

## REMARKS

**Prime Minister of Georgia, Zurab Nogaideli**

*On the Occasion of the 8<sup>th</sup> Anniversary of the US-Georgia Business Council*  
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I would like to begin by expressing my special thanks to the organizers of this conference...

...To Mr. Mamuka Tsereteli, to Enders Wimbush, to Paul Henze – to all the many corporate sponsors and guests that have come here today...

...And to the Georgian Embassy in Washington, DC for their years of hard work and support to the Council.

A great deal has happened during the eight years that this business council has been in operation...

...And Georgia has undergone an enormous transformation during that time.

As most of you gathered here today know – just two years ago Georgia chose a new path, during events watched around the world, now popularly known as the Rose Revolution.

Our Rose Revolution was led by the citizens of Georgia, who peacefully stood up and declared, “*enough is enough*” – demanding a new future – a new country, and a new government that would follow new rules of the game.

Since those dramatic days, we have done our best to respond to the call for action – to the demand for results...and to the insistence on establishing new rules that apply equally to all.

Rules that most of us in this room commonly recognize as democracy, accountability, transparency, and representative governance.

By pursuing a vigorous but disciplined reform program – one that has placed anti-corruption at the center of all our efforts, Georgia has succeeded in bringing about revolutionary, dramatic, and lasting change...

...On a scale that few imagined or believed was possible in Georgia.

And I think our results speak for themselves...

Since entering government two years ago, the budget of Georgia has grown more than three times in size...

An outstanding boost in state performance and institutional functionality.

Gone forever are the days when pundits used to refer to Georgia as a failed state.

With a healthy and functional state, we have been able to pay first-rate salaries to public servants – to launch much needed public infrastructure projects throughout the country, carry out broad reforms in education, and completely restructure our police and security forces.

Indeed, in energy and transport alone we have dedicated 14% of this year's state budget to creating lasting change.

How did we achieve this? How did we turn the situation around?

We did so by practicing good governance, by enforcing rule of law, by explaining our package of reforms, and by an unwavering commitment to democratic change.

Many examples abound of the "New Georgia" today – from our streamlined border controls and customs regime, to the performance of the new traffic police.

In Georgia today, as a result of our reforms – drivers are no longer terrorized by shakedowns on the road, where the police used to famously demand bribes of travelers and businessmen alike.

If Georgia's pre-Revolutionary police force had less than 5% public confidence, today it enjoys greater than 80% public support.

Why? Because officers are well trained, well equipped, well paid and most important of all – they are held accountable to and by the public.

A similar story can be told in the electricity sector...

Where for the first time in the post-independence period, Georgia has managed to stabilize provision of electricity.

If in the past, payments for electricity hovered in the mid teens and low twenty percentiles, today it is above 70% and rising...

If in the past, corruption and theft were common place in the energy sector, today they are no longer tolerated nor are they practiced.

If in the past, repairs went undone, plants were left in disrepair, and funds went missing, today they are being modernized and maintained and the money is spent responsibly.

These results are the product of new attitudes and new policies: in short they are the result of a government that is now functioning under new rules of the game.

Rules that are clear – and rules that are equal for all.

During the same period, in addition to growing state revenues and reforming state structures, we have managed to maintain strong rates of real GDP growth.

In 2004, real GDP grew at 6.2% while this year we expect 8.5%, and double digit growth for 2006.

During the first nine months of this year, tax revenues alone have grown by more than 54%, and foreign direct investment continues to increase with US levels up by more than 25%.

And yet these statistics only capture part of the story.

To get where we are today, we have had to endure pain and make sometimes difficult choices.

That has meant radically downsizing our government – and in many cases reducing the size of our bureaucracy by more than half.

And yet we have not hesitated or strayed from the course.

We have not done so because now, the fruits of our labor are producing their first blossoms...

...And the rules that we have established and now enforce mean that Georgia's wealth of opportunities are open to all who wish to come and take part.

Georgia today enjoys strong macro-economic discipline, enhanced national security and lasting internal stability.

Because of these changes, because of these results, and because of our continued commitment to reform, I am confident about Georgia's business development potential – and even more confident about Georgia's future.

If I had to describe the environment in Georgia today, I would say it is best characterized by a new sense of optimism, a new degree of energy, and a new outlook.

For those of you who have been to Georgia recently – and seen the changes first-hand, you know what I am talking about...

And for those of you that are here for the first time today, and are interested in learning more and investing, I think you can see we are a country that is definitely on the move...

Be it our aspirations to join Euro-Atlantic institutions and strengthen our partnership with the United States, or our liberal minded economic policies...

...We have established and will continue to work in a dynamic, professional and accountable fashion...

...So that Georgia will continue to offer an attractive, transparent and stable investment climate.

