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GEORGIA 17TH HIGHEST COUNTRY FOR SAFETY

Georgia ranked in the top 20 out of 142 countries for security, according to a poll by the American research company Gallup, agenda.ge reported on June 29.

The survey, known as the Law and Order Index, uses four questions to evaluate locals’ “sense of personal security and their personal experiences with crime and law enforcement,” according to the report.

The questions are: In the city or area where you live, do you have confidence in the local police force?; Do you feel safe walking alone at night in the city or area where you live?; Within the last 12 months, have you had money or property stolen from you or another household member?; Within the past 12 months, have you been assaulted or mugged?

Georgia received a score of 87, ranking 17th place; Singapore was the most secure country according to the survey.

GEORGIA, HONG KONG SIGN FREE TRADE AGREEMENT

Georgia and Hong Kong signed a Free Trade Agreement on June 28, agenda.ge reported the same day.

Under the agreement, Georgia will remove 96.6 percent of its tariff lines on products from Hong Kong, the article said.

The article quoted Secretary for Commerce and Economic Development of Hong Kong Edward Yau as saying this was the first free trade agreement between Hong Kong and any country in the Caucasus.

GEORGIA, CHINA START JOINT FILM PRODUCTION

A memorandum of understanding has been signed between Georgia and China for joint film production.
New Associate Partner Announcement at EY Georgia

EY Georgia is pleased to announce that, effective 1 July 2018, we welcome George Svanadze as an Associate Partner who is taking a leading role in further growth of our EY Law practice and building a better working world. The promotion recognizes George’s contribution to our law practice and demonstrates our ambition to be the leader in the Georgian legal market.

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been signed between Georgia and China to boost ties in the film industry, agenda.ge reporting on June 25.

The memorandum was signed during the 2018 Shanghai International Film Festival, the article said.

The first Georgian-Chinese film was also agreed to during the film festival; the film will tell the story about how two Chinese men first brought tea to Georgia.

A Chinese television show, The Mask, is also currently being filmed in Georgia, according to the article.

NEW HIGHWAY BYPASS OPENS NEAR BLACK SEA RESORT

A new 18-kilometer road was opened by Prime Minister Mamuka Bakhtadze on June 25, agenda.ge reported the same day.

The new road will reduce traffic on the coastal road that travels through the popular Black Sea resort of Kobuleti. It will also shorten the driving distance from the capital Tbilisi to the Black Sea port city of Batumi by an estimated 20 to 30 minutes.

The road’s construction was financed by the Asian Development Bank.

GEORGIA’S ECONOMY GROWS 6.1 PERCENT IN FIRST HALF OF YEAR

The Georgia economy has grown 6.1 percent from January through May, agenda.ge reported on June 29, quoting GeoStat, the national statistics office.

Sectors that posted the highest growth during the five-month period included transport; manufacturing; trade; finance; and hotels and hospitality.

The government has forecast a 4.5 percent growth this year, the article said.

GOVERNMENT TO CUT SPENDING - PRIME MINISTER

Prime Minister Mamuka Bakhtadze has announced that government spending next year will be less than 3.9 percent of GDP, a reduction of around $40 million, agenda.ge reported on June 26. The Prime Minister also plans to reduce the number of government ministries from 14 to 11.

OMAN AIRLINE ENTERS GEORGIAN MARKET

Oman’s budget airline Salam Air is starting direct flights between Muscat and Tbilisi, agenda.ge reported on June 26, citing the Georgian Civil Aviation Agency. The flights will be offered three times a week, on Tuesdays, Thursdays and Saturdays. The new route is seasonal, and is planned to continue for this summer until October 27, 2018, the report said.
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Infinity Energy became interested in investing in Georgia after hearing about the country’s wind energy potential at an EBRD conference.

Jointly owned by Austrian Ivicom Holding GmbH and Georgian Consul- team Ltd., Infinity Energy is considering building an up-to-420-megawatts (MW) wind farm project in Imereti, with a capacity of 200 MW in its first stage and the rest in the second stage. Imereti is part of the Black Sea – Caspian Sea wind tunnel, which means there are good indicators for wind conditions in terms of energy production. Kresimir Condic notes Georgia’s potential as a provider of wind-based energy and says that a memorandum of understanding has already been signed with the Georgian Ministry of Energy. Now the company is in the process of studying the wind conditions and investigating the potential environmental impact of the wind farms on the surrounding areas. Based on the study conducted, the selected territory is favorable in terms of environmental impact, as it is neither the primary, nor secondary route for migrating birds. It is also remote from the local population. Potentially, if all goes well with final negotiations with the government, construction on the project could begin in spring-summer 2019.
NINO BAKRADZE

Everyone who has ever used Siri or Alexa can attest to how great chatbots can be—and how frustratingly limited they can be.

