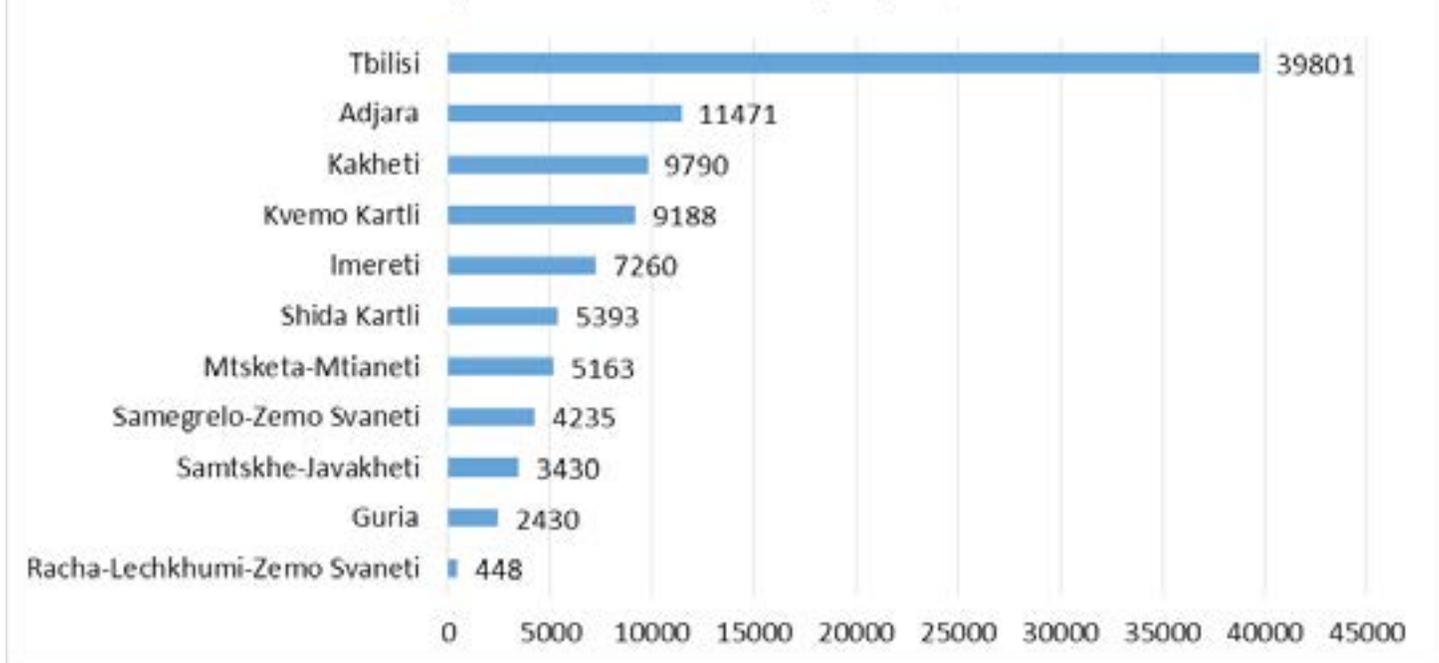


Source: National Agency of Public Registry

In 2017, 40% of total sales of real estate was in Tbilisi and 11.6% - in Adjara. Compared with 2016, in 2017, sales of real estate increased by 15.6% in Tbilisi. The growth rate was even higher – 34.1% in Adjara. 84% of sales in Adjara was concentrated in Batumi.²¹ The most significant drop in sales of real estate was in Guria (-14.6%) and Racha-Lechkhumi – Kvemo Svaneti (-11.6%).

²¹ Real Estate Market Highlights, 2017, ISET Policy Institute

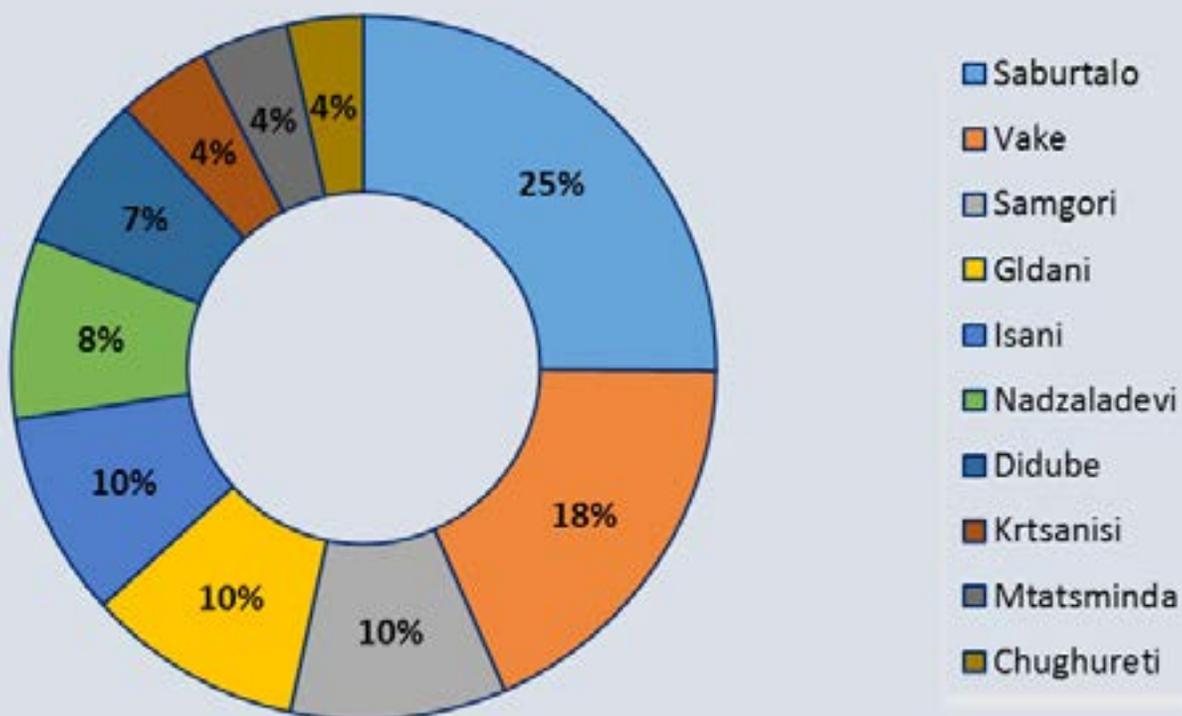
Graph 25. real estate sales by regions, 2017



