



# **THE WORK OF PARTNERSHIP FUND: AN OVERVIEW OF ONGOING AND COMPLETED PROJECTS**

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# CONTENTS

<b>Executive Summary</b>	4
<b>Introduction</b>	5
<b>About Partnership Fund</b>	6
1. Financial Statements	7
<b>Ongoing and completed projects of the Partnership Fund</b>	8
1. Completed projects	8
1.1. Three-star hotel Best Western Kutaisi	9
1.2. Expansion of four-star hotel Lopota Lake Resort and Spa	9
1.3. Aerostructure Technologies Cyclone (ATC)	10
1.4. Five-star hotel Radisson Collection Tsinandali	10
2. Ongoing projects	11
2.1. Nenskra HPP	11
2.2. Mountain pig farm	12
2.3. Corn oil plant - Karva	13
2.4. Ceramic brick factory	13
2.5. Concrete Block Factory - YTONG	14
<b>Recommendations</b>	15

# EXECUTIVE SUMMARY

Transparency International Georgia (TI Georgia) studied projects funded by LLC Partnership Fund (PF). The PF is a state-owned investment fund that was founded in 2011. The PF is split into two separate business units: a) **Asset management** and b) **investment capacity**.

The main source of PF's revenue is the assets of five state-owned enterprises. Total value of projects in PF's portfolio is over USD 2.5 billion, out of which GEL 330 million is a share of PF's investment. In 2014-2017, the PF's total assets grew by 16% and total equity decreased by 13%. The PF completed the financial year 2017 with a loss of GEL 482 million. In 2014-2017, a total loss amounted to GEL 528 million. This loss stemmed from depreciation and impairment losses (GEL 633 million) of Georgian Railway and Georgian State Electrosystem.

In 2017, the PF received GEL 27.3 million from dividends. In 2016, this number stood at GEL 12.7 million.<sup>1</sup> The PF gets dividends when a beneficiary company remains profitable. Since the main sources of PF's revenues are the assets of several state-owned enterprises and dividends obtained from the projects financed by it, PF's financial conditions is unstable and unpredictable. This makes PF largely dependent on loans.

As of 2019, The PF's 14 projects have been completed and five are ongoing. Some projects raise certain questions in terms of alleged corruption.

Two projects supported by PF, **mountain pig farm** and **ceramic brick factory**, have the same beneficiary. More specifically, Vasil Babluani owns shares of companies participating in both projects. Moreover, in 2013-2018, persons connected with beneficiary companies of these two projects in total donated GEL 200 000 to Georgian Dream and Salome Zurabishvili.

Hotel Radisson Collection is one of the projects funded by PF. Silk Road Group S.A. implemented this project. Giorgi Ramishvili is the Chairman of the supervisory board of this Company. Silk Road Group is a company registered in the offshore zone of the British Virgin Islands.

One of the beneficiaries of the PF funded project - YTONG Caucasus LLC - is connected with the MP Ivliane Tsulaia. Tsulaia and his business partners are large donors of the ruling party. In 2016-2018, in total, they donated GEL 700 000 to Georgian Dream and Salome Zurabishvili.

In order to ensure PF's stable investment activities, its funding should be sustainable and predictable. Therefore, it would be better if PF does not depend on the profits of state-owned companies and it is directly financed by the state budget within certain limits.

Additional regulations for ensuring more transparency of PF's projects should be introduced. More specifically, it would be good if legislation bans funding of such legal entities, which are registered in offshore zones or legal entities, whose owners or shareholders are offshore companies.

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1 Ibid

# INTRODUCTION

JSC Partnership Fund (PF) is a 100% state-owned investment fund. Other state-owned enterprises are the main sources of PF's revenue. That is why its activities, efficiency and transparency of implemented projects are of particular importance. Transparency International Georgia (TI Georgia) wrote about PF's projects twice in 2014<sup>2</sup> and 2016<sup>3</sup>. This is an updated version of these studies, which describes projects that are currently being implemented or completed by the PF. The study also analyses the main beneficiaries of these projects.

Information about the projects is taken from the official website of the PF and other open sources. In addition, some data was provided by the PF in a written form because comprehensive information about the projects is not given on PF's website.