Artist Zura Jishkariani and programmer Sandro Asatiani have taken those limitations head on and are creating chatbots as eloquent and erudite as a poet.

Actually, their first creation was a poet—the well-known Georgian poet Galaktion Tabidze.

Ilia State University was quick to appreciate its potential: the University ordered its own chatbot and the pair delivered Una.

“Una is full-time staff member at the University now. It became a very successful project because Una reduces the time, energy and resources the administration had to spend on answering students’ questions,” Asatiani said.

“That’s why we think chatbots are the future of business: generally, communication by words is natural for humans and instead of clicking some images on the computer, it is more comfortable to tell someone what to do and then wait while this digital creature fulfills your request. Now technology is changing and turning to verbal communication more and more,” he added.

FUTURE OF BUSINESS

When this team started working on chatbots, they were not targeting them for commercial purposes. But Jishkariani noted that the technology is a perfect fit for modern businesses because it allows them to communicate—if only they didn’t sound so android.
“We very much wanted to change the behavior of chatbots and teach them how to talk to humans. Anima means the “soul” and we want to create digital creatures with a “soul.” Zura is a writer and he understands how to communicate with people, how to write dialogues better and how to make characters more intelligent,” says Asatiani.

FROM CUSTOMER RELATIONS TO TOUR GUIDE

The startup is funded by the Agency of Innovation and Technologies in Georgia and will be available for clients by December. Currently the technology is not cheap—10,000 lari for a custom-made chatbot—but Anima chatbots can be hired for $30 a month.

Some large companies are already interested, Asatiani and Jishkariani said. “On our webpage, clients can choose which chatbot they want. We will name chatbots like “Giorgi, 27 years old,” “Samantha, 30 years old” and each of them will have different basic knowledge. The interface will be as simple as children’s drawings, so it will be equally understandable for children and for elders with basic computer skills,” says Jishkariani.

In addition, the team is working on a Tbilisi chatbot that will allow people to talk to the city and ask it about the capital’s history and weather as well as different activities and events planned in the city during their stay.

The chatbot will also be able to provide advice about routes and tours that are the best fit for an individual based on the user’s responses to a set of questions. “We plan to present the Tbilisi Chatbot at the Frankfurt Book Fair in the fall. We will invite people to try this chatbot, and try to sell our projects there as well,” says Asatiani.
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For the fourth column in the series, Investor.ge spoke with Joao Hrtoko, Partner and Managing Director of Boston Consulting Group (BCG), about the firm’s proprietary Sustainable Economic Development Assessment (SEDA), a diagnostic tool that “assesses the relative well-being of countries.” SEDA uses 40 indicators over 10 dimensions to “flag relative positions and weaknesses, to point to the need for further analyses of causes and possible remedies,” according to Hrtoko.

Georgia ranked 60 out of 152, an improvement from previous years.

JOAO HRTOKO ON HOW WELL-BEING CONVERTS TO ECONOMIC GROWTH:

“BCG has produced the Sustainable Economic Development Assessment (SEDA) reports annually since 2012 — HDFK\HDUIRFXVLQJRQDQHZ¿QGLQJ,Q previous years, we’ve done deep dives on private sector opportunity to improving well-being, inequality and the effects on well-being, etc. This year, we wanted to test whether improving well-being
takes a toll on the economy. Rather than our findings going against what many countries have done, we would argue that was has been missing is the awareness of the potential ‘win-win.’ Our analysis simply compared the growth rates of countries that perform well at converting wealth into well-being with that of other countries and found that those countries performing better on well-being also tended to grow faster over the decade we analysed.”

**HRIDKO ON GEORGIA’S RANKING IN THE REPORT:**

“Georgia has improved considerably in the rankings over the last 10 years, moving from 74 to 60, a gain of 14 positions. Georgia has done quite well over several dimensions. It improved well in education, where it now ranks 39 overall. And it has shown major gains in three other dimensions: Governance, Infrastructure and Employment (albeit from a low starting point). In general, our overall findings suggests that there are strong complementary effects across dimensions, so the best way to improve radically is to make progress in all dimensions. But SEDA is also meant to serve as a diagnostic tool and those dimensions in which a country is weakest should receive special emphasis in terms of policy reform and investment—as relevant.”