Source: ISET Policy Institute; National Agency of Public Registry

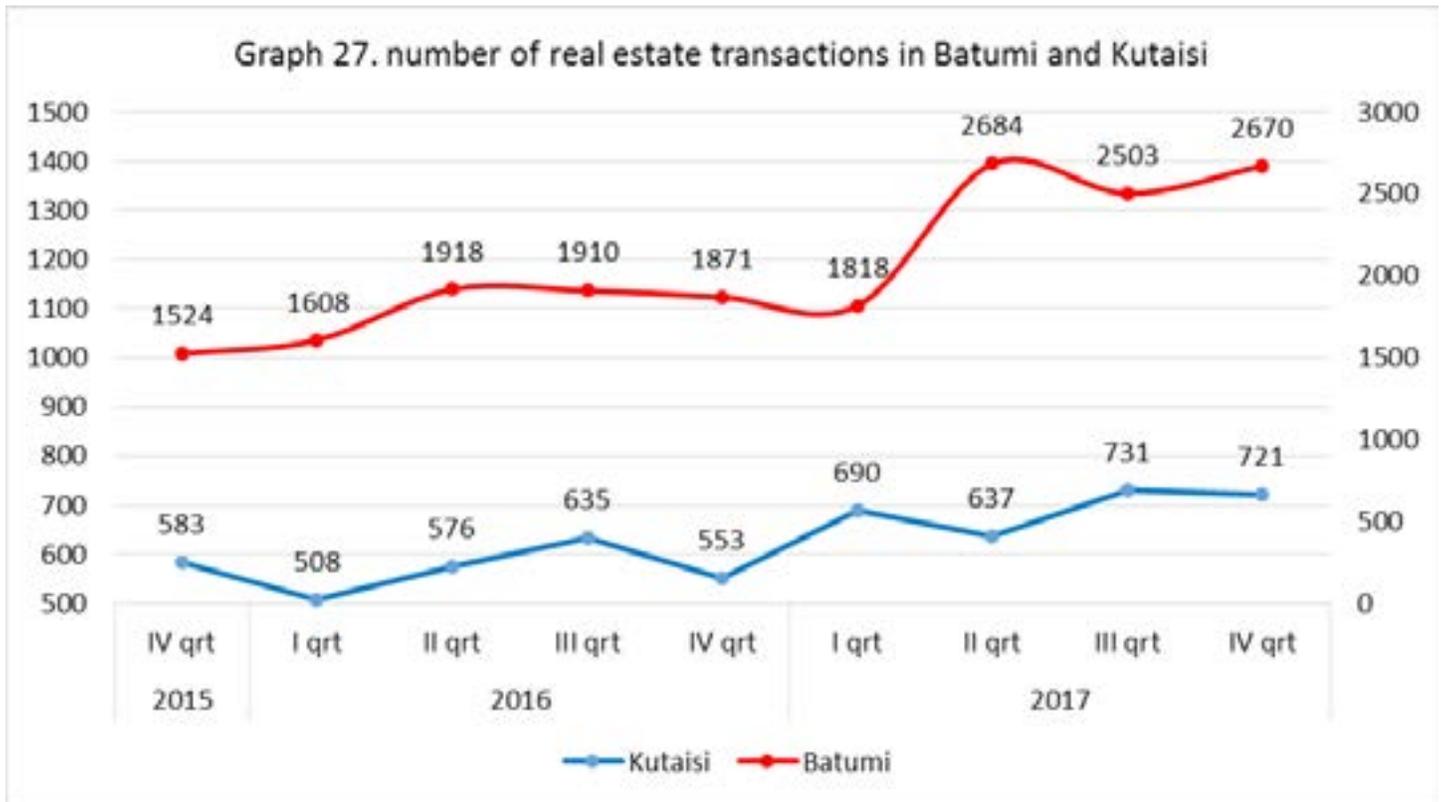
The International School of Economics at Tbilisi State University (ISET) and Colliers International Georgia periodically study Georgia's real estate market. Their target markets are Tbilisi, Batumi and Kutaisi. Based on these studies, 25% of real estate sales in Tbilisi is concentrated in Saburtalo, Vake and Samgori come second and third with 18% and 10%, respectively. Mtatsminda and Chughureti have the smallest shares – 4% each.

Graph 26. share of Tbilisi districts in real estate sales, 2017



Source: Real Estate Market Highlights, 2017, ISET Policy Institute

In 2017, 9 675 real estate units were sold in Batumi and 2 779 units – in Kutaisi. Compared with 2016, this is 32% increase for Batumi and 22% increase – for Kutaisi. Compared with the fourth quarter of 2015, in the fourth quarter of 2017, real estate sales increased by 75% in Batumi and by 24% - in Kutaisi.