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2 <https://bit.ly/31VFTZ5>

3 <https://bit.ly/2ZO1m4c>

# ABOUT PARTNERSHIP FUND

The PF was founded in 2011 after consolidating the ownership of largest Georgian state-owned enterprises that operate in transportation, energy and infrastructure sectors.

The PF is split into two separate business units:

**Asset management** – The PF had assets under management with combined annual turnover of over USD 750 million in 2017. The PF’s portfolio is comprised of Georgia’s strategically important assets:

- JSC Georgian Railway - 100% of shares
- JSC Georgian Oil and Gas Corporation (GOGC) - 100% of shares
- JSC Georgian State Electrosystem - 100% of shares
- JSC Electricity System Commercial Operator - 100% of shares
- JSC Telasi - 24.5% of shares.<sup>4</sup>

Georgian Railway and GOGC are the main sources of funding for PF’s investment activity.

**Investment activity** – At present, a total value of projects in PF’s portfolio is over USD 2.5 billion, out of which GEL 330 million is a share of PF’s investment. The PF has the mandate to invest only in Georgia. Its strategy is to attract and support private investors. Energy, agriculture, manufacturing, real estate/tourism and logistics/infrastructure sectors are on the top of the priority list. The PF co-invests in commercially viable investment projects with an experienced partner or specialized operator. The PF’s participation in projects is limited to minority share (up to 50%). It co-finances companies and assists its partners and management teams in developing plans to create sustainable long-term value.<sup>5</sup>

Project conceptualization and initiation processes may be twofold: a) private investor seeks the participation of PF in its commercially viable project, or b) PF initiates projects based on preliminary feasibility studies and then looks for private investors able and willing to fund it, either entirely or partially.<sup>6</sup>

PF makes an in-depth analysis of the project (financial analysis, market positioning, growth potential, the relevance of its strategy, the ability of its management team to execute the strategy agreed upon).<sup>7</sup> After having a commercial feasibility study, the PF provides a partner with a commercial proposal. The partnership agreement includes commercial terms and conditions (terms of purchase, etc.), which are considered confidential thus PF does not have a right to publicize them.

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4 <http://www.fund.ge/who-we-are>

5 Ibid

6 Ibid

7 Ibid

# 1. FINANCIAL STATEMENTS

2018 Financial Statements of the PF have not been published yet and accordingly, the latest available data is for 2017. In 2014-2017, the PF's total assets grew by 16% and total equity decreased by 13%. However, in 2017, compared with 2016, the total assets reduced by 7.7% and the total equity - by 16%. The PF completed the financial year 2017 with a loss of GEL 482 million. In 2014-2017, a total loss amounted to GEL 528 million.

**Table 1. Main financial indicators of the PF, GEL million<sup>8</sup>**

<b>Year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Total assets	5452	6281	6867	6337
Total equity	2642	2557	2731	2292
Total liabilities	2810	3724	4135	4045
Profit/loss	125	-195	24	-482

This loss stemmed from depreciation and impairment losses (GEL 633 million) of Georgian Railway and Georgian State Electrosystem. In Georgian Railway's case, the main reason for loss (GEL 316 million) was a reduction of the value of an asset caused by the suspension of Tbilisi bypass railway project.<sup>9</sup>

In 2017, the PF received GEL 27.3 million from dividends. In 2016, this number stood at GEL 12.7 million.<sup>10</sup> The PF gets dividends when a beneficiary company remains profitable.

As we can see, the main sources of PF's revenues are the assets of several state-owned enterprises and dividends obtained from the projects financed by it. Both sources of income can significantly fluctuate from year to year, thus this system makes PF's revenue unpredictable and largely dependent on loans. In addition, the PF does not have a mandate to manage the state-owned enterprises, which are included in PF's assets, and is not responsible for the financial results of these companies. This could hinder activities of the PF, including raise of capital. Financial stability and predictability of PF are very important factors for investors.

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8 Consolidated Financial Statements of the PF: <http://www.fund.ge/site/view/12>

9 Ibid

10 Ibid

# ONGOING AND COMPLETED PROJECTS OF THE PARTNERSHIP FUND

## 1. COMPLETED PROJECTS

As of 2019, The PF's 14 projects have been completed and five are ongoing. Moreover, the following projects are currently under consideration: Eco City at Tbilisi Sea, hotels in Abastumani, Kutaisi, Gudauri and Mestia, production of jackets, paints, glass bottles, milk, canned food, etc.