**HRIDKO ON HOW POLICY, NOT JUST ECONOMIC WEALTH, AFFECTS CITIZENS’ WELL-BEING:**

“We view well-being as a result of two things:

1. Wealth: countries with higher income levels can afford to do many more things to improve their citizen’s well-being;

2. Performance in converting wealth into well-being: The coefficient that we use in SEDA to measure this provides valuable insights on whether a country is making the most of its resources, and SEDA can help identify priorities for progress (and, where needed, for remedial action).

This performance reflects the cumulative impact of policies, institutions and investment priorities, and improving it can magnify the effect of economic growth for well-being.

Furthermore, SEDA also shows that countries at similar income level can have quite different levels of well-being. It is possible to create well-being with the resources a country has at hand.

This is a direct result of policy choices that are better designed to transform/convert wealth into well-being.”
New Georgian Prime Minister Mamuka Bakhtadze has overhauled the country’s economic team on his streamlined cabinet.

Bakhtadze was named prime minister in June after Giorgi Kvirikashvili stepped down from the post.

The new PM reduced the number of ministries in the country from 14 to 10 as part of the government’s new “flexible” and “small government” policy.

The changes are predicted to help the government cut costs and Bakhtadze said the new, smaller cabinet will help “ensure a close link between education and economy.”

Under the new structure, the Ministry of Culture and Sports merged with the Ministry of Education and Science.

“This is a very important reform. As you know, the main priority for us in Georgia is human beings, care about them and the creation of human capital. Therefore, achieving a high level of coordination in the fields of education, culture and sport is of high importance for us to achieve this goal,” Bakhtadze said during a live televised news briefing broadcast on Rustavi-2 TV channel on 26 June. Other changes included merging the corrections ministry with the Ministry of Justice and the ministry that formally dealt with issues concerning internally displaced persons was abolished. Its functions were split between the Ministry of Regional Development and Infrastructure, the Interior Ministry and the Ministry of Labor, Healthcare and Social Welfare.

MEET THE MINISTERS

Former CEO of the Geocell mobile operator, Ivane Machavariani, was named finance minister.

Machavariani has said that under his watch, the Finance Ministry will take a “leading role in the implementation of the reforms, first and foremost in the implementation of a small government”.

Machavariani started at GeoCell in 1997 as a specialist in the company’s financial department. He became GeoCell’s CFO in 2006, and was named CEO in 2013. Giorgi Kobulia, who worked for the Moscow office of McKinsey and Company, is the country’s new economy minister. In comments to the press, Kobulia said he will strive to ensure economic growth, with special attention to the development of villages and regions outside of capital Tbilisi. Kobulia received his master’s degree in business administration at the Business School of the Emory University in Atlanta, Georgia, United States. He started at McKinsey and Company as a consultant following graduation, working his way up to the position of Chief Partner.

He provided consultant services regarding the economic issues for the leading and large-scale companies assisting them in solving problems in strategic management systems and production” while he was at McKinsey and Company, according to his official biography.

The head of Business and Technology University based at Silicon Valley Tbilisi, Mikheil Batiashvili, is the new head at the expanded Education and Science Ministry as it takes in the functions of the Ministry of Culture and Sports.

Batiashvili is a psychologist, associate professor of Business Administration and a long-time member of The Institute for Strategy and Competitiveness at Harvard Business School.

He helped establish the Business and Technology University at Silicon Valley Tbilisi and served as the head of the university from 2016-2018. Prior to that, Batiashvili worked as the dean of the Business School at Ilia State University.

All other ministers retained their posts.

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GEORGIA IN MID-2018: A Positive Economic Trend Continues

In 2017, the Georgian economy grew well. By mid-2018, economists have observed a continuation of this trend. GDP increased by 5 percent in 2017, and during the period of January-May 2018, growth even accelerated to 6.1 percent. This economic growth is broad-based—agriculture is the only exception to this growth, with a decline in 2017.

Dr. Ricardo Guicci, Niklas Dornbusch, German Economic Team Georgia

Inflation in Georgia now amounts to a moderate 2.5 percent. It can be expected that the National Bank of Georgia will largely meet its inflation target of 3 percent in 2018. Thus, the country enjoys price stability.

After a significant depreciation in autumn 2017, the lari has regained value, without sizeable interventions by the National Bank of Georgia. A flexible exchange rate is essential for stability, even though the National Bank of Georgia has been repeatedly criticized for this policy.

Georgia’s external trade strongly expanded in 2017 and during the period of January-May 2018, boosted by the regional economic recovery. Last but not least, Georgia’s fiscal situation is stable, with its budget deficit amounting to 2.9 percent of GDP in 2017.

