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Georgia and Ukraine: Can their economic alliance continue?

Meet the paradox of European Partnership neighbors Ukraine and Georgia: the first is the largest country—by size and population—in the Eastern Partnership (EaP) group, the third largest country in geographical Europe, and boasts a GDP of $176.3 billion. The second is a relatively small nation matched by yet a smaller population, generating an economy less than a tenth of Ukraine’s, with a GDP of $15.75 billion. Yet, the former has entered 2014 mired in political disputes and reverberating with government distrust while the latter has embraced normative political-economic goals and general peace.

Ironically, the state of Ukraine’s economy was one of the pivotal issues that caused President Yanukovych to snub his nose at the IMF-fund-lacking EU deal in favor of Putin’s extension of a $15 million dollar line of credit and better gas prices—a generous offer that has since been stalled barring the new government formed pursuant to Azarov’s resignation. Yet only a few years ago, Ukraine was the only country to have successfully completed negotiations on the Deep and Comprehensive Free Trade Area and the only country out of the Eastern Partnership to have made any reasonable progress towards stabilizing relations with the EU.

Diplomatic ties between Georgia and Ukraine were forged long ago, and grew stronger when Georgia was emerging triumphant from the 2003 Rose Revolution and Ukraine swiftly followed with the Orange Revolution in 2004. But as Ukraine struggles to determine its path, it is unclear how strong diplomatic—and thereby economic—relations between the two allies will be in the future.

The existing lineup of Georgian-Ukrainian economic partnerships is raw iron ready to be forged: it has potential, but it needs to go through fire and be shaped before it can reach its zenith. For starters, despite sharing the Black Sea as a transportation zone, Georgia is nowhere near the top of Ukraine’s import or export favorites. The Ukrainian market made up just 7 percent of Georgia’s $2.9 billion exports in 2013; imports from Ukraine were only 8 percent of the $7.8 billion that Georgia spent on foreign goods last year.

It is not for want of effort that economic ties are lacking. Georgia and Ukraine established a free trade area in 1994, which was promptly followed by a free trade agreement in 1995. One of the limiting tenants of the free trade agreement was the establishment of unfavorable conditions for re-export of goods—an essential section of the recently negotiated Deep and Comprehensive Free Trade Area (DCFTA) that Georgia hopes to use to craft its regional short-term and long-term trade strategy. So while the Ukrainian-Georgian free trade area and agreement set the framework for cooperation between the two countries, it left a lot of room open for modern interpretation in an ever-evolving market.

One common logistical question mark between Georgian-Ukrainian trade is transportation. To effectively be strong trading partners, both Georgia and Ukraine have focused on liberating transportation cargos and forging ahead with joint transport projects that benefit both countries. According to the Ministry of Foreign Affairs of Georgia, one prospect for development is the transportation of cargo via the Baltic Sea-Black Sea and Caucasus-Caspian Sea route. Anther option is a project called “Viking”, which is a combination of the Kerchi-Poti and Batumi railway-to-ferry project, combining—as the name suggests—ferry-boat and railway access. Both of these projects aim to buttress transportation between Georgia and Ukraine and facilitate investment and trade favorable to both countries.

The logistics of ground and sea transportation is one aspect of the favorable trade paradigm, but another facet is comprised of state-imposed policies and regulation. This can be done through both exclusive trade organizations and broader regional consortiums.
One such agreement to create mutually favorable policy is the Joint Intergovernmental Commission on Economic Cooperation, which has been used as a means to heighten cooperation and awareness between authorities. A place where Georgia and Ukraine could use such bilateral cooperation and communication is in the agro-industrial complex, which is a key part to both export economies. A particular need is the cultivation of mutually beneficial conditions for arable land usage and livestock breeding. Using smaller, exclusive partnerships help both countries to identify their objectives and effectively communicate those objectives for the betterment of both partners.

Aside from joint initiatives, Georgia and Ukraine have larger frameworks to encourage (or mandate) collaboration. They are both members of the Black Sea Economic Cooperation (BSEC), which aims to develop bilateral relations between the member countries. The downside here is that, unlike the Joint Intergovernmental Commission on Economic Cooperation, the BSEC lacks exclusivity: the framework from the BSEC is to benefit all members, not just create ties between Georgia and Ukraine alone. The upside is that other large trading members, like Turkey, can provide a wider perspective and context for Georgia and Ukraine to consider in more personal deliberations.

Currently, both countries are facing a change in political climate, Ukraine for the worse; Georgia for the better. Meanwhile, on a global scale, the emerging market crisis is sweeping with indiscriminate force against the already fledgling developing economics.

At the 2014 Munich Conference European Council President Herman Van Rompuy laid out the EU perspective on “carrots and sticks” saying, “Our biggest carrot is our way of life; our biggest stick: a closed door.” This reverberates with an uncanny force not just because President Rompuy was using the analogy to describe Ukraine’s decision to not initial the Association Agreement, but because the same can be said about the future of trade relations between Georgia and Ukraine: a door closed is not easily opened. It is better to keep the lines of communication and trade open, and, better yet, to act on them.

Cordelia Ponczek is a researcher based in Warsaw and formerly taught in Georgia, where she was stationed outside of Zugdidi and later in Batumi. She earned her B.A. in Political Science at Miami University in Ohio, USA.
Consumer Confidence Index and Elections

ROBIZON KHUBULASHVILI AND LASHA LABADZE

Many countries all over the world calculate their Consumer Confidence Index using a standard methodology that measures both consumers’ attitudes toward current situations and their expectations for next several months. Thus, overall a CCI consists of two sub-indices, a Present Situation Index and an Expectations Index.

The Consumer Confidence Index in Georgia

ISET Policy Institute (ISET-PI) calculates Georgia’s CCI every month based on data collected through interviewing up to 400 randomly selected Georgian citizens. Our history of the Georgian CCI begins in May 2012. Since then, Georgia has gone through two very important elections. The changes in the country were picked up rather precisely by the Consumer Confidence Index, which seems to have dramatically reflected the charged political atmosphere.

How have elections affected the CCI? The first sharp improvement of the CCI was observed in October 2012, which was a sign that the Georgian public was welcoming the first orderly and peaceful democratic transition in Georgia’s modern history. Expectations regarding personal financial standing had for the first time crossed into the positive territory. The first steps of Bidzina Ivanishvili’s government seemed to have boosted consumer sentiment. In November 2012, CCI continued to climb for the second straight month. The immediate emotional impact of elections produced a fairly large increase.
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In expectations, while the Present Situation Index remained almost the same. In December 2012, Georgian consumer confidence collapsed after two months of excessive optimism. The “excessive” nature of consumers’ exuberance could be inferred from the difference between the Present Situation index and the Expectations index in October-November 2012. Both components of the CCI receded to previous levels after what then appeared had been a temporary spike in optimism in the aftermath of the parliamentary elections in October 2012. Moreover, the Expectations index deflated rather sharply, even despite the fact that the Present Situation index seemed to have improved overall since May 2012. All this could be attributed at least in part to the initial excessive optimism of the Georgian consumers.

Similar ups and downs were detected around the presidential elections in October 2013. In November 2013, the CCI reached its historical maximum and nearly reached zero (which is the middle point of the CCI, which is valued within a -100 to +100 range), but in December 2013 it declined again. Thus, elections had similar effects on consumers’ sentiment in the last quarters of 2012 and 2013. It is worth noting, however, that the 2013 presidential elections were not marked by the same exuberance in expectations as in the year before. Clearly the difference between the Present Situation index and the Expectations index was much smaller in November 2013. Moreover, the Expectations index did not drop as dramatically. To compare, in December 2012 the Expectations index declined by 11.7 points while in December 2013 it declined only by 4.2 points.

Another factor that contributed to the drop of the CCI in December 2013 was depreciation of the Georgian lari, which affected people’s beliefs about prices. As of December 2013, 67% of respondents reported that prices have increased, while the remainder reported stable prices over the previous year.

**Elections effect or harvest effect?**

Was the CCI affected by the elections, or did the consumer sentiment change for more “mundane” reasons, such as the effect of a good harvest season? The argument can go either way. One can argue that elections happen in early fall, when prices are low and consumer sentiment is at its peak, and therefore more likely to favor an incumbent government. It is logical to argue that, for most rural households, September and October is the period when farmers reap the fruit of a long agricultural season, harvest their grapes and work traditional wine presses. Not surprisingly, their consumer sentiment goes up. Also, for the vast majority of Georgian households, consumer sentiment is strongly correlated with food prices. Higher food prices affect the real income and consumption of the poorer households for which food accounts for a very large share of monthly expenditures. Thus, fall is the best season in terms of food prices. Examining a longer segment of the Consumer Confidence Index may help to finally resolve the argument, and make it possible to separate the harvest effect from the elections effect on the consumer sentiment.
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Introduction

Forty years has passed since Sweden’s Data Act of 1973, the first comprehensive national data privacy law, was enacted. In 1995 the EU Data Protection Directive was adopted and it is regarded as the foundation of a modern global data protection regime. Currently there are more than one hundred countries with data privacy laws, while up to twenty other jurisdictions are in the process of promulgating privacy laws and have official bills under review before their legislatures or governments.

The Georgian Law on Personal Data Protection was enacted on December 28, 2011 and entered into force on May 1, 2012. It is, by and large, in line with the EU Data Protection Directive and applies...
to the processing of personal data in the territory of Georgia by public and private entities. Protection of personal data constitutes an essential part of the recently initialed EU-Georgia Association Agreement, which provides for cooperation in order to ensure a high level of protection of personal data in accordance with the international standards.

