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BUSINESS PERCEPTION SURVEY OF THE MINING SECTOR

FINAL REPORT

USAID GOVERNING FOR GROWTH (G4G) IN GEORGIA

12 February 2019

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ABSTRACT

This report provides analysis of results derived from the *Business Perception Survey of the Georgian Mining Sector*. The *Survey* was conducted by PMO Business Consulting and was commissioned by the USAID Governing for Growth in Georgia (G4G) project from July to December 2018. The *Survey* covered local entities as well as international companies operating in the mining industry. The aim of the *Survey* was to identify the key challenges that exist in the Georgian mining industry and reveal areas in the existing regulatory framework that need to be improved. Based on the *Survey* results, recommendations were developed for the Government of Georgia (GoG) to implement reforms that will support the establishment of an attractive business environment for the mining sector and stimulate investments and growth.

ACRONYMS

EBRD	European Bank for Reconstruction and Development
FDI	Foreign direct investment
G4G	Governing for Growth in Georgia
GDP	Gross domestic product
GEOSTAT	National Statistics Office of Georgia
GKZ	Russian State Commission of Mineral Reserves
GoG	Government of Georgia
ha	Hectares
JORC	Joint Ore Reserves Committee
JSCE	Joint-stock company
LEPL	Legal entity of public law
LLC	Limited liability company
MoESD	Ministry of Economy and Sustainable Development
NAM	National Agency of Mines
NAPR	National Agency of Public Register
RIA	Regulatory impact assessment
USAID	United States Agency for International Development
USD	United States dollars
WB	World Bank

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1. EXECUTIVE SUMMARY

The *Business Perception Survey of the Georgian Mining Sector* was conducted from July to December 2018 to identify the challenges that exist in the mining sector and develop recommendations to serve as a roadmap for the GoG to design and implement sector reforms.

The *Survey* covered local companies operating in the mining industry in Georgia as well as international investors that may consider Georgia as a potential destination for investments.

The *Survey collected* responses from 67 local companies and 38 international investors. The average response rate for Georgian companies was 34.4 percent of the 195 selected for the *Survey*.

Out of 128 local companies that declined to participate, about 18.6 percent self-reported as being closed or not utilizing their mining license.

The majority of the international respondents hold senior management positions in junior, mid-tier, and late-stage mining companies. International firms that provide research and analyses to the mining industry also responded.

1.1 KEY FINDINGS FROM THE INTERNATIONAL INVESTORS' SURVEY

The purpose of surveying international investors was to identify the most important factors that influence their investment decision and assess their awareness of the Georgian mining sector.

KEY FACTORS INFLUENCING INTERNATIONAL INVESTORS' DECISIONS

A fair, open, transparent, and stable regulatory system is a top priority among the factors that are considered important by the international respondents. The *Survey* revealed that international investors rank political stability, stable tax rates, and consistent regulations in the sector as key factors that influence their investment decisions.

More specifically, international respondents stressed the following factors as influential drivers in their investment decisions:

- Clear and transparent licensing procedures, with no delays and low upfront payments.
- Tenure security of licenses that protect local stakeholders and communities, and encourages the utilization of mining assets.
- Access to information on geological potential and the mineral resource endowment of the country.
- Physical safety and security of stakeholders.
- A fair and stable tax regime with infrequent changes or unfair tax rate increases. Moderate royalty rates based on actual production.
- Availability of a skilled labor force.
- Ease of access to basic infrastructure such as roads, power supply, and water.

Regarding environmental protection, international investors, miners, and explorers recognize the need to be good corporate citizens, and to protect and rehabilitate the environment. Fifty percent of international respondents indicated that legal requirements and measures to protect the environment from mining works do not deter investments, while 42 percent of international respondents consider that good environmental regulations might even encourage investment in the mining industry.

The *Survey* revealed that local and international companies have similar perceptions about the key pillars comprising a good mining jurisdiction.

AWARENESS OF INTERNATIONAL INVESTORS ABOUT GEORGIAN MINING INDUSTRY

International investors' awareness of Georgia is low. Most respondents lacked current information about Georgia. Those respondents who reported to have knowledge of Georgia mostly had negative perceptions. They were not aware of improvements in the Georgian business environment. They still view Georgia as having high levels of corruption, bureaucracy, and political interference. It is clear that there is a need to develop a strong communication strategy with potential investors to promote Georgia as a prospective destination for mining investments.

It is notable that several international respondents indicated, based on the geological characteristics, there could be interesting mineral reserve deposits in Georgia that are undiscovered. Therefore, using strong communication and a promotional campaign Georgia could become an interesting destination for international companies that conduct mining exploration.

1.2 KEY FINDINGS FROM THE SURVEY OF LOCAL MINING COMPANIES

Most of the local companies have a positive attitude regarding the factors contributing to the general business environment in the sector. Ninety-two percent of respondents assessed the current political situation as stable or positive. Additionally, 90 percent of respondents have no concerns regarding the general safety issues; reporting the absence of criminal cases, and conflicts around the deposit area.

The results showed that companies have a positive attitude and trust the regulatory system and state institutions functioning in the sector. Fifty-nine percent of local companies assessed the general regulatory framework as transparent. Significantly, none of the local company representatives mentioned the word "corruption" and when asked directly at the interview, the interviewees stated that they have not experienced corrupt practices.

The following areas were positively assessed by local companies:

- Seventy percent of local companies assessed the auction system for granting licenses as transparent and fair.
- Sixty-four percent of local respondents indicated that access to and the quality of the infrastructure is acceptable. Improvement to infrastructure usually requires about 20 to 30 percent of their initial investment¹ in the deposit depending on the type and condition of the deposit. Companies agreed that the responsibility to develop the infrastructure lies with the private sector. Their major concern with infrastructure is delays in obtaining additional permits (e.g. road construction) necessary to start building the infrastructure around the deposit.
- Land ownership disputes have become a rare issue in recent years. Seventy-two percent of local respondents reported that they did not have any ongoing disputes in recent years, although the companies that have disputes reported that the court cases have been ongoing for several years.

The royalty system and access to geological information is one of the most important concerns for local companies. According to law, mining companies pay royalties for utilization of mineral resources. The royalties are calculated based on the annual extraction plan. If a company extracts less than planned, it is still charged with royalties for the amount of resources that is defined by the extraction plan. If the extracted resources exceed the planned amount, the company is charged with royalties for actual extraction. Ninety-five percent of local respondents consider this approach for calculating royalties to be unfair. They noted that the existing practice should be changed, and royalties should be calculated based on actual extraction.

Regarding geological databases, companies reported that, although the geological reports kept in the National Agency of Mines (NAM) are accessible to all interested parties, the information is outdated and unreliable. Many companies do not trust the existing reports and conduct additional exploration on their own.

¹ All costs that are incurred at the initial stage of the project.

The responses from local companies reveal that there is a clear need for a new and more easily searchable central e-database to improve access to geological information for interested parties.

Eighty percent of companies reported that it is difficult to find skills in the Georgian labor market. The remaining 20 percent reported that they overcame this issue by hiring older and often retired geologists or imported skills from abroad. However, a universal message from the respondents revealed that there is a deficit of skilled professionals among the younger generation in the labor market.

Despite the skills shortage, most companies agreed that preference should be given to Georgian employees when hiring, and this practice already exists. There is a risk that given the lack of skilled labors in Georgia, new companies entering the sector may import qualified professionals from their own jurisdictions. It was noted that this practice has caused considerable social problems in other developing economies. Given such a risk exists, local companies were not averse to setting quota percentages in the region of 50 to 70 percent, given they already employ considerably larger proportions of local labor. International companies in Georgia held similar views.

Despite the fact that companies consider the auction system to be fair and transparent, local companies assert that there are high upfront payments when acquiring licenses in the initial stage of the project. The high upfront payments were reported as an issue by 61.3 percent of local respondents. To be more specific, the one-time payment to convert exploration rights to extraction rights is high. In addition, the royalties for extraction, despite the company not conducting extraction operations, are considered a burden for local companies. They propose redistributing the fiscal burden to the later stage of projects, when they start to generate income. The same approach is adopted by world-class mining jurisdictions and is assessed positively by international respondents.

Bureaucracy issues, mainly delays in license issuance and approval of mineral reserves, were indicated as a problem by 52.5 percent of respondents. However, many respondents mentioned the NAM's improved performance and a reduction of bureaucracy in recent years.

Asset-sitting and speculative trade with licenses are still challenges for the local mining industry. Sixty percent of local respondents reported that they believe that there are many cases when license holders do not process or intend to work on the mining or exploration sites. Instead the holders retain the licensing rights with the sole intention of reselling them to generate a profit.

All local companies have similar attitudes regarding environmental protection. They agree that environmental protection and rehabilitation processes should be a key part of the legislative framework.

Below are the key findings of the *Survey*:

- The current Georgian mining legislation, despite some modest legislative amendments, is for the most part based on the pre-independence Soviet system. A system that is not highly regarded in terms of best practices. The international survey, therefore, identified best practice principles and tested their appeal with respondents to determine their relative investment attractiveness. The survey found that for all of the principles tested, adoption of these principles would increase the investment attractiveness of Georgia.
- Some structural changes are also recommended, including the implementation of a “one-stop shop” approach, creating a “chamber of mines” (to represent the industry) and increasing training and education in the sector. The need for objective communication between the government and industry was clearly identified in the *Survey*. Establishing a chamber of mines as a voice of the mining sector in Georgia would be beneficial.
- The *Survey* of local companies revealed that the NAM is improving but an increased focus on geological data presentation, promotion, and investment services will assist in creating growth.

2. BACKGROUND

Throughout the last decade, Georgia made significant improvements through implementing reforms that has established an attractive business environment. The progress of the country is justified by the improvement of the country's position in international rankings. According to the 2019 World Bank's (WB) *Ease of doing Business*, Georgia ranks 6th out of 189 countries.

Despite the improvement of the general business environment, the existing regulatory framework in the mining sector of Georgia is still far behind international best practices. Further improvements are needed to enhance growth of the industry and attract the attention of international investors.