Against this background, the smooth implementation of the IMF programme and the upcoming disbursement of the IMF’s third tranche of credit do not come as a surprise.

High Economic Growth

Georgia’s real GDP growth amounted to 5.0 percent in 2017. In 2018, this positive economic trend has continued. According to preliminary estimates, Georgia’s economic growth amounted to 6.1 percent year-over-year (YoY) during the period of January-May 2018. For 2018, the IMF foresees a further expansion of economic growth of 4.5 percent. Local investment banks even expect 5.4 percent growth.

Real GDP Growth

In 2017, growth was broad-based, driven by private consumption, investment and net exports. On the supply side, the picture was different. Services (6 percent) and industry (4.5 percent) increased significantly in 2017, while agriculture declined by 2.7 percent. This sharp disparity is a clear sign of structural problems and shows a need for vast reforms in the agricultural sector.

Price Stability

In 2017, inflation amounted to 6.0 percent and has thus exceeded the National Bank of Georgia’s inflation target of 4.0 percent. Importantly, the underlying reasons for this development have a fiscal rather than monetary nature. In the beginning of 2017, excise taxes for petroleum, cars, tobacco and gas significantly increased, and this in turn affected consumer prices.

Now, however, inflation declined significantly and amounted to only 2.5 percent (YoY) in May 2018. The increase of the policy rate by the National Bank of Georgia in 2017 has most likely contributed to this stabilization.

The National Bank of Georgia Policy Rate

Due to the effect of high excise taxes and the tight monetary policy, National Bank of Georgia’s inflation target of 3.0 percent will most likely be met in 2018.

In order to sustainably reduce dollarization in Georgia, the long-term stabilization of the inflation rate at a low level is essential. Currently, high dollarization poses a significant risk to the country’s macroeconomic and financial stability.

Lari Appreciates After Seasonal Fluctuations

In autumn 2017, the lari significantly depreciated versus the U.S. dollar, with the exchange rate increasing from 2.4 to 2.7 GEL/USD.

This depreciation caused concern and many debates, including discussions about the exchange rate policy of the National Bank of Georgia.

Now, the exchange rate has “normalized” and equals 2.5 GEL/USD (as of June 2018).

Apparently, the depreciation was caused by seasonal factors (energy imports and fewer tourists in autumn/winter).

It was important that the National Bank refrained from any major interventions on the foreign exchange market in order to support the local currency. Instead, it allowed the exchange rate to fluctuate and informed the public that the exchange rate can go both ways: upwards and downwards.

This is also important in order to sustainably reduce dollarization.
EXTERNAL TRADE
In 2017, Georgian exports profited from the regional economic recovery and increased by 29.1 percent. Georgian imports increased by 9.4 percent.

These dynamics continue in 2018, with significant export growth in the period of January-May, especially to Azerbaijan (+156 percent), Ukraine (+93 percent), Armenia (+36 percent) and Russia (+13 percent). Also, exports to the EU further increased by 14 percent. Increasing exports are a welcome development, especially considering the still-significant trade deficit of 11.7 percent of GDP in 2017.

Export promotion remains a key target of the government.

REASONABLE BUDGET DEFICIT
Finally, the country’s budgetary situation appears to be stable. Georgia’s fiscal deficit amounted to 2.9 percent of GDP in 2017 and is supposed to decrease to 2.3 percent by 2022. This planned fiscal consolidation is remarkable, given that public investment is planned to increase significantly at the same time. That combination is planned be realized through significant reductions in consumptive expenditures, from 26 percent of GDP in 2016 to 20.6 percent of GDP in 2022. Such a shift in fiscal spending, however, is only possible due to the country’s high economic growth.

This clearly indicates the interdependence between the economic and the fiscal situations.

OUTLOOK
Georgia’s positive economic situation has decisively contributed to the smooth implementation of a three-year IMF programme, which includes a $258 million loan to be disbursed in several tranches.

The upcoming third tranche amounts to $44 million. The strict implementation of practically all IMF conditions is a welcomed development. While public discussion in Georgia is often critical of developments and policy, the country does stand out positively in this regard in comparison with practically all of its neighbors.

This, too, is an aspect that should be factored into a comprehensive assessment of developments.

The German Economic Team Georgia has been supporting the Georgian government in designing its reforms since 2014.

For more analysis on economic development and reform see the German Economic Team website at https://www.get-georgia.de/.

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Since 2009 CMC has successfully completed 50 projects, with overall cost of more than 1.07BLN USD.