The law was merely on the books, however, until summer 2013, when a Personal Data Protection Inspector was appointed and the Inspector’s Office was established. The Office is now fully operational and it has already adopted a few guidelines related to the transfer of personal data abroad, processing of biometric data and the running of filing system catalogues. While the law provides a grace period for the private sector for some of its provisions until January 1, 2016 – the Inspector’s Office cannot examine private companies’ compliance with legal provisions or impose sanctions for breach until this date – the law is already applicable to private companies. This means that individuals can themselves sue private companies in court for violations of their privacy rights.

**Impact on Private Companies**

The law prescribes significant obligations for companies that process personal data. “Personal data” means any information relating to an identified or identifiable individual and includes one’s name, personal identification number, address, date of birth, telephone number, etc. The law applies to personal data of employees, customers or any other third-party service providers. It affects the whole process of the personal data life cycle, i.e. collection, use, storage and destruction of personal data. The personal data must be processed in accordance with the principles set by the law, such as: an individual’s consent to process his/her personal data shall be obtained; personal data shall be processed only for explicitly specified legitimate purposes; data shall be adequate and not excessive in relation to the purposes for which it is processed; data shall be valid and accurate and can be only kept for as long as it is necessary for the data processing purposes, etc.

The law imposes stricter obligations with respect to sensitive personal data and biometric data. Sensitive personal data refers to any personal data that contains any of the following attributes: racial or ethnic origin, political opinions, religious or philosophical beliefs, trade-union membership, state of health, sex life or criminal record. Biometric data means physical, mental or behavioral features of the person and includes fingerprints, facial features, DNA, etc.

The financial services, telecommunication and healthcare industries have to observe the requirements set by the law with special diligence. These sectors keep large volumes of customer information, including personal data, which was collected and maintained over the years. Therefore, they might have to review entire process-chain of their business.

“It is a well-established practice in Georgia to collect as much data as possible since you do not know what type of data you need and when,” noted Personal Data Protection Inspector Tamar Kaldani in an e-mail interview.

“The private sector processes a high volume of personal data and therefore they constitute important major data controllers and processors. At the current stage, general public awareness as well
as awareness of organizations toward data protection related issues is quite low and the Office is concentrated on raising awareness and educating data controllers/processors in this regard”.

The law prescribes significant penalties for noncompliance with the personal data protection rules ranging from 100 Lari to 10,000 Lari for each individual case. Breach of these rules might also lead to serious harm for a company’s reputation.

Direct Marketing

The law provides special regulations for direct marketing, which is defined as offering products, service or employment by means of mail, telephone call, e-mail or other means of telecommunication. Personal data can be processed for purposes of direct marketing if the data is received from public sources (e.g. public directories) or if individual’s explicit consent exists.

Several Georgian companies do not seem to comply with the direct marketing rules set by the law. People having Georgian phone numbers receive numerous advertising spam SMS messages from the companies they have never done business with. The practice has been controversial. Transparency International Georgia launched anti-spam SMS campaign by naming and shaming the companies that violate the direct marketing rules and send out unsolicited mobile ads.

The Personal Data Protection Inspector’s office is working on legal amendments which will introduce certain additional anti-spam regulations that would restrict unsolicited SMS flows and provide an easier opt-out mechanism. According to the amendments, a person receiving unsolicited mobile or e-mail ads will be able to reply and request the sender to discontinue processing of personal data for direct marketing purposes. In contrast, current regulations provide that a written request must be submitted to the data processor if a person does not want to receive the direct marketing messages.

Transfer Outside of Georgia

According to the law, the transfer of personal data outside of Georgia is allowed if adequate safeguards for the protection of data are ensured in the state concerned. The Inspector’s Office has not yet determined the list of countries providing adequate protection. The EU maintains a “white list” of countries where personal data can be transferred without any further safeguards.

Transfer of personal data to another state is also possible with Inspector’s prior approval, if the transferor provides adequate safeguards for data protection on the basis of an agreement concluded with the recipient of the personal data. The Inspector’s Office has already issued instructions prescribing the procedure for getting permission to transfer the personal data abroad, which might take up to thirty days. Getting the specific approval for each particular transfer might become burdensome for international companies operating in Georgia that exchange information on an everyday basis with head office or parent company located abroad. Therefore, it would be desirable for the Inspector’s Office to elaborate an authorization procedure for binding corporate rules to govern the transfer of personal data within a corporate group and adopt standard contractual clauses for the transfer outside of the group. Such options are widely used abroad, including in EU countries.

The Way Forward

According to Inspector’s office, several amendments to the Georgian personal data protection regime are currently at the drafting stage and will be introduced later this year.

“The amendments aim to enhance the current regulations and reduce ambiguities in the law. For example, the range of sensitive personal data will be enlarged; provisions related to direct marketing will be enhanced and regulations on video surveillance in public transportation means will be added, etc.,” Kaldani stated in an e-mail interview.

“The amendments provide for the full enactment of the Law on Personal Data Protection in 2014/2015 instead of 2016 and also foresee increased sanctions for some significant violations of the Law on Personal Data Protection.”

The Georgian personal data protection regime shall provide a framework to process personal data in a manner that balances both the right of individuals to protect their personal data and the need to process the personal data for legitimate and reasonable purposes. Depending on the type of the organization, complying with the data protection rules can be costly and tedious. The law restricts excessive and unnecessary collection of an individual’s personal data by public and private entities and prescribes various rules. Companies will have to change existing data processing practices to comply with these requirements.

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Reason says: this acquisition is too costly.

Instinct says: not as costly as missing out.

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The holiday season is probably one of the most promising times for retailers. Discounts and special offers lure shoppers in to spend their savings, salaries and – in certain cases – their credit. In addition to the steals and deals offered by businesses, one may find that banks have a hand in organizing a successful shopping season as well. Akin to their foreign counterparts, Georgian banks are gearing up their loyalty programs to capture and encourage more holiday spending.

The Georgian banking sector is considered relatively underdeveloped. According to a recent study by the International School of Economics at Tbilisi State University (ISET), low real sector penetration is one of the factors hindering progress in the financial sector. Thus, expanding the customer base – both in terms of income level and geographical reach – is as important a task for Georgian banks as securing cheaper funding. The three leading banks in the country – Bank of Georgia (BoG), TBC Bank and Liberty Bank – have successful and creative loyalty programs that aim to attract new clients and retain existing ones.

A recent report from McKinsey & Company advises that bank customers exhibit two main types of loyalty – behavioral and attitudinal. People, as it turns out, may be quite unhappy with their banks but still maintain allegiance simply due to comfort and convenience. Attitudinal loyalty is harder to create and helps banks capture an ever larger customer base through, among other things, existing client recommendations. Georgian banks’ loyalty programs seem to strive to achieve this exact effect.

“...To ensure high customer loyalty, BoG offers programs that go with various BoG products to different segments of customers: AmEx Membership Rewards, AmEx Selects program and short-term campaigns; AmEx Blue card cash-back program; Express Card Express Bonus program and several others,” explains the BoG PR department.

As an interesting addition to the more traditional “points programs” developed for the American Express cards, Bank of Georgia came up with iDeals – a customer loyalty project operated through its subsidiary iPay. iDeals is a discount deal site that has recently gained popularity in the Georgian e-shopping market. The website features products and services with deep group or individual markdowns. Visitors are encouraged to acquire BoG cards in order to take...
TBC offers a special cash-back program for its newest credit card, Prime Card.

Apart from offering deals to their customers, customer loyalty programs provide large benefits for banks – despite their initial cost. A recent report on retail banking loyalty programs from Research and Markets consulting group found that rewards programs actually add to the banks’ expenses even if they share costs with partner merchants. These expenses, however, are justified with the “emotional connection” they help create with the banks’ clients. Such connections win attitudinal loyalty from the old customers and generate interest among the new ones. The report noted that rewards programs “are [now] being viewed as important revenue-driving tool and have been proven to reduce customer acquisition costs.”

Georgian banks have indeed done a good job developing innovative loyalty programs. From iDeals and Swoops to TBC Bank’s Smart Club, all of these projects have a crystal-clear purpose: gain and sustain client satisfaction, and a customer-friendly structure.

What is more important, loyalty programs are an invaluable trove of customer behavioral statistics for banks. Georgian banks’ foreign counterparts seem to be more successful in collecting and using this data for all aspects of business development. Data-driven product decisions with more effective cross-selling and wider income-level targeting can only be beneficial for all parties involved – customers, retailers, and their banks.

Lack of concrete statistical data on the success of these programs may just be due to the banks’ reluctance to give up their findings, or the programs’ relative novelty on the market. Nevertheless, we wish for even more pleasant surprises in banking innovations.

advantage of the maximum discount possible. According to the official source for iDeals, the project has successfully fulfilled its initial purpose of “creating one more loyalty platform and offering innovation to the existing BoG customers and attracting new ones.” Each BoG customer now uses an average of seven products – an achievement attributed to the effectiveness of the iDeals loyalty program as well.

Liberty Bank offers a similar loyalty program through its website Swoop. The Bank cross-sells various products through this platform, including e-Loans, plastic cards, gift cards, and others. Swoop regularly features a large number of discounts and deals daily, with tailored promotions for the holiday season.