**Table 2. Completed projects of the PF, as of May 2019**

<b>Project title</b>	<b>Project value USD million</b>	<b>The PF's share USD million</b>
Greenhouse Imereti Greenery	4.8	1.6
Rukhi Multifunctional Trade Center	6.5	6.5
Vanrik Agro Blueberry Plantation	6.5	2.2
Sandwich Panel Factory Panex	6.2	2.3
Gardabani TPP	233	51.5
Hotel Borjomi Likani Hotel	48	18
Sairme Resort	10	0.6
Hotel Gino Wellness and Spa Rabath	5	2.4
Mountain Pig Farm	10.3	1.3
Hotel Royal Batoni	2.5	1.15
Hotel Best Western Kutaisi	3	1.5
Expansion of Lopota Spa Resort	21	5.4
Aerostructure Technologies Cyclone (ATC)	93	40
Hotel Radisson Collection Tsinandali	30	10

The projects completed in 2012-2016 by the PF were described in our studies of 2014 and 2016. This time we review four projects completed after that.

## 1.1. THREE-STAR HOTEL BEST WESTERN KUTAISI

**Location:** Kutaisi

**Number of rooms:** 45

**Total investment:** USD 3 million

**PF's share:** 49%

**Opening date:** April 2017

In July 2015, The PF signed a contract with Capitol Holding LLC and started a project to build a new hotel. Three-star hotel is located in Kutaisi center and has 45 rooms. It also includes three conference halls, an open and indoor café-restaurant. The project value is USD 3 million. The PF's share is USD 1.5 million. Symmetria, a company, built this hotel, which is the exclusive representative of Best Western International in Georgia.

Capitol Holding LLC was founded in December 2013. Giorgi Jakhutashvili is a director and owner of the company's 100% share. As for Symmetria LLC, it was founded on 23 September 2015 (From 2007 it operated as Ade LLC and in 2015 it was renamed as Symmetria). Taniel Gabunia is a director of this company and Gocha Jaiani is an owner. The above-mentioned persons have never donated to any political party.

## 1.2. EXPANSION OF FOUR-STAR HOTEL LOPOTA LAKE RESORT AND SPA

**Location:** Telavi Municipality

**Number of rooms:** 186

**Total investment:** USD 21 million

**PF's share:** 26%

**Opening date:** April 2018

In 2018, Lopota Tour Service LLC expanded Lopota's tourist complex with the support of PF. Development of the hotel complex Lopota Spa Resorts around Lopota Lake in Kakheti began in 2008. The hotel currently has 186 rooms with a 180-seat conference hall, a 250-seat restaurant, an open-air swimming pool, sports courts (basketball, football, volleyball, and tennis), mini-golf court, nightclub and tourism infrastructure. With the contribution of PF, 84-room complex, administrative building, 600-seat event hall, restaurant, bungalow, fitness club, indoor and open swimming pools were built.

The expansion project was worth USD 21 million, out of which PF's contribution was USD 5.4 million. The CIC Company carried out the construction works, Colliers supervised construction process and Architectural Orchestra worked on the interior / exterior.

Lopota Tour Service LLC was founded in December 2010. Giorgi Maisuradze is the owner of 100% share of the company. He also owns Lopota LLC. In 2016, Lopota Tour Service LLC was a bidder in five public procurement tenders announced for purchasing hotel services. It won only one tender valued at GEL 63 200. Moreover, in 2012-2018, this company got public contracts through simplified procurement in total valued at GEL 374 000.

Lopota LLC participated in five public procurement tenders and won only one valued at GEL 3 400. The same company has received GEL 90 000 through simplified procurement. Persons connected to these companies have never donated to any political party.

### 1.3. AEROSTRUCTURE TECHNOLOGIES CYCLONE (ATC)

**Location:** Tbilisi

**Total investment:** USD 93 million

**PF's share:** 43%

**Opening date:** 2018

In the spring of 2015, the PF launched a joint project with ELBIT Cyclone, an Israeli company. The project aimed at building of Aerostructure Technologies Cyclone (ATC), a factory of civilian aircraft parts. The investment value of the project is USD 93 million. Royal Development was a co-investor of this project.

