



Center for Strategic & International Studies  
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**A Georgian Success Story**  
with

**Mamuka Khazaradze,**  
Chairman, TBC Bank/GG&MW

**Badri Japaridze,**  
Vice Chairman, TBC Group

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Georgia is often considered to be a very challenging business environment, with stories of rampant corruption and mismanagement. In the midst of all this, there are also success stories. Our next meeting will introduce two of the leading businessmen from Georgia who have managed to operate rather successfully in the banking and glass and mineral water sectors.

Mamuka Khazaradze and Badri Japaridze are chief executives of TBC Group, which controls TBC Bank and Georgian Glass and Mineral Water Company and together with IFC, EBRD and KFW holds interest in Microfinance Bank. They are in Washington for only a few days for their board meetings of the Microfinance Bank, and they kindly accepted our invitation to talk about this extraordinary success story in Georgia.

TBC Bank was established in 1992 with \$500 charter capital, and in ten years became the leading private financial institution in Georgia with the largest reported profit in last five years. The Georgian Glass and Mineral Water Company is producer of the well known Borjomi water and controls significant share of mineral water market in Russia, Ukraine and other countries of Eastern Europe and Central Asia. Currently Borjomi is exported to 25 different countries. In fact, EBRD named the Borjomi project among the top three projects of all the 550 projects it funded in the region.

**Mamuka Khazaradze**

- TBC Group includes TBC Bank and Georgian Glass and Mineral Water Company (GG&MW) and together with IFC, EBRD and KFW holds interest in Microfinance Bank.
- GG&MW is producer of the well known Borjomi water
- Started with partners like Fred Zimmer, former chairman of Perrier
- Borjomi water company grows 30% annually
- Total sales this year are \$22 million
- TBC Bank was established in 1992 with \$500 charter capital
- Today TBC Bank is the biggest Georgian Bank by liability and the second largest by assets, and is the fastest growing bank in Georgia
- EBRD is a major lender to the bank, along with funds from France and the Netherlands

## Badri Japaridze

- Why are we so successful when others in Georgia have failed?
  - There are other success stories
  - From the beginning we had a long-term business orientation
  - There was no banking system at the beginning
  - From the beginning we wanted to implement western standards and procedures
  - We had strong support from international finance institutions and would not have survived without them, especially in the water sector

## Q&A

How important is it for big foreign financial institutions to apply pressure to the Georgian government for reform of the Georgian legal and economic systems?

- It is extremely important
- It is especially important for the privatization of the electricity and water companies
- A big problem is that international finance organizations often only talk to government officials who do not really understand all of the issues—they (IMF, World Bank) also need to talk to the business sector

Does that mean that there is poor communication between the Georgian government and the Georgian business sector?

- Yes

What sectors are you lending to and what kind of loans are you making?

- When we started doing business in Georgia and needed banking services, we established TBC Bank in 1992. Soon others started needing such services and we expanded
- We did not want Russian style management in the bank. Most of our managers are about twenty seven years old
- We did not want big accounts, 99% of our accounts are with small and medium sized private businesses
- We lend mostly to the trade sector, but also lend a small amount of money to the agriculture sector
- Our lending rate is high because the interest rates we must pay on deposits are high in Georgia (20%)
- From the beginning we decided that our bank had to be transparent, with only one balance sheet—about 80% of Georgian businesses have two balance sheets...
- We (Khazaradze and Japaridze) as the principal shareholders in the bank made an agreement with the board that they would not interfere with the day-to-day management of the bank
- In 1996 we were one of six Georgian banks to get a credit line from EBRD

Since 9/11 Georgian-Russian relations have been strained. How will this impact the Georgian economy?

- In the past our understanding was if Russian-U.S. relations were bad, it was good for Georgia because the U.S. would be supporting Georgia

- Now the understanding is that it would be good for Georgia if the Russian-U.S. relationship improves and Russia becomes more involved with NATO because then Russia will mount less pressure on Georgia
- Generally speaking it is good to engage Russia in European structures

What percentage of loans that you make in the two banks you run is non-performing? Are you allowed to keep money in foreign currency?

- TBC Bank: 4.5% of loans are bad loans
- Microfinance Bank: 3.5-4% of loans are bad loans
- We lend mainly in dollars because our depositors also have dollar accounts
- We started lending in lari recently; the interest rate on lari is higher

Some banks in Georgia have folded because they were pressured or forced to make financially unsound loans to politically connected businesses. Has this happened to you?

- We are always being pressured by various government agencies to make unwise loans to government agencies, or their clients. These requests always come at the end of the month when they are trying to balance their books
- This means the mentality in the Georgian government is wrong. This is reminiscent of the Soviet era when the highest priority was to stick to "the plan" and create fake budgets
- We have never loaned money to these agencies because if you loan once, you have already compromised
- But we still get calls each month from different ministries (customs, tax, etc) asking us to help them. Maybe because they change so often, the new comers try their chances

How difficult is it for you to collect on your loans?