Currently, the mining sector's share of the economy is negligible. In 2017, the mining sector contributed 1 percent of the country's gross domestic product (GDP). Despite its small contribution to the GDP, it must be noted that the mining sector still remains one of the important sectors Georgia's economy. Mining products are among the largest commodity groups exported from Georgia.

Considering the geological profile of the country, Georgia has the potential to become an attractive destination for junior and mid-tier exploration mining companies in search of new exploration projects. Local and international respondents, with years of professional work experience on complex geological projects supported this view. However, the awareness of Georgia's geological potential is very low among international investors.

The *Survey* was conducted to review the existing regulatory and practical barriers that hinder the development of the industry and propose relevant solutions in accordance with international best practices. The *Survey* will contribute to the development of the mining sector's strategy. This will identify the areas where future GoG and donor interventions would be most valuable. Kirk Adams, G4G's international mining expert, assisted PMO in developing an action plan and methodology for the *Survey*. G4G is collaborating with the European Bank for Reconstruction and Development (EBRD), which expressed interest in the *Survey* to support its efforts in developing the Mining Sector Development Program.

3. METHODOLOGY

To study the Georgian mining sector and its respective obstacles, with local and international experts' assistance, the PMO developed a complex and multidimensional methodology. Local and international companies were interviewed using semi-structured questionnaires in order to capture the obstacles in the Georgian mining regulations.

A sample of local and international companies were constructed, and a separate questionnaire was developed for each company category. The questionnaires covered all important aspects that comprise the business environment within the mining sector.

Local companies were mainly surveyed via in-person interviews, while international investors were surveyed via electronic questionnaires that were sent to their private email addresses and were spread through an online survey platform.

3.1 INTERNATIONAL INVESTORS SURVEY

The purpose of interviewing international investors was to reveal the factors that influence international investments in the mining sector and identify existing obstacles for investments in Georgia's mining sector.

Initially, the database of international investors was constructed throughout the project, containing the contact information and areas of activity for each international company. The information on international companies was obtained using online search tools. The companies were divided into the junior, mid-tier, and late-stage investors.

After constructing the international investors' database, the questionnaires for international investors were designed and sent to their email addresses. Considering that Georgia is a small market and the local mining sector is developing, it was expected that international investors' interest to the *Survey* would be low. Therefore, the questionnaires were sent to all companies from the database to attain a sufficient response rate. In addition, the international expert shared the *Survey* questionnaire within his own network of international mining investors.

Given that international companies are unaware of the mining environment in Georgia, the questionnaire tried to capture what the global mining industry regards as attractive investments and to identify potential roadblocks to investment decisions.

The *Survey* asked the international respondents to rank best practice principles in terms of investment attractiveness (or unattractiveness), to measure the influence of such principles on investment decisions. The collected responses were ranked on a five-point scale, where five represents "encourages investment" and one "no influence on investment." For each category, an average score was calculated and the investors' preferences were ranked from most to the least important.

Furthermore, international respondents were asked to comment on:

- Obstacles for potential investments in the Georgian mining sector
- The reasons for a possible lack of interest in investing in the Georgian mining sector
- Actions to make the Georgian mining sector more attractive to investors

The international investors did not express high interest in the *Survey*. Initially, the questionnaires were sent to international investors through the online survey platform. However, the online survey platform did not succeed in collecting sufficient responses. This could be explained by the fact that most investors were not familiar with Georgia; therefore, they were unlikely to spend time on a "cold call" email request.

At the second stage, a different communication strategy was used. Instead the international companies were contacted through the following channels:

- Direct mail was sent to the private emails of international companies introducing the profile of Georgia and purpose of the project. The questionnaire introduced the investors to Georgia's improved business enabling environment and highlighted the country's ranking on the WB's "Ease of Doing Business" index. However, it also informed them the need to improve Georgia legislation on mining and their feedback was essential to develop better mining legislation. Those

investors contacted by phone received more information about Georgia. Some investors only replied to the *Survey* when they were contacted directly by phone.

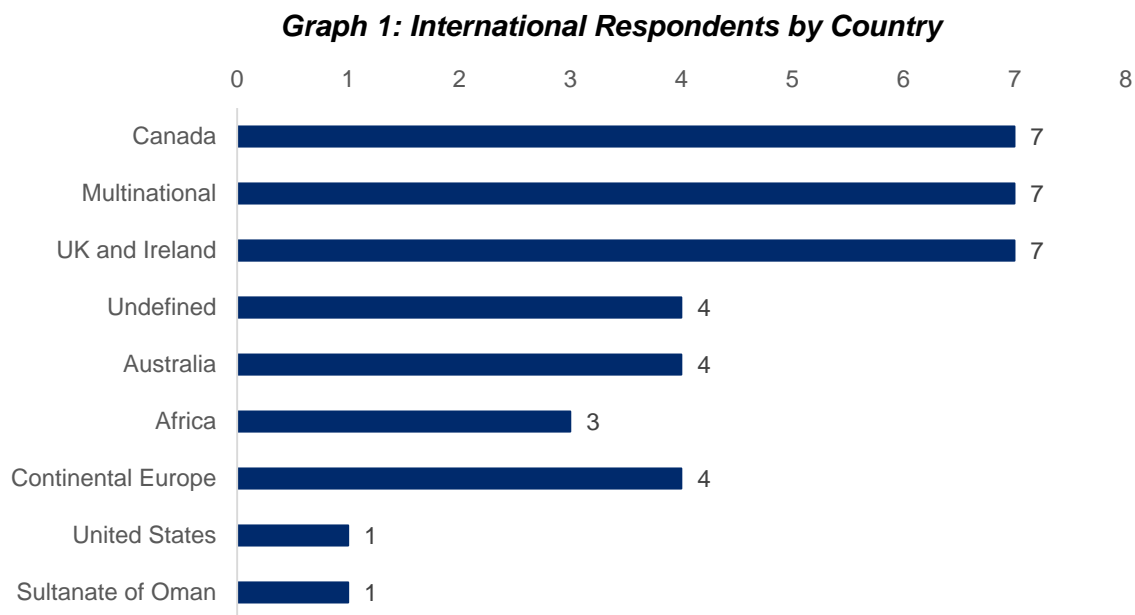
- The international expert provided assistance by forwarding the link to the *Survey* and digital questionnaire within his own network and contacts in the mining industry.

The new communication strategy resulted in increased response rate from the international investors- 38 responses in total.

Most respondents held senior and mid-level management positions in their companies. Senior technical staff and analysts participated in the *Survey* as well. Of those who responded using a the link, it was difficult to identify the position and company for four of them. So, their position and company was categorized as unknown.

The international companies that participated in the survey all of them were operating in countries with a developed mining industry. Most of the respondents worked for companies that operate in the United States, Canada, the United Kingdom, Australia, and Africa.

The detailed list of respondents by countries of operation is provided in Graph 1.



In terms of occupation, the international companies were divided by their field of activity:

- Late-stage investors²—26 percent of respondents
- Midtier investors³—18 percent of respondents
- Junior investors⁴—18 percent of respondents
- Companies rendering consultancy and research services in the mining industry—11 percent

Given that the known sizes of reserves and resources in Georgia are modest by global standards, companies categorized as mid-tier and junior are more likely to be interested in Georgia as an attractive market for mining projects. The structure of the industry is such that large companies tend to focus on their existing operations and adding reserves to these as they deplete them, rather than undertaking greenfield exploration where the likelihood of exploring and finding an investment-worthy project is unlikely. Larger companies tend to attain new projects through mergers, acquisitions, or joint-ventures (JV) with mid-tier and junior companies in the sector.

The *Survey* responses were predominantly received from mining companies that fit the mid-tier and junior companies description. Other respondents were those that have extensive experience in rendering consultancy and research services in the mining industry worldwide and are well aware of good regulatory practices and investors' preferences when making investment decisions.

The international investors' questionnaire asked the respondents to evaluate the importance of key regulations to their investment decision. The questionnaire covered topics similar to those discussed with the local mining companies. It also had space to allow the respondents to write down what they viewed as the main drivers and obstacles to investments.

Comparing responses from the local and international mining companies helped to identify the preferences of investors. It also revealed key challenges in attracting potential investors to Georgia's mining industry. The results of the analysis will help to inform policies that can establish an attractive business environment for the mining sector.

Topics Discussed with International Investors

- The fairness and transparency of the regulatory framework
- Requirement for geological information
- Licensing procedures
- "Use it or lose it" principle to avoid asset-sitting
- Taxes and royalties
- Privileges to locals when hiring human resources
- Property rights
- Environmental standards

3.2 SURVEY OF LOCAL MINING COMPANIES

Local companies were surveyed using a more detailed set of questions on current regulatory environment in the sector and key practices. The survey results revealed the drawbacks of the existing regulatory framework and identified obstacles to effective investment and mining development currently in place in Georgia.

The questionnaire for local companies was designed so that key issues that influence company performance and create the business environment were considered and evaluated.

The questionnaire included 12 key topics that can be divided into three groups:

- Factors that form the general environment

² Late-stage investors are experienced mining companies that accumulate funds by issuing shares.

³ Midtier investors are mining companies that conduct extraction works, and their market capitalization is between 500 million USD and 5 billion USD.

⁴ Junior investors are exploration companies that search mineral deposits with significant potential of gold, silver, uranium, or other precious minerals.

- Factors that form the sector-specific environment
- Taxes and other fiscal expenses paid to the state

Figure 1: Three Groups of Topics



In addition to the in-person interviews, local companies were asked to anonymously evaluate existing regulatory framework in terms of the fairness, transparency, and possibility of speculation with license rights.

The NAM, under the Ministry of Economics and Sustainable Development (MoESD), obtained data about the licensees operating in the Georgian mining sector. The data was divided into five categories, according to extracted material/s:

- **Construction**—This category includes licensees that extract resources for construction purpose: sand, gravel, limestone, decorative stones, clay, and plaster materials.
- **Water**—includes licensees that extract fresh and mineral water and thermal and sub-thermal water.
- **Chemicals & Industrial**—This category includes licensees that extract resources for their industrial usage and/or for the production of chemicals (which can be considered as an industrial product); such as bentonite, clay, and perlite.
- **Metals**—includes licensees that extract metalliferous resources. (Metalliferous resources are expensive and more widely used than any other mining material that falls within the scope of this assessment. As a result, the project team put more emphasis on this particular sector.)
- **Energy**—includes licensees that mine coal and brown coal. This category does not include companies that extract oil and gas, since those are out of the project’s scope.