TBC Bank’s Smart Club loyalty platform slightly differs in execution, but also targets increased product usage per customer. All of the Bank’s clients receive special “Smart Cards” tied to their accounts that accumulate points based on the type and number of processed non-cash transactions. Smart points can then be exchanged for cash to buy goods from TBC Bank’s partner retailers. In conjunction with Smart Club,
Georgia’s business community, Turnava noted, has proved strong and able of survival. But to encourage investment in strategic areas, some extra support is necessary.

The fund, she said, will provide “more comfort and assurance” to private investors or banks who are interested in developing large projects in areas the government has deemed to be strategically important.

“Since Georgia, as an emerging economy, still has high risks, just the commercial appeal of a project is not enough to persuade foreign investors into putting millions of dollars in our country, so the fund’s involvement is important,” she said.

Industry, energy, agriculture, real estate and hotel construction & infrastructure are the fund’s key interests and Turnava describes them all as “dynam-ic.” Also, she noted that the area where interests are least actively represented is in agriculture.

“The underdevelopment of financial-insurance tools hinders the development of this field but I think it’s a temporary problem and over time will be resolved,” she said.

“We would like to increase our involvement in this sector. For instance, we have already completed and withdrawn from a project for a pig farm, Kalanda, in the village of Koda.”

While the Partnership Fund will provide an important new source of financing, Turnava noted that access to credit is not the only challenge facing Georgian business.

“[T]he problem with financial resources has been removed but now we see a shortage of good sustainable projects, where it’s clear how and when the investment will be returned,” she said.

“The real estate sector of the Georgian economy is still insufficiently developed,
which prevents investors from diversifying their risk across different industries and regions.”

Better education, she stressed, is key for Georgian business to develop further – in particular, the labor supply needs to come closer to meeting market demand. Currently, many employers complain that while the supply on the labor market is in excess, the supply of well qualified and experienced professionals is poor.

As a former management board member of the largest Georgian private industrial group (GIG) and CEO of its subsidiary, the Georgian International Energy Corporation (GIEC), Turnava knows firsthand the issues facing the labor market.

“If someone’s education was meeting the demand five years ago, unless he/she kept updating their knowledge, their qualifications may not be sufficient now, in particular, in the technical fields. For instance, in Georgia the demand is big for energy engineers and mining industry specialists but there is the lack of proper workforce,” she said.

“If education level and access to quality education improves, this would create a real precondition for higher employment.”

It should also lead to more innovation from business and investors, which is vital to keep the Georgian economy competitive.

For instance, in January the Partnership Fund started construction on a combined cycle thermal power plant (CCPP) in Gardabani, Kvemo Kartli region. The 230 MW Gardabani CCPP will supply the local market with additional 1.7 billion kWh of electricity. Additionally, if any problem arises with electricity supply in the country, the plant will have a reserve capacity to supply Georgia’s energy grid for a certain period, guaranteeing sustainability of the whole system.

“This plant is the first of its kind in Georgia, but its innovativeness is relative because in the neighboring countries such plants are already operating,” noted Turnava, adding that the Partnership Fund can help foster more innovation.

“Most of the big projects in Georgia are financed by outside sources. Those international financial institutions tend to finance projects with low risks and guaranteed commercial viability,” she noted.

“However, we would like to increase our participation in high-tech projects in the future and I expect that the fund will have its say in terms of developing innovativeness in Georgia as well.”
For Publishing Business, Life after the Textbook Trade a Struggle

While Georgia’s publishing industry has seen an impressive surge over the past several years, publishers complain that the dynamics will slow down as a result of the Ministry of Education’s decision last spring to provide textbooks free for all public schools.

For years, a constant supply of book orders from the Ministry of Education helped support Georgia’s publishing business.

But in April 2013, the Ministry of Education announced it would start distributing textbooks at the country’s 2,084 public schools free of charge starting from the 2013-14 school year.

To the disappointment of the publishing industry, however, the decision did not mean the Ministry would purchase the product from publishers and then distribute them for free. Rather, the Ministry asked four printing houses to print them and provided the copyright-holding publishing companies and individuals with compensation. The compensation rate was 10 percent of the printing cost, which publishers called “symbolic.”
Instead of purchasing from publishers, the government planned to spend 12 million lari (approximately $7 million) to print the textbooks. By comparison, the previous government spent 10 million lari ($5.6 million) to hand out free books selectively – to only those children who came from socially vulnerable families.

The money from the government helped book publishers grow over the years. Publishing and Bookselling in Georgia, 2012-2013, a study done as part of Book Platform, an EU funded-project trying to assist the book sectors in Armenia, Georgia and Azerbaijan, shows that the turnover of Georgia’s publishing business jumped from $6 million in 2007 to $24 million in 2011, while the number of annual book sales hit 7.7 million, up from 2.3 million in the same period.

But publishing companies fear the lack of government orders could harm the industry.

“One audit company calculated the loss for two of our school textbooks - which had authorization until 2015-2016 year - and it is as high as 700,000 lari (approximately $395,000),” said Lasha Beraia, the director of Logos Press.

Small Market, Big Challenges

The government’s business also helped make up for the small market local market.

Ludovic Girod, who founded Zebra Group Ltd in 2007, noted that the size of the market remains a substantial challenge for publishers. He said that while the profit margin in the publishing industry is 20% on average around the world, in Georgia it’s even less. “The most realistic circulation for Georgia is 1,500-2,000 copies per edition. This is why we have opted for covering three countries,” he said in the interview.

Girod’s company decided to stay out of publishing school textbooks, and instead branched out into all three south Caucasus countries. At Logos Press, school textbooks comprised about two-thirds of total production.

“The large benefits on textbooks would allow us to reinvest quickly, expand business and improve quality,” Beraia said.

Now, however, book publishers are looking new ways to make up for the loss.

Tinatin Kakhianidze, the project manager at Bakur Sulakauri Publishing, agreed that the school textbook market was good for publishers. Now, however, she said publishers have the chance to readjust their strategy.

“We used to dedicate about seven-eight months a year to the development of school textbooks because getting the Ministry’s authorization led to high circulations and thus was worth making such efforts. Now we will have the necessity and time to develop other directions as well,” she noted.

Digital books: Still Carving Out a Niche

Beraia also confirmed the need of a new strategy: printing fewer books but with higher circulation, which would bring profit later that the previous strategy. Logos Press is also pushing ahead with digital book publishing.

The dynamics of the developing e-book culture in Georgia are noticeable, although still quite slow. According to the Publishing and Bookselling in Georgia study, in 2011 a mere three companies published 31 electronic books, while in 2012, the numbers increased and eight companies published 218 electronic books.

E-books are mostly available at local distributors such as bookland.ge, lit.ge, market.ge and others as well as at the publishing companies’ web sites and global distributors’ pages.

Logos Press is one of the pioneers in digital book publishing in Georgia. Their experience gives a clear picture of the segment’s low-key performance so far.

“The share of electronic books is just one percent in our sales. I think this is because reading from hard copy remains a stronger culture here,” Beraia said.

According to another study, Reading Habits in Georgia, which was carried out in 2012 under Book Platform as well, 31% of the one thousand people interviewed across Georgia have not bought any books since last year. For those who love reading, the most popular books appear to be fiction with 68.2% of sales.

The study illustrates that digital books, well as online purchasing of traditional books, still has a long way to go before appearing as a strong rival to traditional books and bookstores. 74.9% of those surveyed said they buy books at bookstores and only 8.9% read books on the internet or read electronic books.

The young generation is the primary consumer of alternative forms of reading.

Girod of Zebra Group has no intention to produce electronic books in Georgian, because when it comes to children’s books, he says that hard copies are preferred everywhere in the world. “And, additionally, this segment is not interesting because of high piracy rates in Georgia in the high tech field,” he revealed.

In order to push the industry forward, Girod thinks that promotion of reading is very important. “This includes investing in school libraries; teachers giving information to children on new and good books; educating and training illustrators, translators and graphic designers to improve publishing quality,” he advised, adding that the best thing in terms of developing the publishing business is to “give Georgians a taste of reading.”
A Sporting Business: Georgia bets on big sports to bolster local economies

From building hotels to encouraging young people to volunteer, Georgian officials hope the slew of large sporting events slated for venues across the country over the next three years to be a boost for cities and communities country wide.

MONICA ELLENA

Sochi’s stellar costs showed that throwing the world’s biggest party is an expensive business.

Estimates put the total cost at $51 billion against the $12 billion that President Vladimir Putin pledged when Russia was awarded the Games in 2007, making the 2014 Winter Olympics the most expensive in history.

Although the Olympics Games are not on Georgia’s horizon, in the next three years the country will host a series of major sport events, including the European Youth Olympic Festival (EYOF) and the UEFA Super Cup in 2015, the Karate European Cup in 2016 and the Handball Under 19 World Championship in 2017.

“Sport has a long tradition in Georgia, we can boast thirty-four Olympic champions and medals won in over 25 sports,” explains Tamaz Tevzadze, Deputy Minister of Sport and Youth Affairs and member of the Georgian Olympic Committee since 1993. “The upcoming events signal the strong political will to make Georgia a sport hub for the South Caucasus.”

In 2010, Tbilisi outbid the Czech city of Brno to get the rights of hosting the EYOF, an event reserved to athletes between 14 and 18 years coming from 49 countries. Dubbed as the Youth Olympics, the festival features nine disciplines: athletics, basketball, cycling, gymnastics, handball, judo, swimming, tennis and volleyball.