At the present moment company has 17 ongoing projects with overall cost of up to 300 MLN USD.
In early June, UNICEF published the results of its biannual Welfare Monitoring Survey. Some of the headline findings, such as the increase in children growing up in poverty, drew much public attention. In social media, the findings sometimes were truncated to “poverty in Georgia is up,” and some commentators saw this as an indictment of recent government policy. Yet a closer look at the data (available at http://bit.ly/UNICEF-WMS-2017) highlights that there are many positive trends in Georgia. Over the longer term, poverty seems to be decreasing. Certainly, many households are better off than they were a few years ago. Arguably, this illustrates that, overall, Georgia is on a sensible course.

Among other things, the UNICEF data shows that incomes in Georgia have increased quite sizably between 2015 and 2017. According to the UNICEF survey, mean annual nominal income increased from 609 GEL to 772 GEL in those two years, which constitutes a 27% increase. If this data is accurate, that would be a sizeable 13% year-over-year jump. UNICEF also highlights that income inequality seems to have decreased slightly, which runs against much of public received wisdom.

Other data seems to corroborate a positive long-term trend. The Caucasus Barometer, a survey by the Caucasus Research Resource Centers (with which the author used to work) has found that over the past several years, many households are much better off. Many indicators (see http://caucasusbarometer.org/en/) point in that direction: In 2008, 64% of households said they had a refrigerator. In 2010, that number had climbed to 89%. In other words, another 25% of the population has been able to afford a refrigerator. Similarly, 24% of households claimed to own a car.
in 2008. By 2017, 37% of households claimed to own a vehicle. Tbilisi traffic jams seem to illustrate this change, too. We see an even more dramatic rise with washing machines, also essential for automating household chores: in 2010, 30% of households had a washing machine. By 2017, this number had more than doubled to 71%.

Such improvements don’t always mean that households think they are better off, as researchers around the world have found. If neighbors buy a newer fridge, you may feel left behind. Being well-off is a relative concept.

Yet even here, one sees some positive trends. In 2010, 51% of Georgians saw themselves on the bottom four economic rungs (out of 10). In 2017, that number had fallen to 38%, occurring in a steady decrease over the preceding years. Other questions, too, show that households are doing better. In 2008, 35% of respondents said that they had typically had enough money to buy food without borrowing money during the previous six months. By 2017, that number had gone up to 48%.

Positive as that trend is, it also shows a real problem. The economic situation of way too many households is precarious, as nearly half the respondents says that they sometimes have to borrow money to buy food. The UNICEF report, in particular, highlights that one in five children in Georgia grows up in a household in which basic needs are not met. This finding lines up with Caucasus Barometer data: 22% of households say they don’t typically have enough money to buy food. (The reported increases in poverty in the UNICEF report, however, may be subject to debate, as they are close to the margin of error; monetary income data is notoriously difficult to collect; exchange rate fluctuations may play a role, too.)

Targeted social assistance programs will continue to be important to give disadvantaged children a fair chance in life. The problem is particularly acute in rural areas.

Poverty, therefore, does remain very real. At the same time, there are positive trends, too. The reason why these positive trends matter is because they illustrate that many of the country’s economic policies have actually worked over the last 15 years. Good policy can make a difference, even if progress has not come quickly enough for many.

Dr. Hans Gutbrod teaches at Ilia State University and works as an analyst and consultant. He is on Twitter at @HansGutbrod.

For more information:
http://caucasusbarometer.org/en/
It might not be expected that Georgia, right at the beginning of its capital market development and without even a vibrant stock exchange as yet, could impress the 17 million rich individuals targeted by established international wealth management firms. Yet both Bank of Georgia (BoG) and TBC Bank (TBC) are finding a place. Others in Georgia’s banking community, such as Pasha Bank, have looked, but not taken the step.

BoG offers Wealth Management (WM) services to international clients, and brokerage services for them are offered through its broker, Galt & Taggart.

BoG has offices in Israel, Germany, the British Virgin Islands, and the UK, as well as Russia and Georgia, and it plans one for Limassol, Cyprus before the year-end. Currently, its client base comprises 1,000 families with an average of half a million dollars in assets under management. Total funds under management are $640 million (1.57 billion GEL).

Considerable diversification is on offer, with the range of products into which money is invested extending from banking products, such as certificates of deposit, to local and international bonds. Over 2010 to 2017, the compound average growth rate enjoyed by its investors was 27.31 percent.