Source: ISET Policy Institute; National Agency of Public Registry

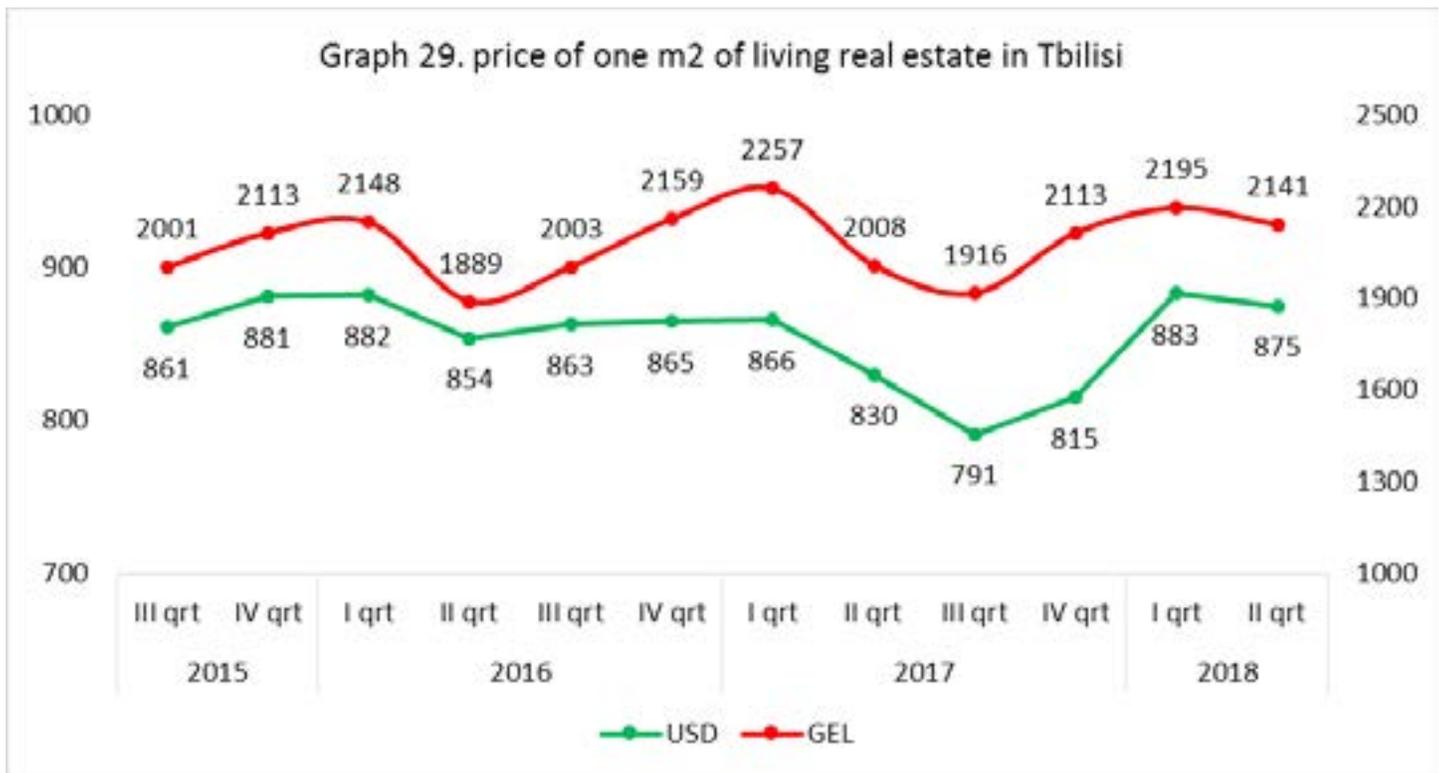
The dynamics in construction sector can be seen by looking at shares of new and old real estate constructions. In 2017, 57% of apartments sold in Tbilisi were newly built. This figure in Batumi stood at 61% and in Kutaisi – only 12%. This shows how Kutaisi is behind Tbilisi and Batumi.



Source: Residential Market in Georgia, 2017, Colliers International Georgia

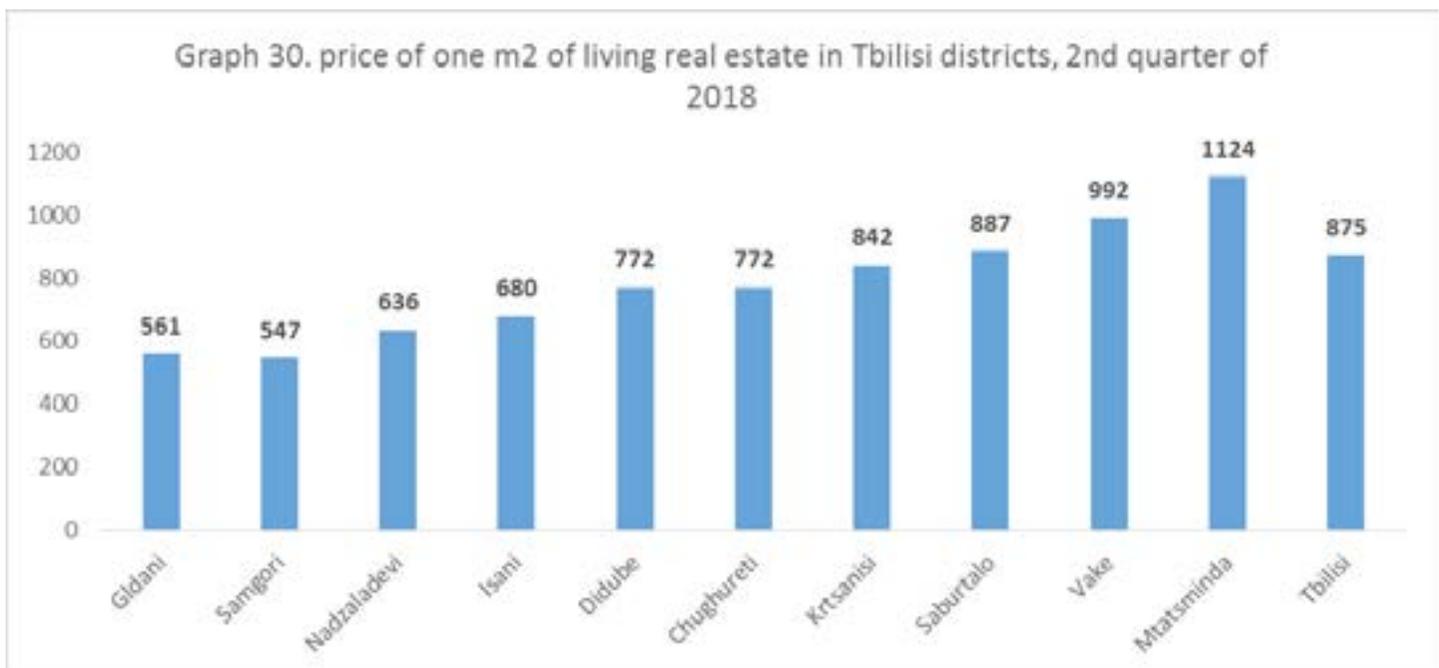
Prices are important indicators of construction sector. Based on the above-mentioned studies, we can see real estate price trends in three biggest cities: Tbilisi, Batumi and Kutaisi.