Aleksi Akhvlediani, chairman of the organizing committee, labels the event “the biggest sport event in the history of independent Georgia,” that will “increase communication, global contacts, and international involvement. The success of the games will guarantee our country future massive sport competitions.”

The price tag is estimated is set at EUR 27.4 million (GEL 65 million) which, according to George Ivanishvili, EYOF’s Head of International Relations, will cover the upgrading or building of the needed infrastructure. The cost does not include the Olympic Village, adds Ivanishvili, currently under construction on the outskirt of Tbilisi.

“The Chinese investor Hualing Industry and Trade is investing about $150 million in the village, employing up to 3,000 people. The venue will be able to allocate up to 3,800 people.”

According to Tbilisi City Hall, the event will require twelve sport facilities, four of which already exist and will be renovated, while eight will be built from scratch. The latter include tennis courts, the swimming arena, and the volleyball hall. Merab Chikobava, Head of Sport services at Tbilisi City Hall, says that the municipality allocated GEL 50 million ($28 million) for 2014 to cover all the expenses related to infrastructural upgrade or build, and is expecting additional GEL 15 million ($8.5 million) from the central government.

“It is a lot of money, but worth it,” admits the former rower who still dreams of a Georgian rowing team. “Relevant sport tournaments tend to be assigned to developed and rich countries, Georgia wants to get into the international system. The investments are not one-off, they aim at bringing Georgian sport facilities in line with international standards for future events. They also show a clear commitment to develop a sport culture.”

Importantly, Tbilisi will not take it all. The handball world championship for example will be hosted in six cities across the country: Batumi, Kutaisi, Poti, Rustavi, Telavi, and the capital.

“Standard-sized sport halls will be built in each city, they will provide a key reference for sport once the event will be over,” adds Tevzadze.
It is expensive, why bother?

Indeed the expected 7,000 people, between athletes and officials, for the EYOF and a similar number for the UEFA Super Cup will place Tbilisi under a spotlight. And under a lot of pressure to look good.

“Countries bid for the right to host sporting mega-events for many reasons,” explains Simon Chadwick, founder and director of the Centre for the International Business of Sport at Coventry University’s Business School in the UK. “The assumption is that such events provide an growth boost, stimulating economic activity in areas ranging from construction through to tourism.” In his view these events also serve “the nation’s branding purposes, building soft-power influence in global sport, and stimulating participation in sport.”

Still, the price tag is high. Chadwick, who has worked as a consultant with organizations like UEFA and the Qatar Olympic Committee, adds that “creating the facilities necessary for hosting such events or addressing issues such as security are indeed a cost.”

In December 2012, UEFA – Union of European Football Associations, Europe’s administrative body for association football – made a radical move after it received only three bids to host the 24-team European championship in 2020, instead deciding to stage the contest in 13 cities around the continent, each hosting three or four games. While UEFA President, Michel Platini has said that this multi-format is a “romantic” one-off event to celebrate the 60th birthday of the European Championship competition, there are financial advantages as even smaller countries usually have one stadium where they can stage two or three games.

Tevzadze, whose Ministry has a 2014 budget of GEL39 million ($22 million) for sport, 12 of which only for events, thinks mega sport events are worth every penny.

“The return is placing Georgia on the world map not only for sport but also tourism. It is an investment for the future,” he said.

Is Georgia ready?

State of the art sport venues are not enough. Big sport events require adequate hospitality infrastructure. Talks about expanding Tbilisi airport have been abandoned as Kutaisi International Airport is taking off.

“Studies show that Tbilisi’s existing airport is enough, especially teamed-up with the Kutaisi’s which is handling a good inflow of visitors from Eastern Europe,” noted Chikobava.

The shortage of middle-range hotels is another challenge the municipality is trying to tackle. According to Sevdia Ugrekhelidze, Acting Mayor, the renovation of Old Tbilisi and Aghmashenebeli will allow families to rent rooms and set up small hostels. The plan though is to attract investors interested in opening 2 and 3 stars hotels.

“Pending budget approval, we also envisioned loans at low interest rates, around 6 percent, where the city hall will act as guarantee for the bank.”

One key element for the success of sport events is, increasingly, the role of volunteers. The 2006 Commonwealth Games in Melbourne formally recognizes the contribution of what the committee called its “Unsung Heroes” by listing all 14,500 of them by name. The Youth Olympics would need about 2,000 volunteers.

“Volunteers are vital for the delivery of large scale sport events,” adds Ivanishvili. “At the moment that looks like our biggest challenge, as volunteering is not that widespread in Georgia. In March we’ll travel to Poland which is hosting the World Indoor Athletics Championship to see how the committee is managing the role of volunteers and learn from it.”
Birthday Centers’ Success Gives Businesses a Reason to Party

DJs, catering, and cartoon characters are giving private children’s party centers an edge on traditional birthday supras for families in Tbilisi.

MAIA EDILASHVILI

There is scant information on how they started, but the success of privately run birthday and celebration centers for children is easy to spot in Tbilisi.

There are no public reports on the Georgian birthday party center industry to track its success over the past several years. Anecdotal data, however, indicates business is booming.

Take, for example, Zaliko’s Center, the birthday center created by Tbilisi’s beloved cartoonist Zaal Sulakauri and hosts an average of 10 parties a day on average since the center opened two years ago. “We’ve had a day off only on January 1,” Sulakauri said.

Eugenia Kutateladze, a grandmother of two, founded Disney Party in 2007 on Saburtalo district after she realized that she was not happy with her experiences with various birthday party services in Tbilisi. “I did not like the way they treated my kids, did not like the food and entertainment options, so I came up with an idea to open my own place,” she said.

Nelly Guniava, the owner of Madagaskari center in Dighomi, said the birthday centers allow busy parents the chance to celebrate their children’s birthday without all the fuss. The business model, she noted, is very similar to the restaurant industry – which Georgians have embraced over the past decade. “We cover the same segment. So if parents come to us, they will no longer need to bother themselves with thinking what to cook,” she said.

Nino, a mother of two, agrees. Noting her job leaves little free time to organize a birthday...
center makes the day “memorable” without spending two days cooking and cleaning the house.

While the business is relatively new in Georgia, its growth in other countries could indicate the potential for growth is high.

From the Canada to the United Kingdom and the United States, birthday party centers are booming despite weak economies – in large part because parents feel the need to splurge when celebrating their children’s big day: A 2010 Daily Mail’s 2010 article found that “Parents under pressure to splash out at least £500 on children’s birthday parties” researched the same challenge facing the parents, while Canada’s The Globe and Mail in the 2011 reported “Birthday party market is a recipe for success”, concentrated on the business angle. The author argued that while figures on the birthday party industry in Canada were hard to come by, Statistics Canada said there are 5.5 million children 13 and under – “a huge market for special events companies.” The article also cited a research released by Lumos, a U.K. children’s charity, which “found 40 per cent of the 500 parents interviewed admitted to feeling pressure to organize more extravagant birthday parties.”

The Florida Times Union reported about the same trend in the 2011 article “Children’s birthday parties are big business on the First Coast”. Based on the U.S. Security & Exchange Commission report, the story said that Amscan Holdings, which operates the Party City franchise with locations in Jacksonville, reported a net income increase of 32 percent from 2008 to 2009.

Birthdays on a budget – or not

In Georgia, however, prices are significantly lower and most centers provide a menu of options to give parents some discretion on how much they spend per guest. Local prices range from 9 lari to 22 lari for snacks and cake; entertainment programs can set parents back as much as 350 lari depending on the center and if they want actors dressed up as cartoon characters to play with the children during the party, the price goes up.

While birthday center bashes are still a bit of a luxury for the average family, Zaliko’s Sulakauri noted “every single mom and dad tries to make their kids as happy as they can because birthdays are celebrated just once a year.”

The secret of success he stressed is just like in any other business: you have to keep your customers happy – and every single detail counts with the children and their parents.

“The birthday kids have parents, have guests and if they dislike anything, the news will get spread and destroy your image,” he said. “You see children’s centers in every street already but only few are truly popular.”
Łukasz Ponczek analysis the impact low budget airline Wizz Air, together with the Kutaisi Airport, has had on tourism and the airline industry in Georgia.

On 27 September 2012, the then-President of Georgia, Mikheil Saakashvili; the Georgian Minister of Economy; the Prime Minister of Hungary; and the CEO of a major European airline gathered together to reopen the renovated Kutaisi airport. It was an impressive line-up of VIPs, considering Kutaisi is a minor airport that recently catered only to a handful of passengers. Prior to its renovation it only had an occasional flight visiting its tarmac. The new, shiny 4,500m2 terminal, capable of handling a significantly higher volume of passengers in comparison with the past, seemed somehow megalomaniac. However a new carrier, Wizz Air, a pioneer in low-cost flying in Eastern Europe, has promised growth in stature for the local airport. Almost a year and a half after the reopening of the airport there has been an increase in passenger numbers and activities at the airport.