The factory was opened in May 2018, which produces the following aircraft parts: doors, aerodynamic surface, control panel and other parts. All products of the factory are exported. After the full-scale performance (expected in 2023), the annual sales of the enterprise should exceed USD 60 million. The first procurement contract has been already signed. The first part of goods valued at USD 9 million was produced for Boeing.

ELBIT Cyclone is a subsidiary of ELBIT Systems, which works on three main directions: military/defense aircraft parts, parts of large civilian aircraft and security systems. ELBIT Systems was founded in 1966 in Israel and is a quoted company on NASDAQ (ESLT) and Tel Aviv Stock Exchange (TASE).

In June 2015, the PF and ELBIT Cyclone jointly established a company - JSC Aerostructure Technologies Cyclone (ATC).

As for Royal Development, its 40% share was owned by Otar Partskhaladze, the former chief prosecutor of Georgia, until June 2016. We highlighted this fact in the previous study.<sup>11</sup>

### 1.4. FIVE-STAR HOTEL RADISSON COLLECTION TSINANDALI

**Location:** Tsinandali

**Number of rooms:** 142

**Total investment:** USD 30 million

**PF's share:** 33%

**Opening date:** 2018

Hotel Radisson Collection is a joint project of PF and Silk Road Group. The hotel was opened on 27 October 2018. The hotel was built in Tsinandali, adjacent to Chavchavadze museum and garden.

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<sup>11</sup> <https://bit.ly/2MPNOnd>, pg 18

The resort includes a 142-room hotel, a 1 200-seat amphitheater, a 600-seat indoor concert hall, a wine factory, restored vineyards, conference halls and ceremonial events, a library, open and indoor restaurants, spa centers, pool and fitness clubs.

Silk Road Group is a private investment company founded in 1997 by Giorgi Ramishvili. Currently, he is the Chairman of the supervisory board of the Company. According to Panama Papers, Silk Road Group (Silk Road Group S.A.) is a company registered in the offshore zone of the British Virgin Islands. This makes it difficult to find information about Giorgi Ramishvili's partners.

## 2. ONGOING PROJECTS

**Table 3. Ongoing projects, as of 2019**

<b>Project title</b>	<b>Project value USD million</b>	<b>PF's share USD million</b>
Nenskra HPP	1 030	23
Mountain pig farm	0.7	0.35
Corn oil plant Karva	2.4	0.65
Ceramic brick factory in Kaspi	3.2	1.1
Concrete Block Factory - YTONG	15	7.2

### 2.1. NENSKRA HPP

**Location:** Mestia, Chuberi

**Capacity:** 280 megawatt

**Total investment:** USD 1 billion

**PF's share:** 2.2%

**Opening date:** 2021

Nenskra Hydro Power Plant is being built on the Nenskra River, a tributary of the Enguri River, in Svaneti. The capacity of this hydro power plant is 280 Megawatt with the annual potential output of 1.2 billion kW/h. The total value of the project, which will be completed in 2021, is USD 1.03 billion. According to the information given on PF's website, the plant will be transferred to the state free of charge and without any condition after 35 years. The PF and the Korea Water Resources Corporation (K-water) are the main investors. Salini Impregilo, an Italian company that won the tender, and Georgian Construction Consortium (GCC), a Georgian subcontractor, should build the plant. The European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB) and the Korea Eximbank provide the project with loans.

The issue of Nenskra HPP raised public interest on 8 June of this year, when TV Company Rustavi 2 could get and publicize the contract with Nenskra HPP.<sup>12</sup> Green Alternative, a local NGO, studied the contract and found that the state took an obligation to buy electricity from Nenskra at high prices (on average 10.6 Cents (29 Tetri) per kW/h).<sup>13</sup> To compare, the average price of electricity imported from neighboring countries is 4.9. Cents per kW/h.