During the last two years, an average price of one m² (calculated in USD) of real estate in Tbilisi was stable. As for prices calculated in GEL, it has slightly increased. Compared with the third quarter of 2015, in the second quarter of 2018, the prices calculated in USD increased by 1.6%, and by 7% - calculated in GEL.



Source: Real Estate Market Highlights, 2017, ISET Policy Institute

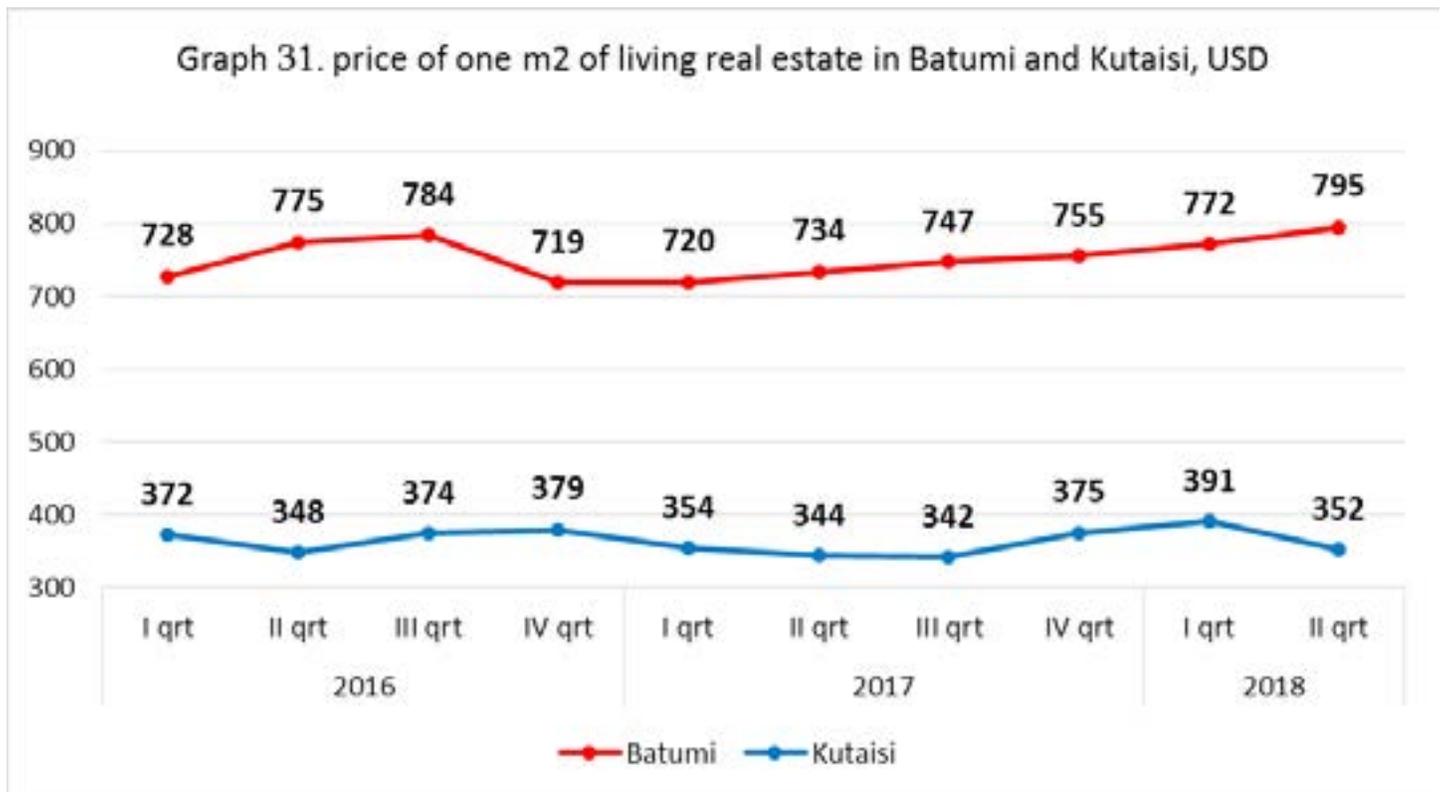
In the second quarter of 2018, the most expensive real estate was in Mtatsminda – USD 1 124 was an average price of one m² of real estate, which is twice as much as the prices in Samgori - the cheapest district. Second and third most expensive real estate was in Vake and Saburtalo, respectively.



Source: Real Estate Market Highlights, 2017, ISET Policy Institute

An average real estate price in Batumi is 7% less than in Tbilisi. By the end of 2017, USD 755 was an average price of one m² of real estate in Batumi, which is 5% higher than in the fourth quarter of 2016.