Over the last couple of years, the Georgian aviation industry has been rapidly developing. In fact, over the last three years, the number of air passengers has doubled. Over the past few successful years, several important airlines have entered the Georgian market, serving, in particular, Tbilisi International Airport. However, it is Wizz Air that promises the most change in the airline industry, since its radically different business model offers an alternative to more traditional carriers.
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Wizz Air started functioning in Georgia in September 2012 with a single flight between Kutaisi and Kyiv that operated just three times a week. It promised inexpensive fares and rapid growth of passenger numbers. Its fares are undeniably cheap, with prices starting as low as 60 lari during the low season. Indeed, Wizz Air’s entrance in the market seems to be a success. A few months after its initial flight into Georgia, Wizz Air announced its intention to link Kutaisi with several cities in Poland and Ukraine. In addition, during the summer 2014 season, it will offer yet another two new routes, to Vilnius, and to Lviv, which is Wizz Air’s fourth destination in Ukraine from Kutaisi. Its initial capacity of 558 passengers per week will increase to 4,650 passengers per week this summer, making Kutaisi the most rapidly developing airport in Georgia. It is likely that in 2014 the Kutaisi airport will overtake Batumi as the second biggest airport in Georgia in terms of passengers served.

How does Wizz Air’s business model differ from that of traditional airlines? Its priority is to keep costs low. It implements this policy by flying into secondary airports that have lower landing fees or might even subsidize the airline to fly into that particular airport. It also focuses on point-to-point travel and therefore does not offer transfers. It operates a single type of aircraft, to save on maintenance. Finally, all additional services, like luggage or on-board meals, require an additional fee.

Prior to Wizz Air’s market entrance, there were already two airlines implementing the low cost carrier business model: Pegasus Airlines and FlyDubai. But Wizz Air is an airline that has the capacity to truly revolutionize the market in Georgia, because, unlike the others in Georgia, it does not implement a hub model where all or most routes operate from one central base. Tbilisi already has a substantial international network of routes, which makes the impact of other airlines on the Georgian market fairly limited. In contrast, Wizz Air’s reliance on secondary bases helps to build up alternative options and provide a larger network.

What are the potential benefits of the development of the Wizz Air network? First, it ensures an influx of tourists to previously inaccessible regions. This summer, five out of seven airports that Wizz Air will fly to previously did not have a connection with Georgia. Second, the increased activity in Kutaisi provided by Wizz Air will challenge the monopoly of TAV, the Turkish operator of the other two international airports in Georgia: Batumi and Tbilisi. Indeed, during the Kutaisi airport’s opening ceremony, Saakashvili stressed that the Kutaisi airport is intended to challenge Tbilisi’s airport monopoly. Third, it provides competition and an alternative to the other airlines in Georgia. Finally, it serves western Georgia, providing international transportation for Imeretians and easier access to tourist destinations like Vardzia and Mestia.

However, this success story is not without drawbacks. Georgia is a small market, and the aggressive development of Wizz Air’s network might prevent other European low-cost carriers (LCCs), like EasyJet or RyanAir, from entering that market. Frequently, LCCs’ rapid expansion prevents competitors from considering entering a market and makes an airport dependent on the expansion-oriented LCC for passenger traffic. That is why a diverse growth of network is more desirable. Finally, Wizz Air provides links only to Eastern Europe; an expected network into the Western Europe or Asia is yet to be seen from Kutaisi.

The new terminal in Kutaisi airport is busy with passengers, with Wizz Air being the leading airline at the airport. The success of that airport brings Imereti closer to Europe and helps to develop the region economically. If Kutaisi and other Georgian airports continue to attract a variety of airlines with many diverse routes it will be on a path to achieving easy and affordable air transport.

Łukasz Ponczek is a M.A. graduate from University of Aberdeen (UK). He spend a year in Georgia with TLG program. Currently he works for an energy consultancy company in Poland.
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Business Reforms Bring Armenian Investment

From retail branches to hotels and construction businesses, Armenian entrepreneurs are coming to Georgia to open up shop.

Lower taxes and a more competitive market are attracting a growing number of Armenian investors to Georgia. In addition to extending retail branches to Tbilisi, Armenian entrepreneurs are slowly returning to other business sectors.

After five years of steady decline, Armenian investment in Georgia was up in 2012 – a trend that has continued in 2013. Armenia is still far from Georgia’s largest investor – last year Armenian businesses spent $5.93 million in Georgia, compared to $42.03 million from Luxemburg, one of Georgia’s largest investors.

The interest of Armenia’s businesspeople in the investment field of neighboring Georgia has significantly grown since 2010 when Armenian entrepreneurs, one after another, began a new wave of establishing businesses in Georgia.

While the exact number of Armenian investors is unclear – the Georgian Public Registry reports 100 Armenian businesses registered – Gagik Makaryan, the chairman of Armenia’s Republican Union of Employers, said closer to 200 Armenian entrepreneurs have started a business in Georgia.

“Small-sized business think the conditions in Armenia are not satisfactory for it yet. Reforms are under way but still there are a lot of unsolved issues, unequal competitiveness, market consumption problems,” Makaryan said, adding that Georgia is quite a convenient place with respect to its close location to Armenia which makes it easy to travel back and forth between the two countries.

“[C]orruption risks have been reduced in Georgia which has greatly attracted Armenian businessmen.”

Gagik Aghajanyan, executive director of Apaven, an international cargo transport company working in Georgia for many years, said it is normal that Armenian businesspeople are starting businesses in Georgia.

“Today, Armenia’s business circles are able to make investments in Georgia. This country is quite acceptable and available, Armenia and Georgia are countries having normal relations,” Aghajanyan said.

According to Armenia’s Republican Union of Employers (Union), Armenian business people have particularly invested in Georgia’s hotel sector, services, juices, canned food, meat production and other spheres. Many Armenians are also engaged in the construction sphere as well.

Makaryan, the chairman of the Republican Union of Employers, said that the companies that made investments in Georgia have succeeded in business. These companies ran businesses in Armenia for many years and are quite experienced. “I have information that these are companies with four-five years’ working experience,” he noted.

The Next clothing stores in Tbilisi are part of an Armenian owned franchise, as is, reportedly, Brioche Doree, the French bistro chain.

Low real estate prices in Georgia – reportedly three times cheaper than similar land plots in Armenia – are also attracting investors. Lower taxes are also an incentive: a Georgian government tax break exists for foreign investors for the first five years of their business activity in the country.

However, the Deputy Chairman of Armenia’s State Revenue Committee, Armen Alaverdyan, however, said the perception of Armenian business’s interest in Georgia is exaggerated.

He admitted, however, that it is natural that businesspeople seek to expand their businesses and are starting businesses in their neighboring country as well.

“The attitude toward business in Armenia is not favorable. Very often they appear in force majeure situations. The businessmen are tired of constant legislative changes and checking. Self-williness dominates here. In spite of this, I do not think that Armenian businessmen will stay in Georgia for a long time,” he said, noting that there had been some reports that corruption is slowly returning.

Aghajanyan, however, countered that the Georgian market is even more liberated today than under the previous government. He noted that drastic reform was a way of survival for the Georgian economy. “It was necessary to sharply change the situation and they did it. It was the first phase, today the situation has changed a bit, now they are trying to gradually regulate it,” he said.
Brain Drain: A new series on Georgians studying abroad

Some of Georgians best minds are overseas, either in universities or working. While programs like the Open Society Foundations’ Academic Fellowship Program try to bring scholars back home, resources are scare. Over the next year, Investor.ge will publish interviews with Georgians studying abroad. Who are they, what are they studying? Why did they decide to go abroad, and are they planning on returning? The first article in the series looks at one of AmCham Georgia’s own scholars abroad: Keti Sidamonidze and Salome Tkeshelashvili.

Salome Tkeshelashvili
MBA, University of Bologna

In 2009, I graduated from the Caucasus School of Business which was the driving force for me to become fully employed while still a student. After having 5 years of working experience, I decided to deepen my theoretical knowledge and step into an MBA program. In October 2012, I left for Italy and began my MBA at the University of Bologna. For me there were four main reasons for choosing one of the oldest universities in Europe: a full scholarship opportunity which made it possible to minimize costs while getting a high quality education from professors who were prominent professionals from top companies all over the world; an intensive program of less than one year; the geographic location and culture of Italy which makes it possible to broaden the scope of vision, thinking and open doors internationally; and finally field trips including real on-site experience with real life projects in worldwide renowned companies with internship opportunities. These reasons were enough for me to take the important decision of choosing the University of Bologna.

The MBA program included all the necessary courses related to general business management; however, the program allowed me to attend extra lectures in the field of my interest which is fashion, design and luxury goods. After presenting the business development project to the board of directors of Kering Group company Gucci, I was chosen by them to have a three month internship at the head office in Milan. Despite the job opportunities in Gucci’s Moscow office, I chose to remain in Milan to continue my professional growth here.

Last year has been very dynamic in terms of political changes in Georgia. Clean and fair elections have been a positive message of a maturing democratic country to the main driving force of the country’s economy – investors. I believe at the moment it is crucial to keep the national agenda on keeping focus and integration in the Euro Atlantic community to enable political stability to make the transition process as smooth as possible for local and foreign businessmen.
In general, I think that the main challenge for local Georgian companies is providing a high quality service/product which will enable the ‘Made in Georgia’ label to compete on the developed and emerging markets alongside with well known competitors. The improvement process can be fostered if government directs its resources to attracting new investors who will employ local professionals and intensify the competition on the local market; this is direct motivation to increase the quality of products and services. Encouraging startups and new ideas of Georgian business would also aid in environment enhancement process.