At TBC, the WM department is also part of TBC Bank, with some products, such as corporate bonds or brokerage, offered through its brokerage, TBC Capital. It too, operates internationally, with the WM department overseeing services for 900 clients from 40 different countries.

How can Georgia compete with the major international names, such as the Swiss banks which have been in this business for centuries? Eka Liluashvili, Head of International Business at BoG Wealth Management names key strengths: “Georgia can offer discretion and very high levels of personal service,” she said.

Plus, Georgian banks have been free of the kind of international banking scandals that have hit many European and U.S. banks.

It is also easy to open an account with Georgian banks and to transfer funds and assets. They meet compliance requirements, the international rules and regulations on care-of-clients having been put in place.

There is a lot of appeal in Georgia for non-resident
Domson’s Engineering is a leading Georgian company specializing in MEP Engineering solutions. We provide MEP systems design, supply and installation services for commercial, residential, industrial, hospitality, education and healthcare sectors. We introduce high standards in the field of engineering to create safe and comfortable environment for customers. It contributes to the development of tourism. Our safety and quality standards are the key to successful execution of works which finally results in comfortable and reliable built indoor environment.

We perform services for projects that meet high levels of certification and compliance requirements of European Standards and execute MEP works accordance with ASHRAE installation and NFPA fire safety standards, in a full compliance with safety norms and environmental care according to ISO 14001.
These days, Georgia can tick the required boxes, with double tax agreements with many countries, international approval for its banking system, tax advantages and its ease of doing business, to name a few. Banks have access to wide-ranging regional and international partners to help extend the products on offer where local experience is lacking.

At TBC, Nini Sturua is Head of the Wealth Management Division for Non-Resident Customers. There, too, clients come via a variety of routes. “There are different sources, some come through client introductions, some from agent referrals, some come themselves after doing their own research, many come because they are somehow connected to Georgia (business-wise, frequent fliers, expats). We also have Georgians who are living and working abroad. And, of course, our representative office in Israel is another source,” she explained.

TBC is also seeing that as the wealth management service groups in traditional centers increasingly find it hard (because of bureaucracies and costs) to service all but the most wealthy clients, there is room for new players. “Georgia offers a variety of products with competitive rates, low costs, less bureaucracy, a customer-centric approach with dedicated bankers and outstanding remote banking channels. Segment entry is also relatively low compared to traditional centers. I think these are the main reasons why clients use Georgia in order to diversify their assets,” she said.

A strong attraction, in this yield-scarce time, is the high level of interest rates that Georgia can offer, despite its relative stability. While clients buy predominantly dollar-denominated bonds, investment in Georgia’s increasing number of lari-denominated corporate bonds gives a superior rate to that available in many other countries. From their domestic strengths, the banks have also been offering property investment. The Bank of Georgia is planning to launch a dedicated investment fund in this sector on the Georgian stock market. It will have an attractive yield that should appeal to overseas investors.

As Otar Sharikadze, Managing Director of Galt & Taggart, points out, Georgia can offer the advantages of an “onshore economy with benefits similar to having funds offshore.”
Southern Gas Corridor: Delivery of Caspian Sea Gas to Europe through Georgia

BP AND ITS PARTNERS ANNOUNCED THE STARTUP OF SHAH DENIZ 2 ON JUNE 30, 2018, INCLUDING ITS FIRST COMMERCIAL GAS DELIVERY TO TURKEY UTILIZING NEW PIPELINE, COMPRESSOR STATIONS, AND METERING FACILITIES IN GEORGIA.
Bob Dudley, BP group chief executive, has called Shah Deniz 2 “one of the biggest and most complex new energy projects anywhere in the world.” The project includes major offshore, onshore and pipeline developments.

**OVER TWO DECADES IN THE REGION**

“The Southern Gas Corridor (comprised of the Shah Deniz 2 in Azerbaijan, the South Caucasus Pipeline Expansion in Azerbaijan and Georgia, the Trans Anatolian Pipeline in Turkey and the Trans Adriatic Pipeline in Greece, Albania and Italy) is one of the largest energy projects anywhere in the world. It will link Caspian resources directly with European gas markets for the first time, diversifying energy markets and creating a new secure source of supply for the region,” Chris Schlueter, Country Manager for BP in Georgia, said.

BP signed its first contract with the Azeri government in 1994. Among the major energy projects developed since then is the Shah Deniz gas field development, launched in 2006, with 9 billion cubic meters of gas per year.