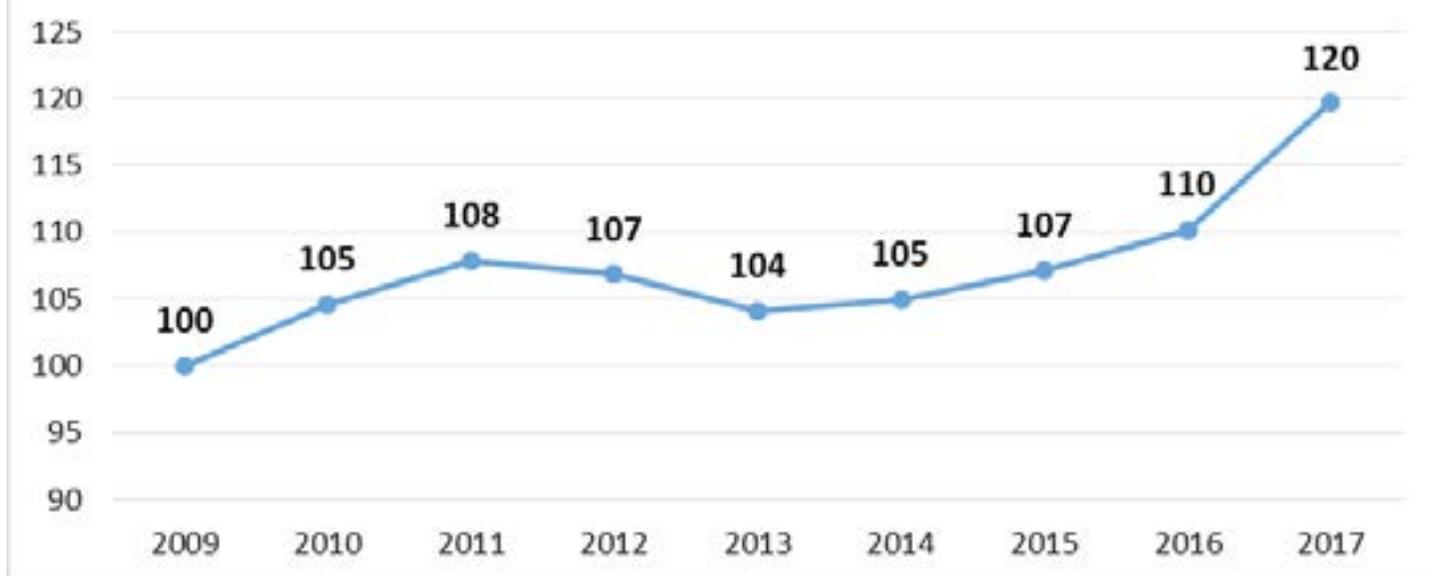
Compared with Tbilisi and Batumi, real estate is much cheaper in Kutaisi. In the second quarter of 2018, real estate in Kutaisi was 2.5 and 2.3 times cheaper than in Tbilisi and Batumi, respectively. An average price of real estate in Kutaisi was 1.6 times less than that of Samgori - the cheapest district of Tbilisi. During the last two years, real estate prices have been stable in Kutaisi and one m² of it has fluctuated from USD 342 to 391.



Source: Real Estate Market Highlights, 2017, ISET Policy Institute

Over time, price hikes most probably have been caused by increased prices on construction materials. Since 2010, GeoStat has been calculating Price Index for Material Inputs to Construction Industries. This index shows that since 2009 prices on construction materials have increased by 20%. Since 2014, the prices have increased by 12%.

Graph 32. Price Index for Material Inputs to Construction Industries,
2009=100



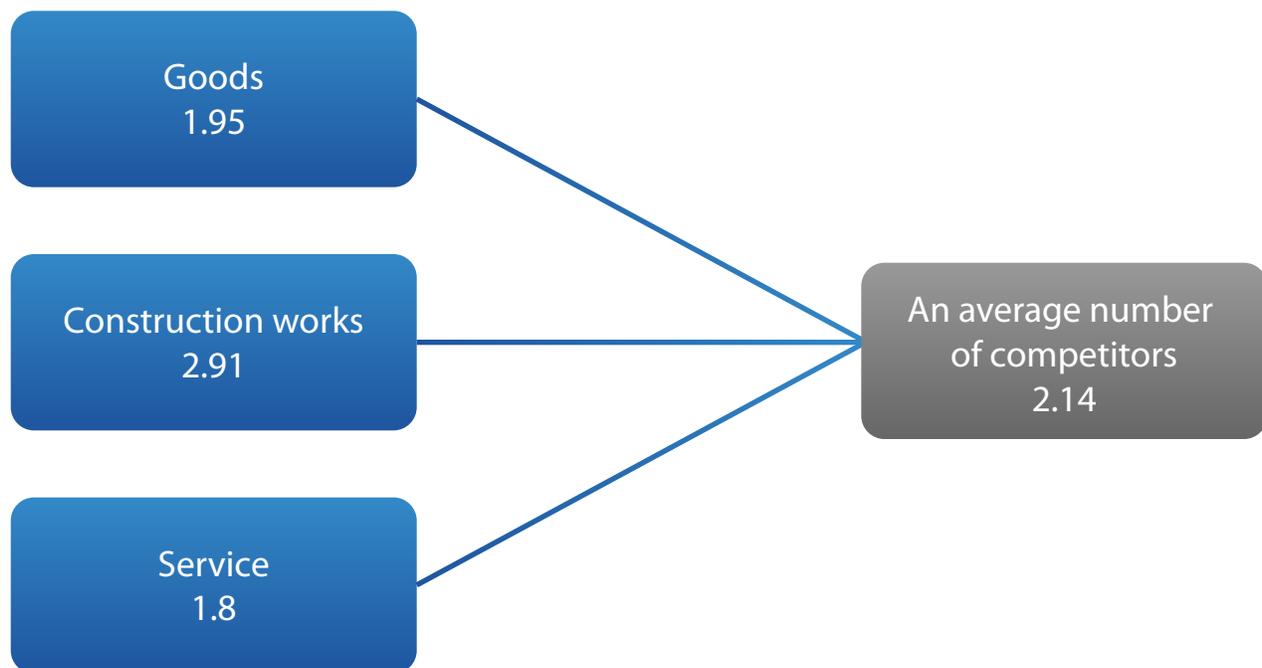
Data Source: GeoStat

CHAPTER III. LARGE CONSTRUCTION ENTERPRISES: PARTICIPATION IN PUBLIC PROCUREMENT AND LINKS WITH POLITICS

The largest portion of public procurement is spent in construction sector. In 2017, 63% of public procurement (GEL 1.7 billion) was spent on construction works.

In general, there is no high competition in Georgia's public procurement. In 2017, on average 2.1 competitors participated in one tender. However, procurement of construction services is more competitive (2.9 competitors per tender) than goods and services.

Graph 33. An average number of competitors participated in public procurement in 2017, by types of procurement



Source: Public Procurement Agency

We studied large construction companies and their affiliates (owners, management). More specifically, we focused on their participation in public procurement and links with politics, including donations made in favor of political parties. TI Georgia have published many studies on such cases, when companies used to get public contracts and, at the same time, were political party donors. This raised certain questions in terms of political corruption.