To open Nenskra HPP in 2021 would be practically impossible because the construction works have not started yet. The project had many flaws. In October 2018, Salini Impregilo, an Italian construction company, left the project and its replacement company has not been selected yet. Meanwhile, the project team is conducting various infrastructural works in Mestia municipality. Teimuraz Kopadze, the Operations Manager of JSC Nenskra Hydro, told Netgazeti that the plant would start generating energy in 2024 or 2025.<sup>14</sup>

As for GCC, it was registered on 28 May 2015. The director and 100% shareholder is Malkhaz Kartskhia, who has never donated to any political party.

## 2.2. MOUNTAIN PIG FARM

**Location:** Racha

**Total investment:** USD 0.7 million

**PF's share:** 50%

**Length of project implementation:** 7 years

The PF and NATIVE GEORGIAN, a company founded by shareholders of Spanish Deraza Iberico, jointly implement this project. The project includes the following stages: a) breeding of Georgian mountain pig, which is similar to Iberico pig, b) production of Georgian Jamon and its commercialization on world markets. Agriculture Research Center is also involved in the project. The project consists of five stages and should be implemented in 5-7 years. The PF only participates in the construction of the farm. The investment value of all five stages will be USD 7 million.

NATIVE GEORGIAN (officially NATIVE GEORGIAN LLC) was founded in March 2016. Tempo Deal LLC owns 51% of this company, while the rest 49% is distributed between two citizens of Georgia - 29% is owned by Zurab Nikolaishvili and 20% - by Vasil Babluani. In December 2018, Vasil Babluani donated GEL 10 000 to Salome Zurabishvili. Babluani is also the director of Jeas Iberia Consulting LLC. Emzar Nozadze, the owner of 40% of this company, donated GEL 30 000 and GEL 20 000 to Georgian Dream in 2016 and 2017, respectively. In November 2018, he donated GEL 20 000 to Salome Zurabishvili. Vasil Babluani also is the owner of 16% of Tierra Iberia LLC. Gia Gazdeliani, one of the partners of this company, in total donated GEL 63 000 to Georgian Dream in 2013-2014.

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12 <http://greenalt.org/wp-content/uploads/2019/06/contract.pdf>

13 <https://bit.ly/2FfVicT>

14 Ibid

## 2.3. CORN OIL PLANT - KARVA

**Location:** Khobi

**Total investment:** USD 2.4 million

**PF's share:** 27%

**Opening date:** 2018

The PF and Karva Kolkhuri LLC jointly implement this project. The plant aims at starting production of corn oil and combined food. The total investment value of the project is USD 2.4 million, out of which USD 650 000 is PF's contribution. The company will have the following main products: corn oil, corn grain and other corn products. In the frame of the project, Kolkhuri, another company, was founded, which will supply the local market with combined food for animals.

The plant of corn grain processing, oil and combine food production has been already built. The enterprise will be able to process 50 tonnes of corn grain per day and will produce 100 tonnes of corn oil per month in its full capacity. The oil will be produced from local corn.

Karva Kolkhuri LLC was founded in May 2017. Natia Bukia is the owner of this company and Giorgi Ortoidze is the director. Kolkhuri LLC was founded in 2011 and 100% of its shares are owned by Karva Kolkhuri LLC. Mamuka Bukia is the director of Kolkhuri LLC. These companies have never participated in public procurement. Persons connected with these companies have never donated to any political party.

## 2.4. CERAMIC BRICK FACTORY

**Location:** Kaspi

**Total investment:** USD 3.2 million

**PF's share:** 34%

**Opening date:** 2019

The PF, together with Ceramika El TORRENTE, a Spanish company and Ceramika El TORRENTE LLC, a Georgian partner with the same name, is building a brick factory in Kaspi. The state program Produce in Georgia and Cartu Bank are also involved in this project. The PF's contribution is USD 1.1 million. The construction of the factory began in November 2018 and it should be opened in the fall of 2019. It will produce 120 000 tonnes of bricks annually.

Ceramics El TORRENTE LLC was founded in May 2015. Manipe LLC owns 50% of its shares, 28.3% belongs to - Bidzina Songhulashvili, 16.7% - to Vasil Babluani and 5% - to Levan Erkvania. Zurab Erkvania is the director of this company.