- Our young management has done an excellent job with their clients—in helping them understand their financial responsibilities and our expectations before the loan is made

Where do you keep your money? Is it hard to transfer it out of the country to keep it from being seized?

- Financial institutions need us in Georgia, therefore we keep our assets in Georgia
- All our profits are reinvested in our businesses
- Because all our money is in Georgia, we are concerned of what happens in Georgia; we are trying to build institutions in Georgia
- National Bank recently started to force us to keep 18% of all foreign money coming into the country to be kept in lari in accounts that do not accrue any interest

What are TBC Bank's goals for the next five years?

- This is something we discussed with IFC President yesterday
- We would like to become the largest bank in the Caucasus
- We have eight branches in different cities in Georgia and they are all profitable
- Our clients include the Georgian pipeline company and the new gas pipeline company
- Together with an Israeli company we established the first private pension fund, but there still is no corresponding legislation for pensions
  - Currently no matter how much you contribute to your pension in Georgia everyone still receives the same monthly amount of 9 lari. There is no incentive to be honest in reporting the earnings or making contributions to the funds

What is the annual rate of inflation in Georgia?

- The annual inflation rate is 8%

Do you have discussions with international organizations to come up with tax incentives to make international investment more attractive in Georgia?

- Over the last ten years TBC group has brought annually about \$100 million of investment into Georgia
- It is not so much up to the business sector but the government to tell the international financial groups to help make investment climate better
- The maturity of loans we are extending is six months to a year. The money available to us is also lent on a short term basis

Is your bank promoting an economic plan for Georgia to really put the country on its feet?

- Yes. Last year we established a new NGO (New Movement) consisting mainly of the private sector to come up with some ideas for Georgian economic reform
- Main problem: no political will to implement the reforms. Furthermore politicians think they should do their job, and we should do our job and not get involved in policy issues
- Last year we developed a "Georgian Sustainable Development Project" and we have been holding weekly meetings on this topic
- As TBC group we cannot develop anymore because we have reached a level that while the people are starving, poor and unhappy, our continued growth would cause too much tension
- One of the best investments our group made was in an education program—locally raised \$500,000 and opened American Academy in Georgia. Georgians came up with the money, which is proof that they care about their countries' future
- There are 5 Harvard trained teachers, and with support from USAID and U.S. State Department, every year there will be 55 highly educated Georgians graduating. Instead of exporting brainpower, we will be importing education

Are these reforms that you have come up with not acceptable to the government? Is there resistance to establishing close cooperation between the government and business?

- The main problem is in implementation of the reforms—no government official wants to do it because they are painful reforms and they are afraid the reforms will prevent their reelection
- We need people who can sacrifice their political careers for their country's future—only those who are not politically oriented can do it
- Also, the government thinks that businesses will only lobby for their own interests

Looking at the Georgian political scene, what is the worst and best scenario for the future?

- The worst is to repeat our past mistakes
- The best would include constitutional changes
  - The president must distribute his power among more government officials
- Executives in government must not be elected officials—this leads to a conflict of interests and they are unable to make the painful reforms necessary for the benefit of Georgia
- 84% of Georgians believe that it is impossible to do business in Georgia without political ties—this mentality needs to change

Do you see Shevardnadze as capable of giving up any power?

- It is hard to say because the idea of creating the post of prime minister has been going on for one year already
- Another problem with creating this post is that the various political parties think that the post of prime minister will be the successor to Shevardnadze and therefore are reluctant to create the post for fear that Shevardnadze will appoint a successor

Have you seen a change from the government towards business?

- The government usually supports us verbally but not in action
- Still, verbal support is important when we talk to international finance organizations

What are the most attractive sectors for investment in Georgia?

- Tourism and agriculture (including processing)
- Government needs to give tax breaks in certain sectors such as tourism and gas distribution to give additional incentive
- Business incentives need to be designed in a way people will not be able to abuse it: previously for \$100,000 investment companies were given tax breaks, and a lot of companies abused the system
- State needs to have the same environment for all businesses—local and foreign

What will happen this year with AES and gas cut-offs?

- Some think that the cut-offs are a technical problem, but in actuality they are a political problem—you cannot have a good energy policy if you do not have good management in the country
- If the parliament is not making its payments, their gas and electricity needs to be cut—then they will come up with the money and pay
- Strict enforcement is the only way Georgians will get used to the idea that they need to pay for gas, electricity and water
- The best way to fight corruption is to catch more people, and show the public there will be consequences
- The government has a very short term approach to these issues
- It is very important to privatize gas and water distribution companies; it will then be easier for AES to operate in Georgia as well