The obtained data was processed and cleaned. After data cleaning, some water licensees were omitted from the sample because they extract technical water, communal water, water for irrigation means, and water for production. Licensees that extract water for production of alcoholic and nonalcoholic beverages remained in the sample, since they are the largest extractors of ground water.

Careful examination of the data showed that only the “Construction” and “Water” categories included a large number of licensees, approximately 600 and 150 respectively. A small number of licensees were found in the other three categories: “Metals,” “Chemicals & Industrial,” and “Energy.” For those three categories, instead of sampling, all licensees were selected for the *Survey*.

- In the “Water” category, around 1,900 licenses were issued. After data cleaning, around 150 licensees were left for sampling.
- In the “Construction” category, roughly 900 companies held approximately 1,400 licenses. However, due to a large number of companies in this category, only limited liability companies (LLCs) and joint-stock companies (JSC) (600 companies) were intended to be interviewed. Of those companies, 10 percent of the population (60 companies) was randomly selected for the *Survey*.
- In the “Chemicals & Industrial” category, about 25 companies existed, and all of them were intended to be interviewed.
- In the “Metals” category, there were approximately 25 companies, and all of them were selected for the *Survey*.
- In the “Energy” category, there were only two companies (oil and gas excluded), “Saknakshiri” LLC and “Geofert” LLC, and both were selected for the *Survey*.

As a result, 157 local companies were selected for the initial sample as depicted in the table below.

Table 1: Quantity of Licensees Selected for the Initial Sample by Their Respective Category

Category	#	Water Categorization	#	Construction Categorization	#
Construction	60	Fresh Water	10	Sand & Gravel	15
Chemicals & Industrial	25	Mineral Water	10	Decorative Stones	15
Metals	25	Thermal Water and Balneology	10	Plastering Resources	10
Energy	2	Alcoholic Beverages and Lemonades	15	Clays	5
Water	45			Other	15

4. FINDINGS

This section summarizes the results derived from the survey of local companies and international investors, and provides a detailed analysis of the key findings and respective recommendations in accordance with the topics and issues that form the business environment in Georgia's mining industry.

The findings and recommendations were developed based on the responses from 67 local companies and 38 international investors. The recommendations developed under the assignment can serve as a roadmap to design and plan reforms to support the development of the mining industry by stimulating international investment and enhancing local company operations.

4.1 GENERAL FINDINGS FROM THE SURVEY OF INTERNATIONAL INVESTORS

The aim of the survey was to identify the factors that encourage international investments in the mining industry, as well as obstacles that deter international companies from investing in mining projects.

The results indicate that the following influential factors encourage investment decisions:

- Fair and transparent regulations with stable and infrequent changes of rules and procedures regulating the industry.
- Existence of an efficient regulatory system with standardized and clear licensing procedures with no delays in the delivery of services.
- Safe operating environment; absence of conflicts in country and/or near to the deposits area.
- Understanding of the local country context and access to geological information.
- Protection of property rights. Companies need to be sure that the property they are to explore will be granted development rights after the exploration phase.
- A reasonable tax burden and modest royalty fees, with a stable tax policy and infrequent or unfair tax rate increases.

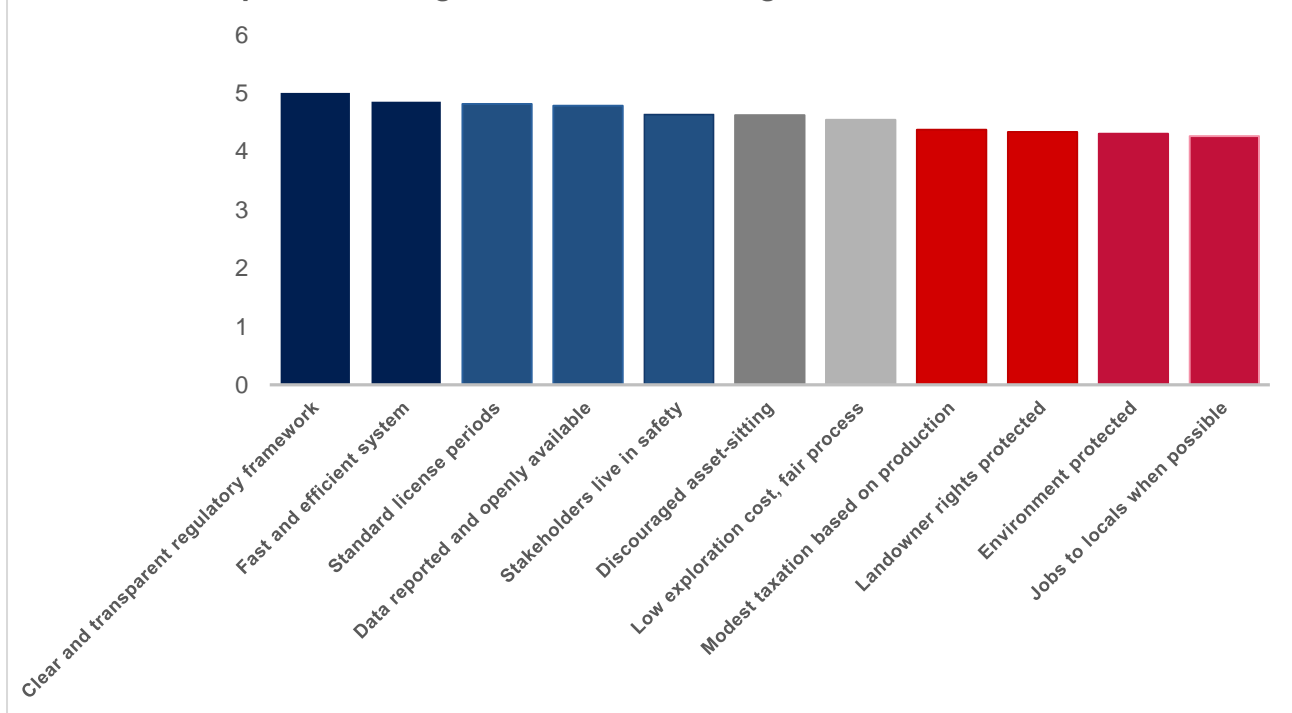
The questionnaire and in-person interviews of international investors indicated other motivators for investment beyond those factors presented in the main questionnaire:

- Ease in establishing a foreign entity in the country.
- The ability to transfer cash out of the country under the same terms that were established at the time a company enters the country.
- A risk-based approach to environmental security and development approvals.

International investors also indicated that the requirement for giving preference to the local labor force and protecting environmental standards are applied practices in the best mining jurisdictions, and complying with those practices does not negatively influence their investment decisions.

Regarding royalty, all respondents mentioned that royalty rates should be calculated based on actual extraction of the resources and calculated as a percentage of the average price of the commodity. These prices are generally taken from internationally recognized exchanges (such as the London Metal Exchange) and are averaged over a month. The month's mineral production is multiplied to the monthly average price and the adopted royalty percentage to calculate taxes. The calculations are done three months after the reporting month to enable time to collect the necessary data. The attitude of international investors towards royalty rates mirrors the responses from the local companies operating in Georgia.

Graph 2: Ranking of Factors Attracting Investment Decisions

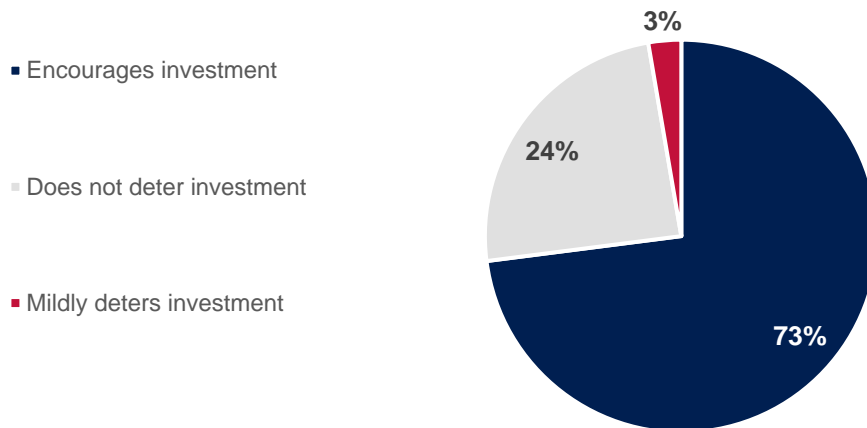


A clear and transparent regulatory framework ensuring fair treatment for all players in the market is the most important factor that should underline the reform. Almost 95 percent of investors indicated that transparent and fair regulations as the basic factor that determines their investment decisions.

Next is the efficient mechanism of awarding mining licenses. An efficient system of delivery services, with clear licensing procedures that ensure on-time issuance of license and permits was thought to encourage investment, according to 84 percent of international respondents.

Among the factors encouraging investment is the information about geological conditions, mineral resource endowment, and the quality of reserves. The availability of geological and cadastral data was evaluated as a factor that encourages investments, according to 73 percent of respondents (Graph 3). However, 24 percent of investors indicated that the availability of geological and cadastral information neither encourages nor deters the investments. They stated that investors will undertake significant due diligence on the amount and quality of mineral reserves by conducting exploration work along with additional drilling.

Graph 3: Cadastral and Geological Information Should be Available to Interested Parties at No Cost



International investors put a high value on the availability of geological information when making their decisions. However, existing geological reports in Georgia are mainly written in Russian and sometimes in the Georgian. This makes it difficult for foreign investors to determine whether the content of the available reports provide useful information for their projects.

International investors were asked to list the most important factors that they initially consider when selecting a mining project for investment. Overall 23 respondents out of 38 answered. Each of them named several components totaling 78 factors.