Before 2012, all large construction companies, except those that were linked with Bidzina Ivanishvili, have been donating to the United National Movement (UNM) and Georgia Is Not for Sale – an organization linked with the UNM. Since 2012, after the change of government,

construction companies have not donated anything to the UNM. However, some of them became donors of the GD - new ruling party. These instances once again underline the fact that companies donate not based on political sympathies, instead they seek to win hearts of the ruling party and get some privileges.

During 2011-2018, construction companies, which had a status of large enterprise as of 1 November 2018, have donated up to GEL 2 million to various political parties and Salome Zurbishvili - an independent presidential candidate. During the same period, these companies have received GEL 700 million from public tenders and GEL 90 million – through simplified public procurement.

Table 3. Links of large construction companies with politics and public procurement

Company name	Year	Person linked with a company	Political party / organization	Donation, GEL	Simplified public procurement contracts, GEL	Electronic public procurement tenders, GEL
Anagi LLC	2012-2017	Nana Aroshidze	GNS***	60 000	39 870 649	112 983 819
	2012	Davit Chantladze	UNM*	2 000		
	2012	Soso Diasamidze	GNS	5 000		
Prime Archi LLC, Archi LLC	2016-2017	Irakli Kapianidze	GD**	90 000		
	2018		S.Z.****	60 000		
Archeopolis JSC	2011-2018	Nugzari Chvamania			2 371 434	98 801 000
Black Sea Group LLC	2011-2016	Giorgi Kalanadze			27 285 994	134 946 893
Burji LLC	2011	Burji LLC	Conservative Party, Republic Party	300 000		
	2014	Zurab Tsotniashvili	GD	30 000		
	2012-2016	Grigol Liluashvili	GD	23 300		

Gza LLC	2012-2017	Malkhaz Dumbadze	GNS	15 000	3 518 400	48 941 789
	2016		GD	10 000		
	2017		GD	25 000		
	2012	Giorgi Tchkonია	GNS	60 000		
	2016		GD	60 000		
	2017		GD	60 000		
Dagi LLC	2012	Gogi Gulordava	UNM	35 000	10 378 712	122 667 679
	2012	Mikheil Sharangia	UNM	5 000		
Zimo LLC, Zimo-7 LLC	2011-2016	Zurab Kiknadze	UNM	5 000	17 484 023	180 000 000
	2012	Ilia Kavtaradze	UNM	5 000		
	2012	Levan Marshania	UNM	5 000		
	2012	Ghia Urotadze	UNM	5 000		
	2017	Amiran Beridze	GD	10 000		
TM LLC	2014-2018	Otar Mazmishvili	GD	20 000	18 544	40 102 000
	2016	Lela Kharchilava	GD	10 000		
	2013-2018	Zaza Charkviani	GD	35 000		
			S.Z.	20 000		
2016	Akaki Leponava	GD	22 000			
Ibolia LLC	2011-2017	Ioseb Makrakhidze	UNM	100 000	4 293 367	81 435 000
	2012		UNM	25 000		
	2016		GD	50 000		
	2018		S.Z.	50 000		

In-SI LLC	2011-2017	Zviad Toidze	GD	50 000	557 650	9 036 439
Kavkaz-energo LLC	2012-2017	Zurab Javelidze	UNM	60 000	1 245 490	11 601 919
	2014	Zviad Meskhi	GD	30 000		
	2014	Girogi Miruashvili	GD	60 000		
Orbi Group LLC	2014	Irakli Kverghelidze	GD	60 000		
	2018		S.Z.	25 000		
	2012	Marina Lomjaria	GNS	55 000		
Orbi 2011 LLC	2014	Giorgi Bitsadze	GD	60 000		
Orbi, Euromsheni	2012	Zaza Zoidze	GNS	60 000		
	2014		GD	40 000		
Orb-ta, House in Boulevard	2014	Elguja Lomineishvili	GD	60 000		
Orbi Betoni	2014	Malkhaz Beridze	GD	40 000		
Saba Construction LLC	2013-2017	Slava Sherazadishvili			551 021	200 000 000
Road Construction Unit LLC	2011-2018	Shota Abuladze	UNM	60 000	7 368 666	87 142 500
	2016	Nugzar Abalaki	GD	60 000		
	2016	Nukri Abalaki	GD	60 000		
Construction Industrial Cooperation Imereti LLC	2011-2018	Ruben Chinchaladze			332 509	33 710 436
State Construction Company LLC	2011-2017				92 311 722	125 249 039

Peri LLC	2012	Ioseb Mtchedlishvili	UNM	60 000	1 304 252	72 753 149
	2017					

*UNM – United National Movement

**GD - Georgian Dream

***GNS – NGO Georgia is Not for Sale

****S. Z. – Salome Zurabishvili

Data source: <http://www.transparency.ge/politicaldonations/>
<http://www.companyinfo.ge/>
<http://tendermonitor.ge/>

We discuss 11 interesting cases of political connections of large construction companies.

1. Black Sea Group LLC

In 2011-2016, Black Sea Group in total has signed simplified public procurement contracts valued at GEL 27.3 million and has won public tenders valued at GEL 135 million. Giorgi Kalandadze – one of the owners of the company – is a business partner of Beka Odisharia – a Member of Parliament (MP) from GD.

2. Burji LLC

Burji is linked with Bidzina Ivanishvili. In 2011, this company donated GEL 100 000 to each of the following political parties – the Conservative Party, the Republican Party and the Free Democrats. In 2013-2014, Grigol Liluashvili was a director general of this company. Liluashvili is a former MP from GD and current deputy head of State Security Service. In 2012-2016, he has donated GEL 23 300 to GD. In 2014, Zurab Tsotniashvili - another director of Burji – donated GEL 30 000 to GD. It should be noted that Mamuka Tsotniashvili – a brother of Zurab – has been a deputy minister of Internally Displaced Persons and Refugees from 2012 until this ministry was abolished.²²

3. Gzamsheni-18 LLC

Two co-owners of Gzamsheni-18 LLC, Teimuraz Jakhva and Vakhtang Chanturia, in total donated GEL 25,000 to the GD on 5 September 2017. Gzamsheni-18 is a large road construction company that has secured nearly GEL 10 million in simplified public procurement contracts in 2017, including the largest contract amounting to GEL 4.6 million. Notably, this contract was secured three weeks after the company had donated to the ruling party.²³ In total, this company has signed simplified public procurement contracts valued at GEL 1.2 million and has won public tenders valued at GEL 21 million.