As we discussed above, Vasil Babluani was involved in Georgian Mountain Pig Farm in Racha, another project funded by PF. As we have already mentioned, Vasil Babluani donated GEL 10 000 to Georgian Dream in 2018. Bidzina Songhulashvili, another partner of Babluani, also donated GEL 50 000 to Georgian Dream in 2016.

As for Manipe LLC, it was founded in October of 2017. Nino Ramishvili is the only owner and director of this company.

## 2.5. CONCRETE BLOCK FACTORY - YTONG

**Location:** Tbilisi

**Total investment:** USD 15 million

**PF's share:** 48%

**Opening date:** 2019

YTONG - production of energy efficient concrete blocks - is a joint project of PF, Archi Group, a Georgian company, and Xella Group, a German company. Construction of this factory started in 2018 and ends in 2019. YTONG is a famous German brand with 80 years of history. Considering the capacity of the production line, the factory will produce 160 000 cubic meters of concrete block annually. According to the received license, part of bricks will be sold in Georgia, while the rest will be exported.

YTONG Caucasus LLC is building the factory, which has a license from Xella, to produce and sell concrete blocks under the name of YTONG.

YTONG Caucasus LLC (Identification number: 405154130) was founded in 2014. YTONG Capital LLC owns 37.7% of this company, 33.5% belongs to Xella Baustoffe (Germany) and 28.9% - to PF. Dimitri Adamia is a director of this company. The supervisory board includes Irakli Kaphianidze, Tengiz Tsulaia, Michael Aksel Aleksander Jackson (Germany), Christian Peter Hille (Germany) and the PF.

YTONG Caucasus LLC (another company with the same name. Identification number: 405046141) fully owns YTONG Capital LLC. Irakli Kaphianidze is a director and owner of 33.3% of YTONG Capital. Other owners are Menahem Benish (an Israeli citizen, 33.3%) and Leila Minashvili (33.4%).

In August 2016, Dimitri Adamia, the director of YTONG Caucasus LLC (405154130), donated GEL 30 000 to Georgian Dream. In September 2018, he donated GEL 60 000 to Salome Zurabishvili. Adamia is also the director of Archi Nutsubidze LLC, a company that is fully owned by MP Ivliane Tsulaia. In 2016-2018, Tsulaia in total donated GEL 170 000 to Georgian Dream and Salome Zurabishvili.

As for Irakli Kaphianidze, in 2016-2017, in total he donated GEL 90 000 to Georgian Dream. In September 2018, he also donated GEL 60 000 to Salome Zurabishvili. Kaphianidze is a director and owner of a couple of other companies. Moreover, he is the main business partner of Ivliane Tsulaia. For instance, they jointly own the following companies: Silver 39 LLC, Archi Saburtalo LLC, Archi Towers LLC, Prime Archi LLC, Dighomi Palace 6 LLC, Old City Hospitalities LLC, etc. Gocha Enukidze, another MP from Georgian Dream, is a partner of Tsulaia and Kaphianidze in a couple of businesses. In 2016-2018, Enukidze in total donated GEL 165 000 to Georgian Dream and Salome Zurabishvili.

Tengiz Tsulaia, another person connected with YTONG Capital LLC, is a brother and business partner of Ivliane Tsulaia. In 2016, he donated GEL 60 000 to Georgian Dream and- GEL 60 000 to Salome Zurabishvili in 2018.

# RECOMMENDATIONS

- In order to ensure PF's stable investment activities, its funding should be sustainable and predictable. Therefore, it would be better if PF does not depend on the profits of state-owned companies and it is directly financed by the state budget within certain limits. Profits of state-owned companies could be transferred to the state budget;
- If the first recommendation is considered, the PF, as a budgetary organization, each year should present a detailed report on ongoing and future investment projects to the Government and Parliament of Georgia. Based on these reports, next year's budget of PF should be adopted. This step will significantly increase parliamentary oversight over PF and its accountability. Transparency of PF's expenses (salaries, bonuses, business trip reimbursement, etc.) will also increase;
- Additional regulations for ensuring more transparency of PF's projects should be introduced. More specifically, it would be good if the legislation bans funding of such legal entities, which are registered in offshore zones or legal entities, whose owners or shareholders are offshore companies;
- The PF should put more information on its webpage about ongoing and completed projects.