The Shah Deniz 2 development represents the largest foreign direct investment made in the region, and which will be exporting an additional 16 billion cubic meters of gas per year. The Shah Deniz reservoir in the Caspian Sea is the starting point for the Southern Gas Corridor series of wells, offshore facilities, pipelines and other facilities that ultimately will deliver natural gas from the Caspian Sea directly to European markets. Schlueter noted that the new Southern Gas Corridor (SGC) breaks new ground, with gas flowing from the Shah Deniz offshore development through one of the world’s biggest terminals at Sangachal, located southwest of Baku, and through a pipeline network—SCPX, TANAP and TAP, which, when
fully completed, will be twice the length of the BTC project, at 3,500 km. “The Shan Deniz 2 development is one of the most complex challenges ever undertaken by the global oil and gas industry,” Schlueter added.

**FUTURE DEVELOPMENTS**

“We believe there are great opportunities for the region’s future in terms of new developments” Schlueter said.

BP recently extended the Azeri-Chirag-Gunashli (ACG) contract until mid-century. The ACG is the largest oilfield in the Azerbaijan sector of the Caspian basin. “In addition to the ACG extension and SD2 [Shah Deniz 2], BP is currently involved in and is the operator of two exploration projects referred to as the Shallow Water Abershon Peninsula and Shafag-Asiman. BP was also successful along with its partner Sncar in signing a production sharing agreement for an additional prospective area in the Caspian Sea referred to as Block 230. There’s also the possibility for future gas developments both in the ACG and deeper in the Shah Deniz reservoirs,” he said. The Baku-Tbilisi-Ceyhan (BTC), Western Route Export Pipeline (WREP), South Caucasus Pipeline (SCP) and the South Caucasus Pipeline Expansion (SCPX) pipelines that pass through Georgia are critical energy corridor country. “

“Our major energy projects, the Baku-Supsa and Baku-Tbilisi-Ceyhan oil pipelines, as well as the South Caucasus gas pipeline and the current expansion activities (the SCPX project) have significantly changed the energy map of Georgia and the Caspian region. The new Southern GasCorridor will change the energy map of Europe,” he said. BP has invested more than $4 billion in energy infrastructure and sustainable development projects in Georgia, one of the largest of which is the South Caucasus Pipeline Expansion project. “We invested over 2 billion dollars in recent years to build two new compressor stations, a new pipeline, and metering stations in Georgia. 4,500 Georgian citizens were employed at the peak of SCPX construction,” he said. The first commercial gas was delivered via this project on 30 June, 2018, exactly as planned from the onset of the project. This gas leaves Georgia via the SCPX metering station at the Georgia-Turkey border near Akhaltsikhe and continues onwards into Turkey, supplying Turkey’s new TANAP pipeline.

**GEORGIA’S ROLE IN REGIONAL ENERGY SECURITY**

BP’s Chris Schlueter noted that Georgia plays a significant role in the energy security and supply diversity for the region. “Georgia moves one percent of the world’s oil and gas volumes with almost 100% efficiency and reliability,” he said. One percent may not sound like much, but considering this is one percent of the entire demand of the planet, it is huge, establishing Georgia firmly as a critical energy corridor country.

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“Excellent regional cooperation and relationship models built in the region and solid trusting relationships built upon over twenty years of operations in Georgia will remain key to the success of all future opportunities.

BP will continue to work closely with the governments, investors, partner companies, communities and other stakeholders to build on the experience and achievements of our world-class projects. One of my favorite phrases is ‘success builds success,’ and our business in Georgia has exemplified this,” said Schlueter.

The South Caucasus pipeline expansion (SCPX) is a part of the Shah Deniz Development Project and is one of the most important developments in terms of the energy security of Georgia and the larger region. The SCPX construction is making good progress in Georgia and remains on-track for the completely new system to start-up in 2018. In particular:

- Over 4,500 Georgian citizens were employed at the peak of the SCPX project construction. Today about 2,000 people continue to work on the project, including 1,350 local residents.

- More than $2 billion was invested under the SCPX project in Georgia as planned, including $400 million spent on Georgian suppliers and services.

- Hydrocarbons were introduced into the first compressor station (CSG1) near the Azerbaijan-Georgia border in late December 2017 and BP is now proceeding with its start-up activities. The second compressor station’s (CSG2) start-up is planned for late 2018.

- The new metering station (MX81) and the interconnecting pipeline between SCPX and The Trans-Anatolian Natural Gas Pipeline Project (TANAP) are filled with hydrocarbons and are fully operational.

- The 62-kilometer SCPX pipeline extension is completed and filled with gas.

- BP is on track to deliver commitments for the pipeline’s first gas deliveries in 2018.
A working group has been created to start researching how to cultivate grapes and produce wine in space.