²² Ministry of Internally Displaced Persons and Refugees of Georgia: www.mra.gov.ge/geo/static/637

²³ Who funds political parties in Georgia, Transparency International Georgia, 2017 <https://bit.ly/2Qmzb7v>

4. Gza LLC and Orbi Group LLC

Gza, Orbi Group and other affiliate companies are large construction enterprises registered in Batumi. Directors and owners of these companies are distinct because they first donated to UNM and then to GD. In 2012, individuals linked with Orbi donated GEL 115 000 to UNM and Georgia Is Not for Sale – UNM’s proxy NGO. After change of government, in 2014, they donated GEL 220 000 to GD.

In 2012, Giorgi Tchkonია – an owner of Gza – and Malkhaz Dumbadze – director of the same company – donated GEL 60 000 and GEL 15 000, respectively, to Georgia Is Not for Sale. In 2016-2017, Malkhaz Dubmadze and Giorgi Tchkonია donated GEL 35 000 and GEL 120 000, respectively, to GD. In 2012-2017, Gza LLC has signed simplified public procurement contracts valued at GEL 3.5 million and has won public tenders valued at GEL 43.2 million.

5. Zimo LLC and Zimo-7 LLC

In 2011-2016, Zimo LLC has signed simplified public procurement contracts valued at GEL 17.4 million and has won public tenders valued at GEL 83 million. In 2012, company owners donated GEL 20 000 to UNM. Zimo actively participates in transportation of trees of Bidzina Ivanishvili from one place to other and does not fulfill public procurement contracts on time. During last four years, 65 amendments have been made to 16 public procurement contracts signed with Zimo.²⁴

Zimo-7 LLC – an affiliate of Zimo LLC - has won public tenders valued at GEL 107 million. In 2017, Amiran Beridze - one of the owners of this company – donated GEL 10 000 to GD.

6. TM LLC

In 2013-2017, individuals connected with TM LLC has donated GEL 87 000 to GD. In 2014-2018, TM LLC has signed simplified public procurement contracts valued at GEL 19 000 and has won public tenders valued at GEL 40 million.

7. In-Si LLC

In 2016, Zviad Toidze – director of In-Si – donated GEL 50 000 to GD. In 2015-2017, In-Si has signed 10 simplified public procurement contracts valued at GEL 558 000 and has won public tenders valued at GEL 9 million. In-Si is one of contractors of Panorama Tbilisi project. This project is owned by Co-investment Fund, which is linked with Bidzina Ivanishvili.

8. Ibolia LLC

Ioseb Makrakhidze – Gori majoritarian MP from GD., owns 40% of shares of Ibolia LLC. In 2011, Ibolia donated GEL 100 000 to UNM. In 2012, Makrakhidze donated GEL 25 000 to UNM. In 2016 one month prior to the parliamentary elections, Makrakhidze GEL 50 000 to GD. In 2011-2017, Ibolia LLC has signed simplified public procurement contracts valued at GEL 4.3 million and has won public tenders valued at GEL 81 million.

²⁴ Batumelebi: <http://batumelebi.netgazeti.ge/news/79135/>

Prior to 2016, Makrakhidze was under criminal investigation. According to the court decision, Makrakhidze put incorrect information in delivery and receipt note and tried to illegally obtain public money. In June 2016, Makrakhidze was pardoned because he was older than 70 years. Later GD in Gori single-mandate district nominated him.²⁵

Ibolia LLC usually has been winning tenders announced in Shida Kartli municipalities. Another company – Shara LLC, the owner of 33% shares of which is Makrakhidze’s wife, frequently wins Gori municipality tenders for road renovation works. Archmshenstudio 2002 LLC is another company, which wins some public tenders and is linked with Ioseb Makrakhidze. Alexander Makrakhidze – Ioseb’s brother, owns this company.²⁶

9. Kavkazenergo LLC and Road Construction Unit LLC

In 2012, Zurab Javelidze – director general of Kavkazenergo – donated GEL 60 000 to UNM. In 2014 Zviad Meskhi and Giorgi Miruashvili – the partners of Kavkazenergo – in total donated GEL 90 000 to GD. In 2012-2017, Kavkazenergo LLC has signed simplified public procurement contracts valued at GEL 1.2 million and has won public tenders valued at GEL 11.6 million.

In 2012, Shota Abuladze – director and owner of Road Construction Unit LLC – donated GEL 60 000 to UNM. In 2016 Nugzar Abalaki and Nukri Abalaki – the partners of Road Construction Unit – donated GEL 60 000 each to GD. In 2011-2018, Road Construction Unit has signed simplified public procurement contracts valued at GEL 7.4 million and has won public tenders valued at GEL 87 million.

10. State Construction Company LLC

The state-owned State Construction Company is one of the largest company, which actively participates in public procurement. In 2011-2018, State Construction Company has signed simplified public procurement contracts valued at GEL 92.3 million and has won public tenders valued at GEL 125 million. This company has participated in 4 477 public tenders and has never lost, it has won 67% of tenders, the rest tenders have failed.

11. Peri LLC

In July 2012, Ioseb Mtchedlishvili – director general of Peri – donated GEL 60 000 to UNM. In 2012, Peri has signed simplified public procurement contracts valued at GEL 1.3 million. The director of one of the affiliate companies of Peri LLC was Zurab Alavidze – a former Minister of Infrastructure and Regional Development.²⁷ In 2017, Peri LLC won public tenders valued at GEL 73 million.

25 Fact meter: <https://bit.ly/2xOXkPY>

26 Fact meter: <https://bit.ly/2LrkuxO>

27 Liberali: <https://bit.ly/2sa8MQ9>

CONCLUSION

Construction sector is one of the largest parts of Georgia's economy. In 2017, construction sector was 9.3% of Georgia's GDP. However, in the first half of 2018, this figure decreased to 8.6%. In 2014-2017, an average annual growth rate of this sector was 12%.