Obstacles for investments are:

- Instability of the general business environment
- Risk of conflicts
- Existence of corruption
- Frequent and unfair tax increase
- Delays in obtaining licenses and permits
- Lack of access to infrastructure
- Negative attitudes or resistance from local communities

The list of obstacles, above, reflect the factors that encourage investments. The availability of skilled labor was among one of the most frequently stated factors that encourages investment. State's support and investment to build the local labor force's capacity to supply qualified professionals for the industry is a positive sign to investors and is perceived as commitment from the State to support the development of the industry.

Quote from an interview with an international investor operating in Georgia:

“[The] most important problem is not about the regulatory framework, the most challenging for our company is to find the local know-how; it seems that since the Soviet Union collapse, [the] mining industry has gone. We do not find good-enough mining experts, [and] it looks to me that, in [the] Soviet era, Georgia had [a] really intensive role in the mining sector and there was a really good education in the mining fields; Georgia had good geologist and mining engineers, but currently it is difficult to find the new professionals that are familiar with the manganese properties.”

engineers since there are still a cadre of experienced geologists that obtained their education during the Soviet Union. These geologists have solid knowledge and experience that could be transferred to the young professionals in this field.

Stable and fair taxation is crucial to attracting international investors. Currently, according to the recent 2019 WB “Ease of Doing Business Score” in Paying Taxes, Georgia is ranked 16th; the total taxes and mandatory contributions by business amounts to a 9.9 percent of corporate profit in Georgia.⁵ This was positively assessed by international respondents, although the current approach for calculation of royalties was considered as unfair and irrational. Their attitude coincides with the results obtained from the survey of local companies in Georgia.

In all good mining jurisdictions, royalties are calculated based on the actual extraction and usually are not set at a fixed rate, but rather a percentage of the price of the resources. This type of approach redistributes the risks fairly between investors and the state so that in the case of a price increase, taxes collected by the state increases, whereas when the commodity price drops, and the fiscal burden to companies decreases.

Quotes from international investors’ responses about Georgia:

- “Although the country has a long history of mining, the legal framework appears opaque, complex, and out-of-date.”
 - “The exploration license period is assessed to be too short.”
 - “Road and rail infrastructure is generally poor. Geological data is out of date for modern use, which will increase the time to develop an exploration project to production.”
 - “There appears to be a concentration of mining controlled by a handful of companies, which deters competition.”
-

The lack of skilled labor was mentioned as one of the challenges by both local and international companies that process mineral deposits in Georgia. During the Survey, they reported that it was difficult for them to find qualified experts that have a proven track record verifying their knowledge and experience in the field. It is evident that for further development of the industry, it is important that the state, in close collaboration with the private sector, invests in capacity building and preparation of a new generation of qualified professionals in the mining field.

Currently, Georgia has a window of opportunity to raise a new generation of professional geologists and mining

A significant proportion of international investors have little or no information about the mining industry in Georgia. Out of the 38 respondents, 14 clearly indicated that they have no information about Georgia, and 15 omitted this question. Interestingly, many of the respondents expressed interest in getting more information about Georgia.

Nine respondents stated that they had some information about Georgia. However, five out of the nine reported to have mostly negative perceptions of the country. They thought Georgia has a high level of corruption, bureaucracy, and political interference.

With respect to geological attractiveness, only four respondents reported that they believed that the geological characteristics of Georgia are attractive for exploration, but they did not have much information about the mining industry.

⁵ http://www.doingbusiness.org/en/data/exploreconomies/georgia#DB_tax.

There were several anecdotal comments from international investors on the geological characteristics of Georgia. For example a fund manager in Australia stated that Georgia is a “highly geological prospective.” Clearly, there are potential investors that believe Georgia could become an attractive destination for mining exploration works. This is why, in parallel to the promotion strategy, it is important to introduce mechanisms and regulations that make exploration simple and easy for investors.

4.2 OVERVIEW OF THE RESULTS FROM LOCAL COMPANIES

This section provides the key findings derived from the survey of local mining companies. Responses from in-person interviews with local companies resulted in identifying key challenges and opportunities that exist in the Georgian mining industry.

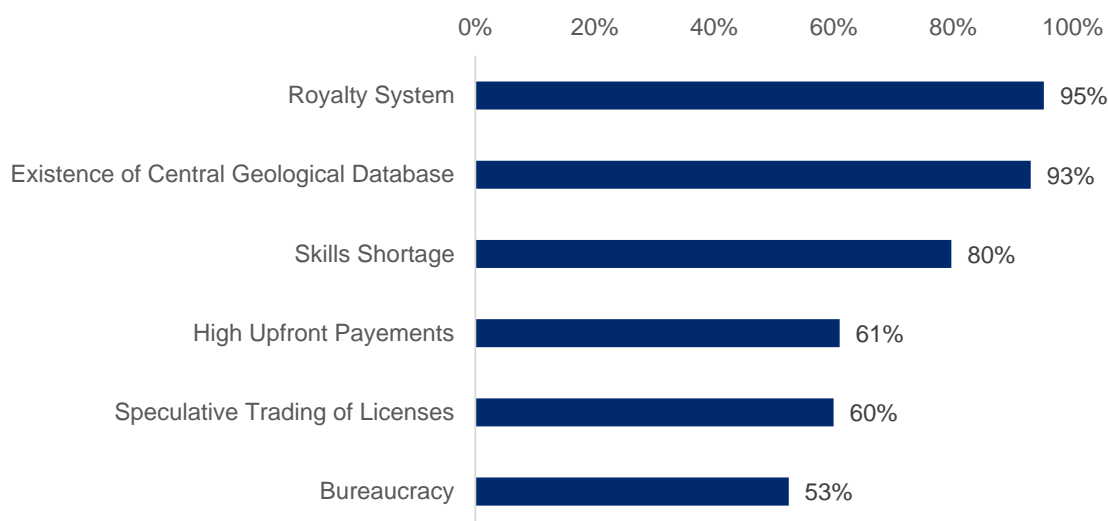
The royalty system was identified as the most important issue for local companies. It was for this reason that the local companies consider the current regulatory system as unfair.

Royalties are fees for use of natural resources paid to the state. The mining companies pay two types of royalties: a regulatory fee⁶ —which is transferred to the budget of the NAM—and the fee for use of natural resources⁷ (the extraction fee) that is transferred to the local municipality budget. Royalty rates are fixed and differ by type of mineral reserves. According to Georgian Law on Fees for use of Natural Resources, royalties are calculated based on the annual resource extraction plan. If companies extract more than the planned amount, they pay for the actual amount of extracted minerals. In the case where companies extract less than was planned, the royalties are calculated based on the planned amount⁸ and companies do not have the right to deduct the extra payments in subsequent years.

This approach of calculating royalties was assessed as unfair by 95 percent of local companies (Graph 4).

The shortage of skills is one of the most important challenges for the mining sector. Most companies train and educate their younger professionals at their own expense or import the required skills from abroad. Almost 80 percent of companies reported that they find it difficult to acquire qualified labor force and professionals. The remaining 20 percent of companies reported no problem with finding skilled labor force because they have already hired qualified geologists and other mining specialists that attained their qualification during the Soviet time. Even so, they generally accept that a new generation of professionals is in a deficit and this will become a problem for them in the future.

Graph 4: Most Important Issues Reported by Local Companies



⁶ Law of Georgia on Regulatory Fees, July 1, 2005.

⁷ Law of Georgia on Fees for Use of Natural Resources, December 30, 2004.

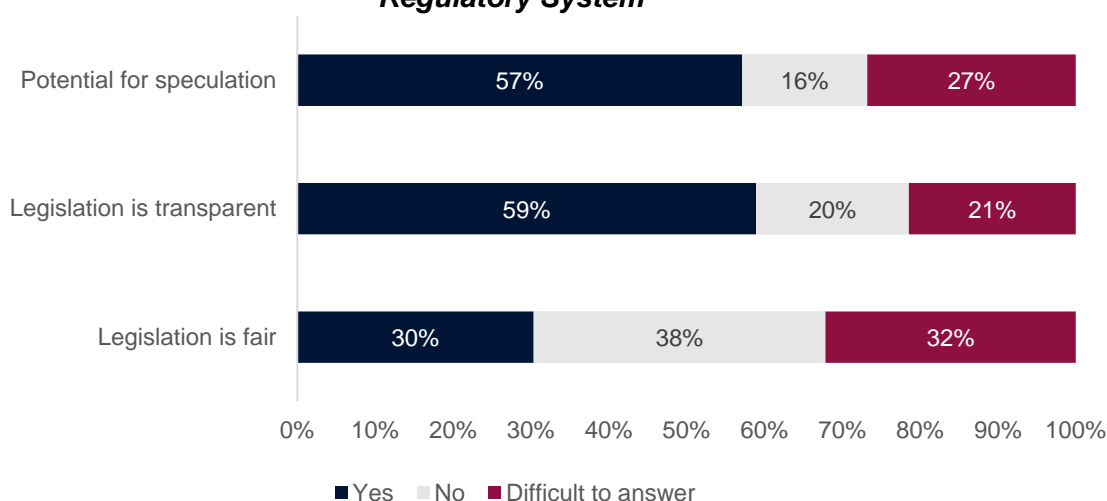
⁸ Article 51 Law of Georgia on Fees for Use of Natural Resources, December 30, 2004.

The following areas were positively assessed by local respondents:

- Political stability—92 percent of surveyed companies evaluated the current political environment as stable and positive.
- General safety and security—90 percent of surveyed companies evaluated the general environment as safe and secure. They had no concerns regarding the safety issues to protect the areas around the deposit.
- The auction system for granting licenses was assessed as transparent and fair by 70 percent of surveyed respondents, indicating a reasonable degree of trust in the auction system.
- The disputes related to ownership rights on the land plot under the license became rare in recent years. This finding was justified by the *Survey* results. Around 72 percent of local companies reported that they did not have land-related disputes.
- The conditions and access to basic infrastructure such as roads, power supplies, and water were evaluated as positive and acceptable by 64 percent of surveyed companies.