My intention is to come back to Georgia and actively participate in the maturing process of Georgian businesses, which is moving so fast nowadays. In my opinion being where the development progression takes place is the best way to increase professionally. Additionally, I believe that my skills, knowledge and experience will allow me to create real values for the companies and community.

Keti Sidamonidze
MBA ESADE Business School

How long have you been abroad?
I have moved to Barcelona, Spain a little over a year ago - in August 2012.

Why did you decide to study abroad?
The driving force in deciding whether to get an MBA abroad was not to improve my career prospects as I already had a very interesting, well-regarded and challenging professional experience in Tbilisi, nor was it to brush up my business concepts as I hold a BBA degree from ESM Tbilisi… but rather to gain global exposure and to improve my ability to do social good.

Where are you studying and what is your major?
I am doing Full Time MBA at the ESADE Business School. The ESADE MBA has been ranked among the best in the world – most recent rankings published by The Economist and Forbes place the ESADE MBA program among the top 5 in Europe and the top 10 in the international category.

How have your views on Georgia’s business climate changed since you have been away? What has influenced your new perspective?
We live in an ever-changing environment, and the clockspeed of industries overall has sped up drastically compared to last decade or so. It is only natural that our views on Georgia’s business climate change in one way or another but the underlying fact is that I believe that Georgia will continue to prosper and remain as an increasingly attractive country for both foreign and local investors.

Georgia has made significant progress in the recent past in creating a dynamic business environment and every time new doing business rankings come out pride and satisfaction overwhelm me (e.g. Georgia has improved in all areas measured by – Doing Business 2013, IFC and World Bank). But I also understand very well that a strong business environment does not necessarily produce economic success per se. I mean you may have fantastic laws for the entry of new businesses but if these new entities cannot get let’s say, affordable credit, that will eventually cause problems.

Having said that, I trust the best indicator of how healthy a business environment in a country is would be how local entrepreneurs dwell in and the amount of formalities they will have to overcome to do very basic transactions. That’s why I think the experience I gained while sitting on the board of the Georgian Small and Medium Enterprises Association (GSMEA) for two years has given me invaluable insights.

What do you view as the economy’s biggest challenges moving forward?
As the economy’s biggest challenges moving forward I would name enforcing the rule of law, tackling unemploy-
ment issues and increasing qualified workforce. Having said that, I trust the upcoming generation has the potential of overcoming the mentioned challenges.

**Do you want to come back? Why or why not? What would influence your decision?**

What an “easy” question! My honest answer on an emotional level would be – absolutely, right away! And yet I have so many commitments, there are so many things I would like to do in life and ES-ADE has opened up even wider horizons for me. We regularly have career forums where well-established companies come on campus to recruit MBAs and try to convince us why their company would be the best fit for us, a completely different approach to what we are used to when it comes to how a job market operates.

The offer package and the nature of work would be the main determining factors when deciding where I will head right after the MBA. By going away I risked it all but I think coming to Barcelona to do world’s one of the best MBAs was a wise decision already from today’s standpoint - the internship I landed as an MBA student helped me grow professionally even further. The Social Enterprise that I was working for within the auspices of the Momentum Project is called Grupo Sacendi. We helped them devise a growth strategy for their new line of business called Saraiva Senior, through which they will offer all the services dedicated to the different stages of aging in a single space. This new concept of housing, together with their own personalized methodology centered in each user addresses currently unmet needs.

Luckily, this internship has given me an opportunity to work in my fourth language i.e. Spanish for the first time in an enterprise that genuinely makes a powerful and noticeable social impact. In addition, being practically the only non-native Spanish speaker in the project has put even greater pressure on me that augmented my desire to succeed in helping these people acquire funding that they so much deserved!

Ideally, I would like to gain experience working in one of Europe’s leading socially responsible multinationals for a year or two before going back to Tbilisi, Georgia. But I by all means will consider offers from home as well. Only time will tell where I will end up but I do believe wherever it will be, I will be making a difference... hopefully, in a very positive and impactful way!
While the campaigns of Alexander the Great never touched Colchis, and its land had never been part of any expansion or colonization by the ancient Greeks, discovery of four bronze lamps found in Vani, a small town in Georgia, confirms Hellenistic influence there.

HELENA BEDWELL
These excavations have also unearthed as many as 28 burial sites, dating around 500 BC, including the graves of nobles who were buried with locally made gold jewelry, indicating that the region was not only rich in culture, but also blessed with persons talented in gold craftsmanship.

“This region also generated huge interest from the ancient world not just starting from the Argonauts but also [continuing for] centuries after that,” noted Nino Lordkipanidze, the main scientist specializing in religious artifacts filed at the Archeological Research Institute.

Lordkipanidze was disappointed, however, because she was unable to be personally present on that hot day in August 2007, when her colleagues Dimitri Akhvelediani and Darejan Kacharava made the discovery.

Akhvelediani made an emotional phone-call to inform Lordkipanidze about the amazing findings: 25 bronze objects were found in a deep pit, right near the ancient defensive wall of Vani.

Once known as the ancient religious center Kolhi, Vani was a highly developed area, which at that time already had its own unique culture.

Eros, Dionysus the Greek God of Wine and Ecstasy and his wife Ariadne, Heracles and Ganymede, these were all religious icons, and figurines of all of them made their way to Vani from somewhere in Asia Minor, perhaps as imports from the Greek world.

“Vani was under attack and I am confident someone had simply attempted to save these artifacts by hoarding them out of sight and placed them into a pit,” Lordkipanidze said.

“The four discovered lamps are in the forms of elephants, just like those mentioned in Dionysus’ triumphant adventure in India – the theme was also used by Alexander the Great – this is why it is important that they were found here in Georgia, proving that it’s not just mythology but a matter of fact!”

The lamps are being restored by the Getty Museum laboratories, in collaboration with the Georgian National Museum, and are in a well preserved condition; they are dated around third century B.C. and were buried during the waves of destructions of Vani which began around 50 B.C.

Lordkipanidze says that new findings will be displayed eventually in a year or so, but before that more work needs to be carried out to turn Vani into a bigger tourist destination and global hub for ancient archaeology. In addition to these exciting findings, this area is also known as the destination of Jason and the Argonauts.

The World Bank is currently working on a $5 million investment project to improve Vani’s infrastructure and tourism potential.

“All we know is that they were noble people buried in this area now known as Vani,” Lordkipanidze says.

The 2007 finding was one more sign Vani is not getting the attention it deserves. In 1980s Tim Severin, a British explorer, historian and writer, built a 54-foot (16.5 m) replica of a Bronze Age galley based on a detailed scale model of Jason’s Argo, and sailed from northern Greece through the Dardanelles, crossed the Marmara Sea, and passed through the Straits of Bosphorus to the Black Sea—a voyage of 1,500 miles (2,400 km)—successfully repeating Jason’s legendary voyage to Vani.

Lordkipanidze remembers the amazing meeting that took place in Tckhvishi, near Vani at the Rioni river embankment when the modern “Argo” landed.

“Now we know why the rich-in-gold [moniker] was applied to Colchis,” Lordkipanidze said.

“That answers our question why the Greeks came for the Golden Fleece.”

Helena Bedwell reports for Bloomberg
We move the Cargo Worldwide
My City, Tbilisi: Georgian Film Back In The International Spotlight
For the past year, Investor.ge has brought you a series of six guides about Tbilisi, from what to do with children to a tour of the city’s 1930s architecture. In this series, Investor.ge speaks with locals about different neighborhoods and events in the city in a six-part series to bring Tbilisi’s grand history, graceful streets, and great cultural life alive for all readers, whether local, expat, or visitor. Investor.ge welcomes readers’ input; if you have any ideas or suggestions for the series, please contact the editor.
Film in Georgia has had a glorious history – Georgian cinematographers have been on the cutting edge of filmmaking since the silent movies of the early 1900s. Now, after nearly 20 years of struggle, there is hope it is on the brink of its big comeback.

Today, movies like “In Bloom,” – Georgia’s submission for Best Foreign Film in the 2014 Oscars – “Tbilisi, I Love You,” and “Tangerines” are pushing Georgian cinema back into the international spotlight.

While Georgian film has struggled for nearly two decades, all has not been silent on Georgian sets: committed film makers like Tina Gurchiani (The Machine Which Makes Everything Disappear), Nana Jorjadze (A Chef in Love), Alexander Kvatashidze (See You in Chechnya), Ketevan Machavariani (Salt), Giorgi Ovashvili (The Other Bank), Levan Tuberidze (Trip to Karabakh) – and many, many others – have been producing award winning work for years, despite little financing or support.

But the transition to the post-Soviet international film industry has not been an easy one. Today, however, with some successful international collaborations and cinema festival circuit winners, the business of Georgian film making is starting to gain traction.

And, if the latest success, “In Bloom,” is any indication, the future will be bright. Written and directed by Nana Ekvtimishvili and her husband/co-filmmaker Simon Gross, the 2013 film about two girls growing up in Tbilisi in the gritty days of the 1990s, has already won a dozen international awards, including prizes at the Paris Cinema International Film Festival and the 48th Karlovy Vary International Film festival.

Nika Agiashvili, who, together with his father Davit, brought Hollywood actors Ron Perlman and Malcolm McDowell to Tbilisi, said he believes Georgia is “coming up” in the international film community. The Agiashvili family is pushing Georgia past the art cinema scene to a wider audience with “Tbilisi, I Love You,” a montage of ten films that is part of the international “City of Love.”
franchise that has produced “Paris, I Love You” and “New York, I Love You.”