FDI in construction sector were only behind investments in transportation and finance sectors. In 2017, FDI in construction sector amounted to USD 295 million.

71 600 contracted employees work in construction sector, which is 9.6% of contracted employees working in all sectors. GEL 1 461 is an average nominal monthly salary in construction sector and this figure is only behind average salary in finance sector. Fast growth of construction sector leads to higher salaries. Since 2010, an average nominal salary has doubled in this sector. An average monthly salary in construction sector is 46% more than the same figure for all sectors of Georgia's economy.

On the one hand, fast growth of construction sector strengthens Georgia's economy and creates additional employment opportunities, but, on the other hand, this process causes certain problems. Reasons for these problems are high concentration of constructions (80%) only in Tbilisi and Batumi, weak regulations and bad practice of issuance of construction permits.

Four laws, one decree of the President and six decrees of the Government regulate Georgia's construction sector. In July 2018, the Parliament of Georgia adopted new Construction Code, which was written by the Ministry of Economy and Sustainable Development. In parallel to enforcing this Code, currently existing regulatory documents will lose their power. The Code mostly has a general character and defines the sphere of regulation. After adoption of this Code, the Government should adopt 14 by-laws. The Code will be in full effect from 1 January 2022. However, local municipalities will have time to develop their plans until 1 January 2028.

According to the World Bank's Doing Business Index, Georgia ranked #27 in the world in terms of construction regulations. The World Bank considers quality control of constructions the weakest sides of Georgia. According to the same research conducted in 2013, Georgia ranked #2. During the following years, Georgia's position has worsened due to adding building quality control index. In this index, Georgia is even behind Armenia and Azerbaijan.

During last years, in Tbilisi the issue of so-called special zoning agreements was not less important than construction permits. Zoning agreement, after paying certain duties, allows a developer to increase coefficient of intensive construction (K2 coefficient). Zoning agreements frequently cause so called chaotic development of Tbilisi. The term chaotic development was used by Tbilisi City Hall and the Ministry of Economy and Sustainable Development, but in 2014-2016, compared with 2009-2013, permits for increase of K2 coefficient has increased by 54%. Moreover, a possibility to raise K2 coefficient increases corruption risks, which is directly reflected in connections of the members of Tbilisi City Hall zoning council with construction business and politicians.

In the end of 2017, Tbilisi City Hall's zoning council was abolished and its functions were transferred to Urban Development Service of Tbilisi City Hall. As a result, number of permits issued for increase of K2 coefficient decreased. From 22 February to 1 September 2018, only 53 permits have been issued.

Construction permits correctly show future of this sector. During 2006-2012, 16.4 million m² of constructions have been completed, which was 3.9 times less than the area of construction that could have been built during the same period according to the construction permits. During the last 12 years, construction permits for building of 63.4 million m² have been issued. This means that construction area will significantly increase in future, which is good if not one issue: 51% of construction permits are issued in Tbilisi and 28% - in Adjara. Only in 2017, construction permits for building of 3.3 million m² were issued in Tbilisi. This figure is a bit less than the total area of construction completed in Tbilisi during last three years.

In 2006-2017, construction permits for building of 38 million m² have been issued in Tbilisi. During the same period, constructions of 9 million m² have been completed. In 2006-2017, construction permits for building of 12.7 million m² have been issued in Adjara. During the same period, constructions of 2.2 million m² have been completed. According to the census conducted in 2014, Tbilisi was the most densely populated territory in Georgia with 2 199 persons living on one km² on average. 79% of construction permits were issued for living purpose.

During the last three years, construction permits for building of 11 million m² have been issued in Tbilisi, which is two million m² more than the area of completed constructions in Tbilisi during 2006-2017.

In contrast to many other sectors of Georgia's economy, there are many large, medium and small enterprises in construction sector. There are no signs of monopoly or oligopoly in construction market. There are 43 large, 281 medium and 6 620 small enterprises in this sector. Although 43% of employees work in small enterprises, salaries are two times higher in large enterprises.

Real estate sales have a growth trend. In 2017, sales increased by 11%. The highest growth rate (34%) was in Adjara, mainly in Batumi. In Tbilisi 43% of real estate, sales are concentrated in Saburtalo and Vake. 54% of ongoing constructions are located in these districts too.

During the last three years, real estate prices have been stable in Tbilisi. The prices in USD have increased only by 1.6% and by 7% - in GEL. In Tbilisi the most expensive real estate (USD 1 124 per 1 m²) is in Mtatsminda district and the cheapest one is in Samgori (USD 547). The prices have also been stable in Batumi and Kutaisi. However, real estate prices in Kutaisi is 2.4 times cheaper than in Tbilisi or Batumi.

Another interesting issue is participation of large construction companies in public procurement and their links with politics, including donations made in favor of political parties. In 2017, 63% of public procurement was spent on construction works.

During 2011-2018, construction companies, which had a status of large enterprise as of 1

November 2018, have donated up to GEL 2 million to various political parties. During the same period, these companies have received GEL 700 million from public tenders and GEL 90 million – through simplified public procurement.

We singled out 11 instances when large construction companies and their affiliates have donated to previous or current ruling parties and at the same time actively participated in public procurement. Before 2012, all large construction companies, except those that were linked with Bidzina Ivanishvili, have been donating to the UNM. Since 2012, after the change of government, construction companies have not donated anything to the UNM. However, some of them became donors of the GD - new ruling party. Companies connected with political donors often win public contracts through simplified procurement process. This contains signs of corruption.

RECOMMENDATIONS

- According to the World Bank's Doing Business Index, quality control of constructions should be improved. This issue is reflected in the new Construction Code, but relevant by-laws should be promptly adopted;
- For preventing so called chaotic constructions by-laws derived from new Construction Code should be promptly adopted. Special attention should be paid to prompt adoption/update of general development plans of big cities like Tbilisi and Batumi in order to further regulate the issue of K2 coefficient increase;
- Since 63% of total money spent in public procurement goes to purchase of construction works, the State Audit Office should pay more attention to political connections of large construction companies and their owners.