Apart from the in-person interviews, local companies were asked to anonymously assess the regulatory system in Georgia’s mining industry in terms of fairness and transparency. Overall, 56 anonymous answers were collected (Graph 5).

Graph 5: Local Operator Perceptions About the Whole Mining Regulatory System



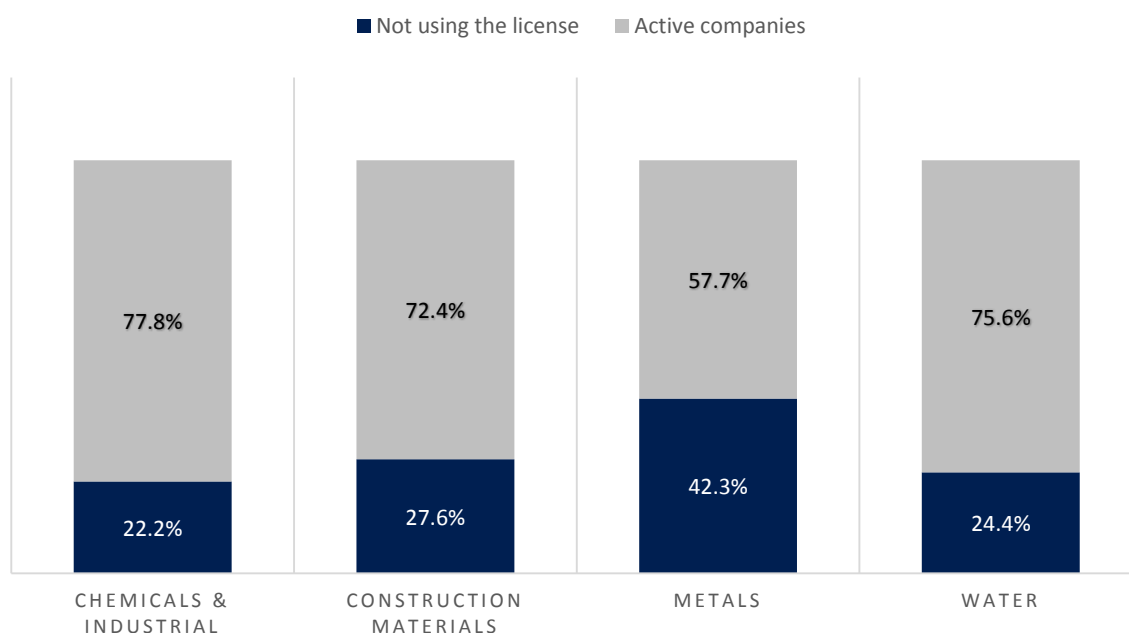
A reasonable majority of the companies (59 percent) consider the regulatory system⁹ in the mining sector to be open and transparent. In contrast, 20 percent of the companies had a negative view of the transparency of the current regulation while 21 percent reported that they felt it was difficult to answer this question. The obtained results show that there might be a need for additional effort to improve the trust of the private sector in the regulator system.

The answers from local companies indicated that the current regulation creates the possibility of speculation with licenses. From the anonymous answers, it was revealed that 57 percent of companies believe that speculation trade of mining licenses still exists in Georgia (Graph 5). It would appear that some companies obtain licenses with no intent to develop the site; they purchase license assets for the purpose of reselling at a higher price. This practice is called “asset-sitting” for the purposes of this report and results in inefficient use of resources and potential resources being blocked from development. Of those surveyed, 18.6 percent of local companies that would not take part in the more detailed survey, stated that they do not conduct mining activities and are just holding the licenses. The largest share of non-active companies was found in the Metal category, where out of 26 metal license holders, 42.3 percent of them do not conduct mining activities. The smallest share of non-active companies were identified in the Chemicals & Industrial category, where share of non-

⁹ Transparency of the regulatory system refers to the general transparency of the rules, procedures, and performance of the regulatory authority (NAM) in the sector.

active companies is 22.2 percent of 18 companies that hold mining licenses for chemicals and industrial resources (Graph 6).

Graph 6: Share of Inactive Companies in Different Categories of Mineral Resources



In terms of fairness, only 30 percent of companies assessed the current regulation positively, while 38 percent of respondents consider the current regulatory framework as unfair. The remaining 32 percent did not answer this question. Calculating royalties was identified as the primary issue for unfair treatment.

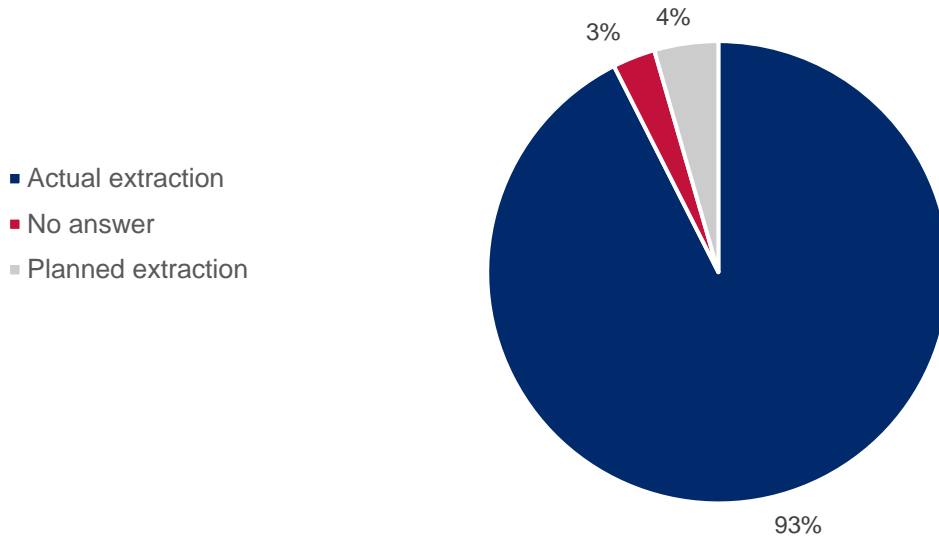
TAX REGIME AND ROYALTIES

The current royalty calculation system was reported to be the top issue by 93 percent of local respondents. Nearly all of them stated that calculation of royalties based on the extraction plan is unfair and royalties should be calculated based on the actual extraction (Graph 7). Interviewees report that this practice usually means they pay twice for extracting the same mineral since the company does not have the right to deduct royalties in subsequent years.

Mining licenses are usually issued for a long time frame and developing an extraction plan in advance for a 25-year period is almost impossible. This approach was considered inefficient and unfair by both local and international respondents.

Only three respondents indicated that planned extraction should remain as the basis for calculating royalties, since this approach does have the benefit of discouraging asset-sitting and motivates companies to extract resources in a given year as planned.

Graph 7: Royalty Base



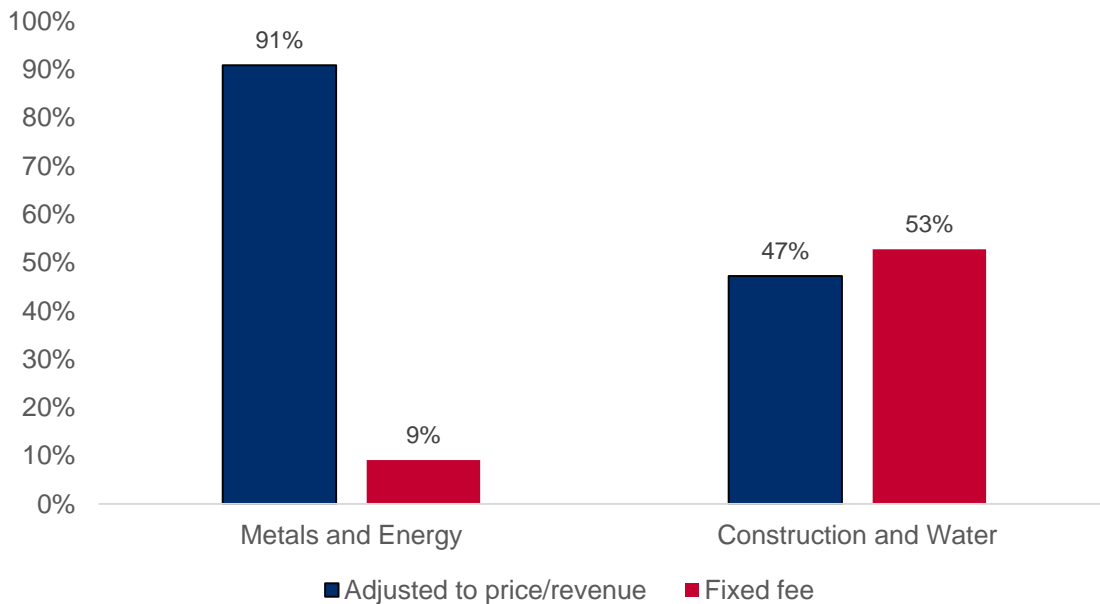
Several water producer companies complained of being charged at a higher royalty rate than others. This creates an unfair business environment for them.

The method that royalty rates are set, 91 percent of the companies that process metals, chemicals, and energy resources reported that they prefer to define royalty rates as a percentage of the market price of the resources. According to them, the advantage of linking royalty rates to the market price of minerals is a fairer approach and redistributes risk from price fluctuations between the private sector and the state.

The companies that process water and construction materials prefer to have royalty rates as a fixed price per unit of resources extracted (Graph 8), because the price of their commodity does not fluctuate on the market.

The advantage of a fixed royalty rate is that it is easily calculated and for businesses, it is easy to predict their tax obligation.

Graph 8: Attitude of Local Companies About Setting up the Royalty Rates



AVAILABILITY OF GEOLOGICAL INFORMATION

Eighty-two percent of local respondents indicated that the existence of central geological databases would reduce costs and investment risks, but 3 percent stated that it does not have any impact. Companies reporting that a central geological database will not make any difference were processing construction materials (mostly sand and gravel) and water resources. For the geologically less complex resources, it is easy to identify and evaluate the deposits which explain their indifferent attitude towards the existence of geological data. However, for minerals such as metals, chemicals, and coal, the availability of data is very important.