“I think a lot of good movies are being made now, I think that we have some very talented directors and film makers. We believed that when we first started making the project a year and a half ago,” he said.

“I think things are looking better, I think there have been quite a few international productions - some that have been publicized some that haven’t been much publicized… I think Georgia is coming up.”

But after decades of producing film financed by the state, what the Georgian film industry needs now is more business sense, Agiashvili said.

“Here they are used to the government funding the movies so there are very few private investors…when it is a foreign investment…you have to return this investment. You have to look at it creatively and business wise,” he said.

“Here, you look at it a little bit more from a creative stand point…which is great for a director but it is not so great for producers and investors.”

To develop the industry as a business, Georgia Film, the birthplace of Georgian film, brought on Gela Andrew Suli as the new CEO in 2013. Suli noted that at the end of the Soviet period, the movie industry in Georgia was a major employer, with a reported over 2000 people working, making movies, film sets, scripts, and musical scores. In a just a few years, however, it had shrunk to nothing.

The job now, he said, is to turn the history of Georgian film – the brand of Georgian film – into a profitable business. To do that, Georgia Film is undergoing a top to bottom audit, determining what the studio still owns and what property it can use. Georgia Film is also in consultations with the Ministry of Finance to draft a law to help attract foreign film productions to Georgia.

“Georgia has a lot of potential … there are very good ingredients you can sum up and get people to come here and make movies,” Suli said. “We have to develop the service sector, we start from there.”
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56 Annual Burns Dinner
The officers of AmCham Georgia, Sarah Williamson, Michael Cowgill, and Irakli Baidashvili, the Co-Chair of the Commercial Law and Tax Committee Ted Jonas and Executive Director Amy Denman represented AmCham at a meeting held by Prime Minister Irakli Gharibashvili on January 15. The meeting was attended by limited representatives of various business associations and other stakeholders. At the meeting the Prime Minister stressed, among other issues, the pressing need for Georgia to work towards a balance of trade, his goal to work together with the relevant ministries and private sector to encourage and increase local production quality and quantity, and to draft a comprehensive and practical action plan to alleviate poverty and increase employment opportunities.

AmCham Georgia joined the Business Association of Georgia, International Chamber of Commerce, Association of Banks of Georgia, Employers’ Association, EUGBC and NIA to sign a memorandum of understanding at the Courtyard Marriott hotel.

The memorandum outlines four issues the business associations believe are vitally important for the short term improvement of the business environment. In the future, AmCham, together with the other business associations, will cooperate closely with the government and other stakeholders on the following areas: the partial de-criminalization and differentiation of tax-related offences; reform of the investigation department of the Ministry of Finance; development of effective mechanisms for the review of tax disputes; and the improvement of administration of tax inspection.
U.S. Ambassador Richard Norland Meets AmCham Members

U.S. Ambassador Richard Norland provided a candid and in-depth overview of American and Georgian current events during the AmCham Georgia roundtable at the Tbilisi Marriott on January 22.

Ambassador Norland, an honorary president for the Chamber, spoke about the budget debate in the United States, as well as judiciary reform and the economic outlook in Georgia.

AmCham Georgia also welcomed several new members: Auto Service Caucasus; TMC Global Professional services; Aversi-Pharma; Gebrüder Weiss; and Lemondo.

National Bank Governor Giorgi Kadagidze: No Concerns Over Currency

The head of Georgia’s central bank fielded questions about recent changes to the Georgian lari, as well as concerns over the current account deficit during the monthly luncheon meeting for AmCham members on February 5 at the Radisson Blu Iveria hotel.

Giorgi Kadagidze, the bank’s governor, provided members with a deep overview of macroeconomic trends in Georgia, covering the changes in the currency, as well as the current account deficit ratio to GDP.

Kadagidze stressed that the trade deficit is not an issue as long as the government has the means to finance it. Georgia, he noted, has a trade deficit of $3.5 bn – and stable revenues from remittances, tourism, and investment.

He also noted that the international trend in currency rates – developing economies are losing investors as the EU and US economies pick up strength – should not affect Georgia.

More information about the country’s macroeconomic policy and indicators is available at www.nbg.gov.ge.

During the meeting, Sarah Williamson announced a call for comments on the government’s social and economic strategy for 2020. All members will receive notice of a working group and are encouraged to respond.
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Corporate A

Auto Service Caucasus Ltd is a Georgian company that has purchased and currently is developing the master franchise rights of the US based Precision Tune Auto Care (PTAC) in the south Caucasus, starting from Georgia. PTAC, with headquarters in Leesburg, VA, has been in automotive business over 35 years and is a global player within 350 professional franchised facilities in 6 countries. PTAC offers a full array of automotive maintenance, repair and scheduled car-care services, specializing in convenient maintenance with expert under-hood and under-car repairs. PTAC provides a brand-neutral approach that services vehicles made by virtually all US, European and Asian car manufacturers. PTAC has proven international operating system and in Georgia will offer a world-class management, sales and technical training international certification programs through Precision University at Tbilisi regional center.

PTAC franchise development in Georgia was financed by the Overseas Private Investment Corporation and is the first franchise project financed by the Bank of Georgia. The project envisions the build-out of four separate service centers ub Tbilisi, Rustavi, Kutaisi and Batumi. In Georgian PTAC franchise will slightly change its name and do business as Precision Auto Service. The flagship Precision Auto Service will be located on Shalikashvili Street, across from the US Embassy.

www.precisiontune.com

Corporate A

TMC is a leading logistics and global professional services provider in Central Asia, the Caucasus and surrounding regions that provides effective solutions to help government, non-government and commercial clients meet their most challenging needs in the global markets. With offices in Russia, Ukraine, Georgia, Azerbaijan, Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, Afghanistan and Romania, TMC is uniquely positioned to solve your most challenging needs in these regions. TMC has successfully operated in 70+ countries and continues to expand its global footprint.

www.tmcservices.com

Corporate B

AAversi is the leading healthcare provider in Georgia. Its mission is to be the most valued and trusted healthcare organization for its customers, patients, partners and colleagues.

The company’s core values are based on trust, honesty, integrity, quality and caring for the well-being of the patients and customers.

Currently Aversi is involved in pharmaceutical wholesale/retail business, pharmaceutical production, hospital management and insurance businesses.

The company holds GMP/FDA standards for its pharmaceutical manufacturing plant and ISO: 9001 for Aversi Clinic.

Aversi’s business philosophy is to provide the society with high quality, affordable healthcare products/services and sustain a leadership position through continuous development.

www.aversi.ge
Corporate B

CanArgo is involved in oil and gas exploration in Georgia since 1996. Since then CanArgo intensively carries out very active exploration and development works and has invested more than 200 million USD in Georgian oil and gas industry. CanArgo holds a 100% Contractor’s interest in four production sharing contracts (PSC/PSA) in Georgia totaling 607,113 acres. All of CanArgo’s oil and gas operations are performed through its wholly owned operating company, CanArgo Georgia, which is almost entirely Georgian staffed and managed employing around 200 experienced staff. CanArgo Georgia has its own drilling rigs and equipments and drilled most of its own wells. CanArgo Georgia was the first company introducing horizontal drilling and other up-to-date technologies in Georgia. Since 1996 the company has drilled a total of 6 horizontal wells on the Ninotsminda Field resulting in a significant increase in oil production, has participated in several deep exploration wells with new oil discoveries in the Manavi and Norio areas, which are currently undergoing heavy appraisal and development work.

www.gw-world.com

Corporate B

Throughout the world Gebrüder Weiss can be found in 28 different countries with 162 locations and about 6000 employees. The company is regionally focused on Europe, Eastern Europe, Asia and the USA. Gebrüder Weiss’s global network is complemented by numerous strategic partnerships and solidarity companies, which allow Gebrüder Weiss to offer its customers the entire services range of the transport and logistics sector.

Gebrüder Weiss Georgia offers land transport, air and sea freight as well as logistics solutions.

Corporate B

Lemondo is one of the leading and fastest growing developer, distribution and publishing company of mobile games and apps worldwide based in Tbilisi, Georgia. The company has two business lines:

Lemondo Entertainment - development comprehensive apps and mobile games for Apple iOS, Google Android and Windows Mobile markets worldwide.