Open to all – and open for business.

As all investors know – the world is full of choices, and one can just as easily invest in Chicago as one can in Kiev, or Krakow, or Tbilisi.

So why invest in Georgia? What makes it so compelling?

I believe there are a multitude of factors that combine to make Georgia an attractive and unique destination.

And indeed, many of you may be familiar with some of these factors.

Certainly Georgia is blessed with a unique geo-strategic location that gives investors the special ability to serve European, CIS and Asian markets by developing and utilizing our well placed railroads – ports and highways...

...This critical infrastructure continues to provide the shortest and cheapest transit routes in the region – and Georgia is fast becoming an important and influential transit hub.

Georgia's special geographic attributes are complimented by access to a skilled and relatively cheap labor force, that has proven itself capable of leading and managing complex projects...

...Such as the recent completion of the Baku-Tbilisi-Ceyhan pipeline in cooperation with BP and BTC and the on-going works related to the Shaz-Deniz gas line.

Georgia is also blessed with rich but relatively under-developed agricultural assets, that provide a wealth of opportunity for the development of value-added products such as wine and food processing – products which enjoy strong local and regional demand and even brand recognition.

Here I would like to highlight the wine sector where we have seen an 80% growth in export over the last year and a doubling of grape production.

Relatively untapped opportunities also exist in the development of the financial services market – where progressive legislation has created opportunities in banking, insurance, leasing, mortgage finance and other areas.

In banking alone, liquidity levels of local banks have dropped considerably – which is a direct sign of the attractiveness of investing locally.

Real estate development is also an exciting sector – led by growth in demand for residential housing, office space and tourism – an area that since the Rose Revolution has seen a major spike in growth.

Our on-going privatization program also offers a wealth of opportunities for investors that range from the sale of land, to the sale of hotels and resorts to the sale energy production and distribution assets...

I would like to emphasize in particular our current plans to complete privatization in energy and telecom and draw your attention to those opportunities.

Georgia is proud of its approach to strengthening the private sector and to making previously state-owned assets available to the investment community in an open fashion.

Not only does private ownership lead to better management and greater job creation – but of equal importance, it reduces opportunities for state sponsored corruption and interference in economic activity.

From this brief review of opportunities, it is clear that Georgia is home to many attractive sectors.

But perhaps the most important factor, the one which stands above any single individual business opportunity in Georgia – is the spirit and manner in which we have sought to create a constructive business climate.

In other words, the rules of the game are clear – and they are pro-investor.

I think the recent study conducted by the World Bank and the International Finance Corporation on “*Doing Business in 2006*” speaks for itself when it ranked Georgia as the second most reform-minded government in the world.

Similarly, the recent \$300 million Compact that we signed in September with the Millennium Challenge Corporation reaffirms our ability to integrate good governance with the priorities of economic growth and development.

Yet more than rankings or new programs with international institutions...it is our actions and our policies that are most compelling.

And here I am referring to our comprehensive reforms that together create an attractive business climate.

Specifically, this means reforms in our tax system and its administration where have reduced the number of taxes from 22 to 8....

...The process of state permitting and regulations, and the instruments of financial oversight...

...And now – most importantly, judicial reform, where we have just introduced a new draft code of criminal procedure that will make litigation procedures more transparent and understandable. And more is yet to come.

In the realm of taxes, our reforms have not just slashed the number of taxes by more than half – they have also reduced the effective rate of those taxes – and in the process, simplified the tax regime and its administration.

Examples include VAT, where the effective rate has gone down while the speed and functionality of reimbursements have gone up.

Likewise, we have reduced the amount of social taxes in order to legalize the labor market by creating a simpler and more understandable flat tax on income, which now stands at only 12%...

In the sphere of permitting and regulation, we have eliminated more than 85% of licensing requirements...

...Requirements that in the past functioned as institutional vehicles for corruption, harassment and prolongation of bad business practices.

Today, instead of forcing business to run from one Ministry to another in search of permission to operate and invest, we have now transferred responsibility to the government itself...

...And thus reduced the time and complication involved with doing business in Georgia.

There are many other areas of our reform program that I could highlight – such as the absence of limitations on currency and profit repatriation – that demonstrate how building and maintaining a positive investment climate is greater than any one single reform...

Because in the end, only a combination of taxes, good governance, fair courts, openness, and accountability will lead to job creation and sustained economic growth.

And that is precisely the integrated policy that we are pursuing – so that your success in Georgia will mean our success as well.

Once again, let me thank all of you for coming here today...

For showing your interest in Georgia – and for believing in us and what we are building

On behalf of my government – and the people of Georgia – it is my pleasure and my privilege to welcome all of you...new and old – to invest in and come visit, the “New Georgia”!

**THANK YOU**