The old geological reports that were written during the Soviet Union are kept by the NAM. Most of the reports are written in Russian. The reports are freely available to all interested parties, and the NAM recently put electronic versions of the reports on their website. However, there are several difficulties to obtain the required information:

- Information is available only in the Georgian on the website, which is difficult for foreign investors to navigate.
- There are no user-friendly search tools to filter the reports by type of resources or by geological regions. Currently, if a person wants to get the report online, he or she needs to know the number of the report. Otherwise, it will be difficult to locate.

Existing mineral reserves are recorded in accordance with the Russian State Committee of Mineral Reserves (GKZ) standard that is outdated and does not meet internationally accepted standards (Russia has adopted a new standard replacing the GKZ¹⁰ system). In 2017, the GoG adopted a resolution that requires that metal reserves should be recorded in accordance with the Joint Ore Reserves Committee (JORC)¹¹ standard, although there are no Georgian professionals that are able to conduct these estimations.

The lack of laboratories to test resources or samples from deposits were reported as a challenge for development mining projects. This increases the costs to investors and delays the receipt of geological information required for the development of the geological structure and grades for the mines, as well as the metallurgical information required for both process design and day-to-day operations.

Another issue is that although Georgia has developed a sophisticated database of cadastral records, it is not linked to the NAM's license registry. Currently, when a person applies for a license, he or she should check in advance if the land plot under the license falls under the ownership of a third party. The process is time-consuming. Also, there is a risk of land ownership disputes if a person does not check the land ownership status of the licensed area. Furthermore, the national public register does not have information about whether the land that is registered under private ownership falls within the licensed area and is effectively occupied by a mining company.

AVAILABILITY OF A SKILLED LABOR FORCE

The shortage of skilled labor ranked third among the list of factors that are considered as challenges for the development of the local mining industry. Almost 80 percent of companies reported that they find it difficult to hire skilled laborers, the remaining 20 percent that reported no problems admitted that the lack of a new generation of professional geologists and mining engineers would become a problem for the mining industry in the future.

Among those respondents that reported no problem for acquiring a skilled labor force, most of them are companies that process construction materials and water resources. Those who reported no problems do not require specific skills or already have old geologists or invited experts from abroad.

Despite the different answers, it is evident that a local skills shortage exists for highly qualified mining and exploration professionals. Some companies are currently finding qualified staff by hiring aging geologists or engineers, or they are importing skills from abroad by hiring international staff (which

¹⁰ "GKZ" is the code for reporting mineral reserves adopted by Russian State Committee.

¹¹ The Australian code for reporting mineral reserves.

tends to be expensive). However, all companies note that there are very few local professionals among the new generation and they see this as a growing challenge.

The *Survey* results showed that companies try to address the skills shortage by capacity building their staff. Companies cooperate with universities and participate in work fairs to find young students with potential. They then invest in their professional development by inviting them to internships and financing their training and professional development programs.

All respondents admit that Georgia inherited a great number of experienced geologists and mining engineers from the Soviet era. The Department of Geology was a specialized institute for engineering, geology and hydrogeology. There were departments at leading universities that prepared professional staff for the industry. This experience remains and can be transferred to the young generation by strengthening university faculties in the applicable domains.

Companies do agree that local people should be given priority when hiring, but imposing legal requirements to hire locals will likely bring more difficulties and will not change anything. Companies would be obliged to hire qualified labor from the Georgian market where they already face difficulties in finding the required skills. Regarding the low-qualification positions, companies themselves prefer to hire locals because they are cheaper. While this is a reasonable assessment, experience has shown that mining jurisdictions with a small number of international enterprises have imported significant numbers of their own nationals (including the low qualified positions). This can and has caused significant friction and problems in the local communities. It is recommended that a modest threshold should be placed on the requirement for local labor, and/or taxation on international employees to discourage excessive external employment.

LICENSES AND PERMITS

According to the Law of Georgia on Subsoil,¹² extraction and exploration works are subject to licensing. The NAM issues a license as defined by order #1-1/2 January 4, 2018, of the Minister of the Economy and Sustainable Development.

Different types of licenses exist for mining works:¹³

- Exploration and extraction
- Extraction

The exploration and extraction license is issued in case no information exists or the existing information is not adequate to start processing the deposit. The license is issued for a set time period. The validity period of the licenses is dependent on the type and amount of mineral reserves. The NAM may extend the license period if the government approves.

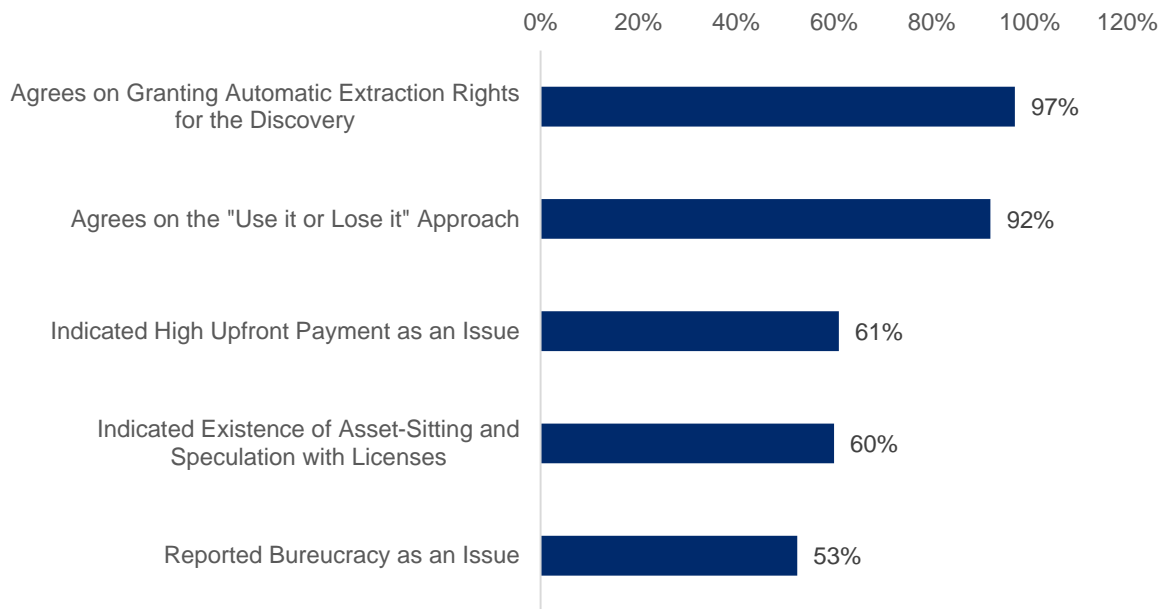
The auction system for granting license rights was viewed positively by 70 percent of surveyed companies.

Regarding the exploration license, companies agree that the reduction of the initial license price for an exploration license from 500 GEL to 50 GEL per hectare was an important positive change but not enough to encourage investment in exploration works.

¹² Law of Georgia on Subsoil, May 1996.

¹³ Ibid.

Graph 9: Local Companies' Perceptions Regarding Licensing Issues



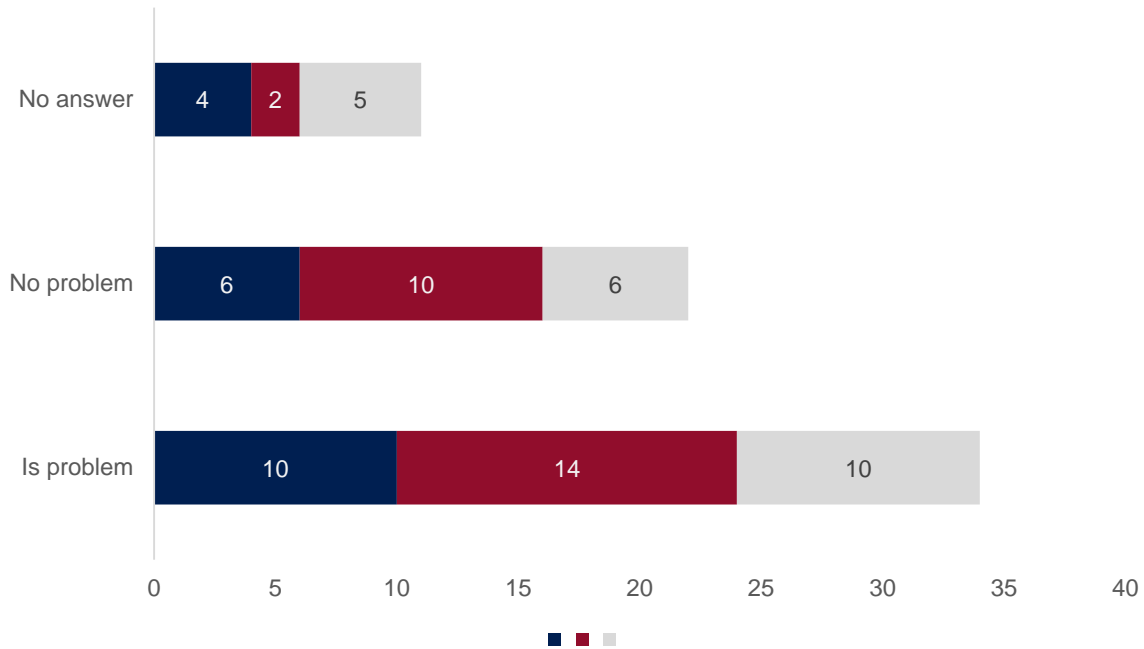
Approximately 61 percent of respondents reported that the initial cost for a license is high (Graph 9), while the remaining 39 percent thought the licensing costs were normal and acceptable. The main barrier appears to be the costs inherent in the current approach for converting an exploration license to an extraction license. Currently, if a company discovers mineral reserves, it should be approved by the mineral reserves committee, and the company then pays a one-time payment to begin extraction. The methodology to calculate this payment is defined by Government Decree N 136 adopted in August 2005.