Lemondo Business - daughter company of Lemondo that was founded in 2012 and is actively working on different projects on local and regional markets with big name companies. Lemondo Business delivers delivers complex mobile solutions for finance, telecommunications and other sectors in Georgia.

www.lemondo.com
AmCham Company Members as of February 2014

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7 Bambis Rigi St., 0105
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UGT
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www.ugt.ge

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Tel: 2208080
www.precisiontune.com

■ Avon Cosmetics Georgia LLC
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■ F H Bertling Georgia Ltd.
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Tel: 2252287
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Tel: 2987624, Fax: 2923592
www.betsyshotel.com

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Tel: 2481348; Fax: 2481349
www.boozallen.com

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■ Catoni & Co. Georgia
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Tel: 2989230; Fax: 2922264
www.hapag-floyd.com

■ Caucasus Trading
Apt 11, Bid 7, 16 Ktsiani St.
Tel: 14433030083; Fax: 1443378838
www.caucasustrading.com

■ Caucasus University
77 Kostava St., Bid.6, 4th fl.
Tel: 237777; Fax: 2313226
www.cu.edu.ge

■ CGS Group
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www.cgsgeorgia.com

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■ Deloitte
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Tel: 2244566; Fax: 2244569
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■ Diplomat Georgia
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Tel: 2984905
www.diplomat.ge

■ Economic Prosperity Initiative (EPI)
8 Samgebro St.
Tel: 2438924
www.epigeorgia.com

■ EY
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Tel: 2439375; Fax: 2439376
www.egey.com

■ FINCA Georgia
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Tel: 2207410
www.fincageorgia.com

■ Frontera Resources Georgia
12 Paliashvili St.
Tel: 2254212
www.fronteraresources.com

■ Georgian American Alloys, Inc.
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Miami FL 33132 USA
Tel: (1)3053757560
www.gaalloys.com

■ Georgian American University
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Tel: 2206520; Fax: 2206519
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■ Georgian Audit & Consulting Company
Axis Business Pt, 2 Gamrekeli St.
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www.gacc.com.ge

■ GIM Group
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www.tbc.com.ge

■ TMC Global Professional Services
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Albuquerque, NM 87110, USA
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www.tmcservices.com

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www.groupaliance.ge

■ Assecco Georgia
21 I. Mosashvili St., 3rd Floor
Tel: 2720901
www.assecco.ge

■ Aversi Pharma
148/2 Agmashenebeli Ave.
Tel: 2987860
www.aversi.ge

■ GZ American Academy in Tbilisi
Lisi Lake surrounding territory
Tel: 2227441; Fax: 2278899
www.gaat.ge

■ Bagebi City Group
49b Chavchavadze Ave.
Tel: 2913152; Fax: 2290169
www.bagebicycl.com

■ Baker Tilly Georgia Ltd.
Meidan Palace, 44 Kote Abkhazi St.
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■ Bank Constanta
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■ Bank of Georgia
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www.bog.com.ge

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Tel: 2922922; Fax: 2965848
www.basisbank.ge

■ Radisson BLU Iveria Hotel
1 Rose Revolution Sq.
Tel: 2402200; Fax: 2402201
www.radissonblu.com

■ SEAF Management LLC
7, Niko Nikoladze St. II Floor.
Tel: 2998115; Fax: 2923533
www.seaf.ge

■ Sheraton Metechi Palace Hotel
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Tel: 2772020; Fax: 2772120
www.sheratonbilisi.com

■ T&K Restaurants (McDonald’s)
1 Dzembri Kakabdebi St.
Tel: 2921248; Fax: 2224222
www.mcdonalds.ge
AmCham celebrated our anniversary in high style on Saturday, February 15th at the Funicular Ballroom overlooking Tbilisi. AmCham members, Georgian government ministers and officials, ambassadors and special guests celebrated the night with a champagne reception, a gorgeous four course dinner, a fabulous raffle drawing and a live band and a DJ show and party favors. The party was a celebration of all AmCham has done, and all AmCham is – but first and foremost it was to honor all of our members, past, present, and future. You make us what we are. In addition, we want to say a very special thank you to all of our generous sponsors who made the evening possible: Asseco Georgia, Bagrationi, Borjomi, BP, Courtyard Marriott, Deloitte/EY, Geocell, Gulf, Holiday Inn, Liberty Bank, Marriott Tbilisi, Metechi Palace, Microsoft, Pepsi, Precision Auto, PWC, Radisson Blu Iveria, Sante, Sheraton, TBC Bank, Teliani Valley, UGT, Wissol.
AMCHAM CELEBRATES
AMCHAM CELEBRATES
AMCHAM CELEBRATES
On 1st February, the Sheraton Metechi Palace Hotel once again wined and dined a sold-out crowd of 275 members of the diplomatic and business communities, who gathered for the 5th annual Tbilisi Charity Gala Burns Supper & Ball to celebrate the birth of Scotland’s most famous poet, Robert Burns. The guests were treated to the Scottish bagpipes, Burns Poetry and traditional toasts, and for the 5th consecutive year danced to live music sponsored by KPMG from the Glencraig Scottish Dance Band, who flew in especially for the occasion. The live auction of art and other unique lots by auctioneer extraordinaire, Cliff Isaak, together with a Grand Raffle with prizes donated by kind donors including Chateau Mukhrani, Radisson Blu, Sheraton Metechi Palace, Betsy’s Hotel, the British Embassy and KPMG helped the event to raise a record amount once again – over 34,000 lari. This was in
addition to the generous 36,000 lari donation from Omega Motors from the sale of a mini for charity, given to the Burns Supper beneficiaries upon the recommendation of the British Ambassador, Alexandra Hall Hall, bringing the total funds raised to approximately 70,000 lari. None of this would be possible without the generosity of our many sponsors and donors. Funds raised from the 2014 Tbilisi Gala Benefit Burns Supper and Ball will support the Temi Community helping socially vulnerable people in eastern Georgia; the International Women’s Association of Georgia, which assists various charitable projects around the country – this year the focus is on helping pre-school children (and their families) with conditions such as Down’s syndrome, cerebral palsy and autism; and Dog Organization Georgia & the Homeless Pets Help Organization, which provide shelter for stray animals along with sterilization, immunization and adoption programmes.
Michael Cowgill, First Vice-President
In his 15th year in Georgia, Michael Cowgill is the President and co-founder of Georgian American University (GAU) in Tbilisi, Georgia, with schools of business, law & social sciences, natural sciences & engineering and liberal arts & humanities. He also continues to develop international energy projects which he has done for the past 38 years in over 40 countries.

Irakli Baidashvili, Vice-President & Treasurer
Irakli Baidashvili is the Senior Vice President of GMT Group. The company is one of the largest US direct investments in Georgia, the owner of two Marriott hotels, production facility SANTE and several major real estate sites in Tbilisi.

Neil Dunn, Director
Neil Dunn is the general manager of BP Georgia since October 2008. He has 30 years of experience in the oil and gas industry, having various engineering and operations assignments.

Lasha Gogiberidze, Director
Lasha Gogiberidze is a founding partner of BGI Advisory Services Georgia and the director of BGI Legal. Previously, Lasha worked at Ernst & Young’s Georgian office. Lasha graduated from Tbilisi State University, has a LL.M. from the University of Illinois, and is licensed to practice law in NY state.

Steve Johnson, Director
Steve Johnson is the proprietor of Prospero’s Books and the General Manager of The Hotel Betsy. Prospero’s Books and Caliban’s Coffee House is the leading English language bookstore in Georgia.

Robin McConne, Director
Robin McConne is a NZ lawyer. He leads PwC’s tax and legal practice in Georgia and Armenia. He has been with PwC mainly based in CEE countries for over 16 years. Prior to moving to Tbilisi he spent two years in New York as the leader of the CEE Desk. He looks forward to utilising his large international network in his role as a board member.

Ketti Kvartskhava, Director
Ketti Kvartskhava is a Partner of BLC Law Office. Her professional experience includes her work as a Commercial Law Advisor at the USAID Georgia and as an instructor at Tbilisi State University. She also worked as a Legal Counsel for the US-Georgian Commercial Bank JSC Absolute Bank and JSC Transcaucasia Bank.

Ketti Kvartskhava, Director
In Tbilisi since June 1998, Sarah Williamson is the co-owner and Vice President of United Global Technologies (UGT), the largest IT company in Georgia.

Board Of Directors 2014

Ketti Kvartskhava, Director
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K.G. Moore, Ex-Officio Member
K.G. Moore is Deputy Chief of Political and Economic Affairs and Senior Economic Officer at the U.S. Embassy in Tbilisi. Prior to arriving in Tbilisi he served as the Senior Georgia Desk Officer at the Department of State in Washington and worked in the Department’s Office of United Nations Political Affairs, which focuses on UN Security Council matters.

Amy Dennman, Exec. Director
Amy Dennman came to Georgia in 1996 from Chicago where she worked in the Marketing Department in the secondary education division of publishing company Houghton Mifflin. After working for the IFRC for a year, she became the coordinator then the founding Executive Director of the Chamber.
BGI is top-ranked in Georgia by all leading international legal directories in every practice area covered.

For more information contact joint managing partners Zaza Bibilashvili (zaza.bibilashvili@bgi.ge) or Lasha Gogiberidze (lasha.gogiberidze@bgi.ge)

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ENERGY AND BEYOND

DLA Piper’s experience in the Energy sector combines our knowledge of local energy opportunities with our broad global capabilities. Our practice delivers first-rate legal services for electric power services, hydrocarbon pipelines, oil and gas exploration and production, and project-related development and finance.

We take a proactive, commercial approach by assembling teams from various practice areas to provide a full range of service offerings.

Our lawyers have been at the forefront of the development of the Georgian energy sector since the early 1990s, when we were engaged by a consortium of international petroleum companies to provide Georgian legal services for the first Transcaucasian hydrocarbon pipeline built in the post-Soviet era.

We are still working to build Georgia’s energy future today. In the past 5 years the firm has worked on the financing of a hydropower plant by two multilateral development banks; the acquisition of a strategic stake by a global energy company in one of the two largest hydropower projects under construction in Georgia today, investment in two small and medium HPPs, and numerous upstream oil and gas projects.

Our key service offerings include:

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- Comprehensive due diligence on energy assets and companies
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- Mid-stream commercial agreements
- Litigation and arbitration of energy-related disputes
- Strategic advice on planning, development and permitting of projects
- Legislative, political and regulatory advice and services
- Acquisitions and disposals of energy-related assets