The companies feel that the formula used to calculate the price is not efficient and fair. According to this formula, the one-time payment for granting extraction rights depends on the amount of reserves that are discovered by the company and approved by the committee. The higher the amount of discovered reserve the higher the one-time payment is for acquiring extraction rights. Companies reported that this practice increases their initial expenses for starting extraction.

Local companies report that being charged a one-time fee for getting extraction rights for minerals they discovered is unfair and reduces the interest in new exploration projects. Companies agree that the state should take its benefit from exploitation of natural resources, although they feel that the payments to the state should be reasonable and be fairly calculated.

Another issue is the speculative trade with licenses; around 60 percent of companies reported that asset-sitting and speculation with licenses still exist in the market. Many companies obtain licenses with no intentions of developing a mining operation and is only interested in selling the licenses at a higher price. This effectively prevents the development of the deposit in question.

Graph 10: Local Companies Perception About Asset-Sitting & Speculation



As can be seen from the graph, asset-sitting is reported to be a problem by most of the respondents, regardless of the type of resources they process.

One of the possible solutions to avoid such behavior is to adopt a “use it or lose it” approach. Around 67 percent of surveyed companies agreed that adoption of a “use it or lose it” approach would stimulate more responsible behavior from license holders and mitigate the risk of asset-sitting.

LICENSING PROCEDURES AND OTHER ISSUES WITH BUREAUCRACY

Most of the companies reported that there are no significant bureaucratic procedures to obtain a license through the auction process. The most difficult part is to obtain other permits to start processing the mining site, such as attaining environmental permits, forestry permits or obtaining access rights to construct a road or other infrastructure around the site. These permits are issued by different agencies of the state. During the interviews examples were given such as a mining permit was issued, but not for cutting the trees in the mining area. This resulted in a fine for not implementing the extraction plan.

The companies reported that communication with the NAM improved in recent years, although further improvements are necessary to support efficient communication between businesses and the state. The “one stop shop approach” and parceling licenses will improve the situation in this regard.

One other area that local companies find frustrating are delays in licensing processes. Bureaucracy issues in terms of delays in licensing procedures, particularly delays in approval of mineral reserves, was mentioned by about 52.5 percent of local respondents. Companies reported that one of the obstacles that cause delays to obtain extraction rights is the procedures to approve reserves by the state committee. Although the committee’s work was assessed to be done well, the formation of the

committee and the selection of the members and chairperson takes time. This is why the approval of the reserves may take extensive time, even one year or more.

Quote from a local company interview:

“When coal is extracted it contains additional useful minerals, such as methane gas. The company does not have the right to process methane. It must obtain an additional license which is costly, so the company has no incentives to process the methane and the methane gases are exploded in the air and causes climate change. The company should automatically obtain the right to process the byproducts of the extracted minerals. It will reduce the waste of efficient resources.”

The survey of local companies revealed inefficient utilization of mineral reserves. When companies process deposits, it is possible that several types of minerals can be economically extracted. If a company holds a license for processing only one specific mineral, any other unlicensed minerals extracted have to be returned to the mine. An additional and completely new license is required to extract any additional mineral. If another company wants to have those resources, it should obtain a license and incur additional costs to open the deposit again. This practice is considered inefficient by local companies.

Another problem that companies reported when obtaining a license, there is no defined land area that should be used for storage of the topsoil and later used for re-cultivation of the deposit. In the license provisions, the whole licensed area is defined as a geological zone that should be used for processing the minerals and not for storage. Companies are forced to buy land to store waste soil and other extraction byproducts or otherwise they will be fined. It is important to define a storage area for waste soil and other inert materials in the license provisions.

Quote from a local company interview:

“In the license is a record that the area of geological object and land, the mineral reserves is counted for the geological area, the area of land is defined to store the unused soil for the re-cultivation of the deposit. According to the law it is prohibited to store the unused soil on a geological object, but according to license there is no land area defined where the soils should be stored. The company is fined for placing soils at the geological area, as license does not define the land area where the soil can be stored. That is the problem related to the legal records.”

Arrangement and approval of sanitary zones is a concern for almost all water producing companies. According to the Georgian Law on Water Resources,¹⁴ sanitary zones are required to protect ground waters from pollution. The activities that might cause the pollution of ground waters are restricted in sanitary zones. However, the authority in charge of approval of sanitary zones is not defined in any legislative document. The sanitary zones that companies arrange around water deposits to protect ground waters from contamination and pollution remain unapproved. This restricts companies to use any legal instruments to prevent third parties' activity in the territory of sanitary zones and protect ground waters from possible pollution.

In addition, water companies mentioned that there are cases when some entities or persons drill to explore underground waters without a license and environmental permission. Drilling without environmental permission can also hurt the deposit. Namely, it may cause irreversible contamination due to unauthorized works. There are a number of examples related to this issue. Hundreds of hectares (ha) have turned into wetlands as a result of unauthorized drilling.

As for the final finding, it should be mentioned that issues related to the renewal of licenses are the main concern for most of the companies extracting water and construction materials. After the license

¹⁴ Law of Georgia on water resources, Parliament of Georgia, May 1997.

expires, companies must participate in an auction again to renew their license, although there is a risk that another company, most likely a competitor, will participate in the auction and grab the license. Due to the uncertainty related to the renewal of the license, companies stop their expansion plans five years before the expiration of the license.

Even though some respondents reported that they faced some delays with obtaining licenses and permits, it must be stressed that all respondents admit that the situation has significantly improved in recent years. Companies positively assess the work of the NAM but state that further steps are required to establish an efficient system in the industry.

One of the specific requests from companies is more frequent communication with the NAM and state authorities regulating the sector. Companies are willing to be notified periodically regarding updates in the legislation to be well-informed and stay abreast of the ongoing changes in the system.

The establishment of the one-stop-shop principle and electronic services will significantly improve communication with companies and the efficiency of the system as a whole.

INFRASTRUCTURE

Regarding infrastructure, there are many different attitudes and situations among the companies. However, all of them agree that improved access to basic infrastructure (road, electricity, and water) will encourage investment and reduce the cost burden to their companies.

Overall, 64 percent of local respondents indicated that access to basic infrastructure around the site was not a problem for their companies. All agree that development of infrastructure around the mining site is the responsibility of the company.

On average, the development of initial infrastructure has proven to be costly and takes around a 15 to 20 percent share of the initial investment.

In some jurisdictions, where significant mining opportunities occur, governments have undertaken large infrastructure projects to make such projects economical. Currently, this does not occur in Georgia.

It is also notable that a number of interviewed companies take their obligations for the development of community infrastructural projects as a core social responsibility of the company. Indeed, this may well be driven by good experiences in other jurisdictions and by shareholder demand.

Generally speaking, the burden of developing infrastructure where none exists falls to the private sector.

Interviewees with deposits in the mountains stated that it takes a long time to arrange all infrastructure and to begin processing the deposit. Usually, during the development of the basic infrastructure, companies do not extract resources. However, they are still charged with royalties based on the extraction plan. Company representatives view this as a burden. Moving to a royalty system based on real production will solve this issue.

DISPUTES

Land-related disputes have become rare in recent years. An electronic cadaster is available where cadastral information and particular information about land ownership rights are easier to obtain and check. There were some concerns expressed about the accuracy of the coordinates and not all land claims are registered. The Agency needs access to the database of cadastral information to check the ownership rights, national park boundaries, and heritage sites when issuing a license in certain areas. Ideally, the right to add easements and passage rights over government land where appropriate. Connecting the databases of the NAM and the National Agency of Public Registers (NAPR) will make this process easier and less time-consuming. NAM can verify land ownership status when issuing a license and NAPR will identify if there is a coincidence within the license area when registering land ownership.

Although, disputes have become rare there is no efficient system to settle them within a reasonable amount of time. The dispute cases identified by companies generally last several years and sometimes seem to have no end. Some local operators reported disputes that had been ongoing for a considerable time, either completely preventing operations or preventing effective operations. It is evident that an efficient system of dispute resolution, ideally using mediation and an arbitration type

system, should be implemented and in parallel make efforts to prevent the existence of disputes by reducing multiple land ownership/access occurrences.

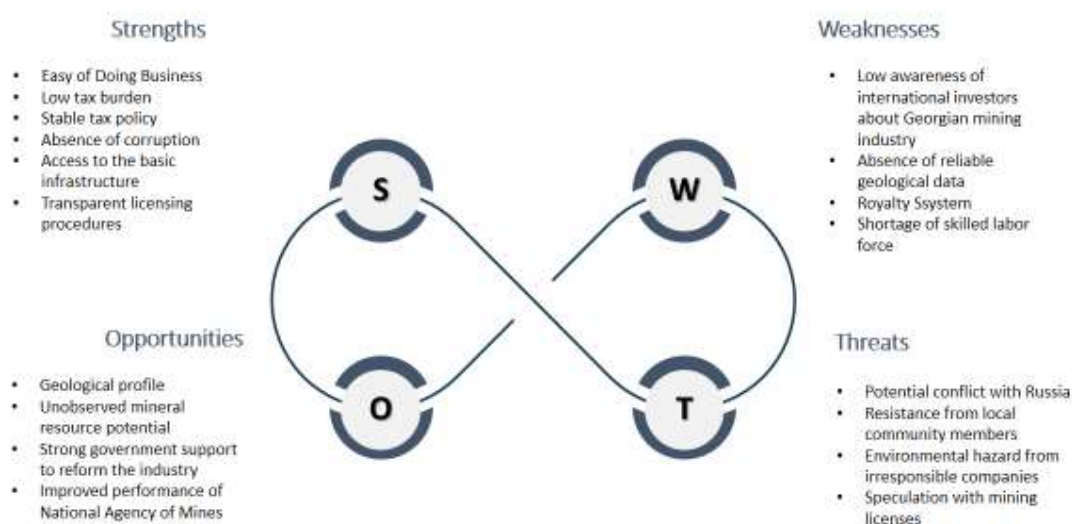
4.3 SWOT ANALYSIS OF THE MINING INDUSTRY IN GEORGIA

The results derived from local and international mining companies contributed to a comprehensive analysis of the industry and revealed strengths, weaknesses, opportunities, and threats existing in the Georgian mining sector.

The general business environment; political stability; safety and security of the environment; absence of corruption, and a stable and transparent tax system are the main strengths of Georgia’s mining sector. Georgia has a significant advantage given that the country has the lowest tax rates in the region. According to “Doing Business 2018,” Georgia’s average corporate tax burden is 16 percent. Both international and local respondents consider the existing state tax system is acceptable and efficient.

The absence of corruption and trust towards the state authorities can be considered as a positive. Also, based on the survey of local mining companies, the conditions of basic infrastructure and transparent procedures for granting mining licenses also constitute the factors that strengthen the sector.

Figure 2: SWOT Analysis



Along with the strengths, the *Survey* also revealed the key weaknesses of the industry hindering investment and growth. First and foremost, the low awareness of international investors about the Georgian mining industry. The absence of updated and reliable geological data is also an obstacle for potential investors to get acquainted with Georgia’s mineral resource potential. International investors are not informed about the geological potential of Georgia. Also, their access to this information is restricted due to NAM’s official website is only published in Georgian. Additional weaknesses the absence of a fair mechanism to calculate the royalties. The current system of royalties was negatively evaluated by both local companies and international investors as unfair and not compatible with the principles of leading mining jurisdictions. Together with royalties, high upfront payments to convert exploration rights to extraction also reduces the stimulus for conducting mining exploration. In addition, the skills shortage and absence of qualified expertise in the industry are among the key weaknesses that need to be addressed.

Despite the weaknesses, strong opportunities for development of Georgia's mining industry still exist. As it was noted by local and international respondents, geological characteristics of the country indicate a large mineral reserve potential in Georgia that has not been observed yet. A strong communication strategy with international investors creates an opportunity to promote Georgia as a destination for mining exploration projects. In addition, strong support from the GoG to reform the sector and adopt good regulatory practices can be listed among the opportunities to attract new, responsible investors and develop new mining projects. Positive trends were revealed in the industry as well; most of the respondents stated that the performance of the NAM has improved. The improvements were visible to stakeholders, and this trend should continue.

Despite the positive development of the sector, risks exist that may pose threats to the industry and responsible use of mineral resources in Georgia. Among those threats are resistance from the local communities to develop mining projects near villages and the environmental hazards from irresponsible mining companies. Also, most of the local respondents indicated that speculative trade with mining licenses still occurs in the sector. Without addressing this issue, there is a threat that most of the promising mining areas will lay idle and not be developed in the foreseeable future.

5. RECOMMENDATIONS

This section summarizes the recommendations developed based on the results obtained from the *Survey*. The results indicate that local and international companies have similar preferences and attitudes towards good regulatory practices in the mining industry. The recommendations developed here can serve as a roadmap for the establishment of an attractive business environment and stimulate investment into Georgia's mining sector.

RAISE AWARENESS ABOUT GEORGIA AMONG INTERNATIONAL INVESTORS

- The NAM should develop and implement a strong long-term communication strategy focused on international investors.
- State authorities, together with private sector representatives, should participate in international conferences and present the Georgian mining opportunities and establish strong links with potential investors.
- Georgia should be promoted as an attractive destination for mining exploration projects, highlighting its competitive advantages. Georgia provides a unique opportunity for mining investments because of its significant geological potential coupled with the lack of modern exploration over the past few decades. These geological benefits combined with very low corporate tax rates, a simplified business environment, and low-to-no corruption.
- Information about ongoing reforms should be proactively published and spread through an established communication channels with potential investors.

AVAILABILITY OF GEOLOGICAL INFORMATION

- Geological information should be freely available online and easy to obtain for third parties.
- All information on the website should be provided in Georgian and English. User-friendly navigation/search tools should be incorporated into the website.
- For the reports written in Russian or Georgian, a one-page summary describing the report's content in English and Georgian should be provided together with the geological report. A one-page summary (executive summary) of the geological report will help interested parties to more easily learn whether the report contains useful information and whether they should consider further investments (by commissioning a translated full report, at their own expense).
- Mineral reserves should be assessed in accordance with international standards (JORC, CRISCO).
- Competent groups with skills in JORC or other adopted international standards should be established in Georgia.
- Given that JORC has been identified as a preferred system, one suggestion is to create a bank of JORC-registered competent persons in Georgia that will approve reserves according to JORC standards. The goal would be to create an internationally accepted geological reserve over the medium to long term.

ROYALTY BASE AND ROYALTY RATES

- The existing system of royalties should be changed, and royalties should be calculated based on actual extraction.
- For metals and energy, royalty rates should be calculated as a percentage of the resource price or percentage of the adjusted revenue.
- For resources (such as construction materials, water resources) that are mainly sold in the local market and are not characterized by frequent price fluctuations, the royalty rate may be set at a fixed fee per unit of extracted resources.

- Water producers should be charged at the same royalty rates to ensure equal treatment for all.

LABOR SKILLS

- Public-private partnerships should be established to develop and implement a long-term strategy to resolve the skills-shortage issues and support the employment of local industry professionals.
- Employment of local labor should be supported by law as it is the accepted practice in mining jurisdictions. However, a careful approach should be applied for requirements of local labor minimums with the existence of a skills shortage, as the obligation to employ local labor may burden companies.
- It is recommended that a modest threshold be placed on the requirement for local labor and/or taxation on international employees could be used to discourage excessive external employment.

LICENSES AND PERMITS

- The auction system should be changed to an electronic tendering system and licenses should be granted not only based on the price offered by the bidder, but also on the qualification and history of performance of the prospective company.
- For unexplored areas, a license may be issued based on the “first come, first serve” principle.
- The initial cost of licenses should be reduced and the fiscal burden should be linked to the income generation cycle of the company.
- Under the current legislation, there are no rights envisaged for the new mineral deposit discoverers/pioneers. It is recommended that such rights be clearly defined in a new or revised mining law.
- Responsible companies that hold licenses and demonstrate successful performance should be allowed to automatically renew their licenses after expiration at a price and without the need to participate in an auction.
- The storage area for inert materials and sanitary zones for water deposits should be defined and approved by one party.
- The “one-stop-shop” principle should be introduced at the NAM. All licenses and permits should be obtained from the NAM.
- The “use it or lose it” principle should be applied to avoid asset-sitting and speculation with the licenses. Annual requirements for minimum investment or minimum physical activity should be imposed on companies to ensure the use of license rights.
- Companies should be granted the rights to use and sell all minerals that are extracted from the deposit and be charged for the actual extraction. This will lead to more efficient use of existing mineral resources.
- It is more economical to allow an operating company the right to process any byproducts of the mining works so that other economically feasible resources can be extracted together with the main resource. However, a mechanism should be in place to reduce the risk that companies will speculate with these rights and obtain less-expensive licenses to process more expensive products.

LICENSE FEES

- Calculating the one-time fee for converting exploration rights into extraction rights is complex. A simpler approach should be applied to set the price.

- Instead of charging companies with a one-time fee for converting exploration rights into extraction, an annual fee—per hectare of land subject to extraction—be charged. Any additional area that is not converted can, by the owner’s discretion, still be regarded as an exploration area and continue to pay exploration fees at the applicable rate.
- It is recommended that initial exploration licenses be issued for five years with the possibility of an extension.
- In order to prevent asset sitting, a minimum spending requirement on the license area and an obligation for annual reporting on works performed should be included in the licensee’s obligations in their exploration licenses.
- A minimum spending requirement per hectare should be applied for an exploration area. This should be modest to avoid it becoming a large burden to the license owner, but still show a legitimate investment interest for the project.
- The companies conducting exploration works should provide annual reports to the NAM to justify that the exploration works are actually occurring and funds are applied for the development of the mining site.

BUREAUCRACY

- The “one-stop shop” concept should be established at the NAM with well-trained professional teams that check and resolve all licensing and permitting issues prior to issuing licenses (using standardized checklists).
- GoG departments should be measured on response times and given targets for improvement when necessary to ensure speed of response.
- A chamber of mines should be established to represent operators and other stakeholders in the industry and present the position of the industry to the GoG.
- The NAM should ensure frequent communication with private sector representatives to keep them informed about regulatory amendments and upcoming changes in the sector. Also, the NAM itself should understand the current status of the industry and the perception of business entities. Periodic electronic updates regarding amendments in legislation should be sent to all companies to keep them informed.

DISPUTES

- An independent dispute settlement body should be established to speed up the time for dispute resolution.
- The cadastral and license registers should be connected, enabling an easy-to-check-ownership status of the land to mitigate the risk of land-related disputes.

INFRASTRUCTURE

- The capital costs and arrangement of infrastructure should be the responsibility of the private sector.
- Basic infrastructure such as roads, power, and water supply should be easily accessible.
- In case of large projects with high economic importance for society, some support from the state should be considered.

6. CONCLUSION AND FINAL REMARKS

The *Survey* results showed that both local and international investors have similar attitudes and preferences towards good regulatory practices in the mining industry. However, most of the local companies did not mention safety and security, political stability and corruption as important factors for decision-making. This can be explained by the fact that these issues have not been issues in Georgia in recent times. For international investors, the aforementioned issues are important factors when entering a new market based on their experiences in other mining jurisdictions.

Georgia provides a safe, stable, and secure environment with limited levels of corruption. These are the key issues for investment promotion of the sector. Most of the experienced international respondents stated that Georgia has a promising geological profile with the potential to discover new deposits.

Considering that Georgia is geologically attractive, an important step is to promote Georgia internationally by developing and implementing a strong communication strategy to attract potential investors. Georgia needs to also undertake regulatory reforms in the sector.

Georgia should reform the current legislative system to attract responsible investors and as part of that reform:

- 1) Provide assurances that in the case of discovery, exploration permits will convert to mining permits under the same ownership;
- 2) Create a system of low upfront payments; and
- 3) Offer a fair and transparent taxation and royalty system.

In summary, Georgia must focus its reform efforts on promoting investments and improving access to the geological database. In parallel to this, public-private partnerships to develop a new generation of professionals, utilize locally sourced skilled labor, and grow the mining industry.

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