It seems natural that the idea to grow grapes on Mars would originate in Georgia. Widely accepted as the cradle of wine, Georgians have been fermenting grapes in this region for over 8,000 years.

Now, a group of Georgian innovators and supporting organizations have launched a program to develop the first grapes that can be cultivated in outer space.

The latest developments in commercializing space—the plans for a manned expedition to Mars, businesses like Tesla and SpaceX investing in space exploration programs—inspired Nikoloz Doborjginidze and other members of the working group to think about what Georgia could do to get involved.

“We thought that Georgia could be positioned quite well in a story where we have a history, but we should go forward, placing Georgia on the map of innovation as well,” he said.

The working group includes Doborjginidze, who is involved in a personal capacity; the National Museum of Georgia; the Business and Technical University; Cosmic Farms; and the Georgian Ministry of Education and Science.

MORE THAN GRAPES

“It might be a little bit crazy to announce that Georgia wants to bring grapes into space but—it’s a long shot but we said we have to start at some point,” he said.

There is a precedent: NASA is already working on cultivating potatoes for Mars in Chile, Doborjginidze noted.

“Our aim is to have the idea and then, as a working group, consolidate all these resources that we have and start to build the scientific research around this,” he said.

“When you think about Georgia, you won’t think only of the guys whose ancestors 8,000 years ago created something, but the also the guys who are struggling and looking forward, maybe 50 or 60 years ahead, and they want to try to do something important and something ... We think that this project will cultivate other side effects,” he said.

The side effects—all the innovations and discoveries that Georgia will have as the project moves closer to its goal of cultivating grapes in space—could help the country find its niche in this new age of technology.

“We are researching the wine and the grapes to be cultivated for the cosmos, but first you need to cultivate them in a closed environment ... Maybe in twenty years it will be so hot that grapes will not be able to grow outside, so why not work on the technology where you can harvest grapes in a closed environment?,” Doborjginidze said.

VERTICAL FARMING

Encouraging innovation and technology at home is an important part of the project, he noted.

“Georgia is lacking in terms of innovation index, and one of the problems is that we don’t have much in terms of research going on.

“So, we need innovation, we need to do something, why not do something that is culturally and historically yours, and that looks beyond tomorrow and that goes further,” he said.

“We live in the fourth industrial revolution, where the pace of innovation is so fast that it is really hard to catch the trends ... Maybe we can find a niche where, again, it is culturally ours and comes naturally to us ... Maybe we can be the best cosmic farmers.”

At this point, the group is looking for grants, with a long-term goal of attracting international investment.

One member of the group, Cosmic Farms, is the in-house farm for the Stamba Hotel in Tbilisi, and which will operate the lab for the project, Doborjginidze said, adding that they are already experimenting with vertical farming.

“The first immediate step is to get the resources available. Right now, we are investing our own human resources, what we have, how we can organize things, but this is not going to be enough. We need grants, we need real scientists to work on these projects,” he said.

“We are setting a high bar aiming for grapes, but you can develop grapes you need to also raise so many things... Just to get to that point. But we will have a mission, and that is the most important.”
The demerger of Bank of Georgia into two separate businesses — Bank of Georgia Group and Georgia Capital — will strengthen both entities, according to Bank of Georgia CEO Kaha Kiknavelidze.

Under the new structure, Bank of Georgia Group PLC (Bank of Georgia) will be a “pure-play banking story, and Georgia Capital PLC (Georgia Capital), the only diversified investment vehicle in Georgia,” he said.

“As demerged entities, the companies are better positioned to invest in various sectors and thus create greater value in the Georgian economy. Importantly, the entities will no longer be constrained by conflicts of interest in their respective sectors,” Kiknavelidze told Investor.ge.

“Bank of Georgia will expand its lending activity in the corporate sector, including to Georgia Capital’s companies, which was restricted due to related party regulations. Georgia Capital will not be subject to the banking regulatory regime thereby improving its ability and flexibility to allocate capital, take advantage of various investment opportunities and better execute its growth strategy.”

While the change will require the group to separate support functions, the banking and non-banking businesses had been operating independently for years, Kiknavelidze said.

“Today the two companies have fully independent operations, management teams and two separate boards of directors,” he added.

Georgia Capital will retain a 19.9 percent stake in Bank of Georgia as part of the deal.

For the sake of independence, however, Georgia Capital has waived its active voting rights, Kiknavelidze said.

THE BANK OF GEORGIA HAS DEMERGED INTO TWO SEPARATE ENTITIES, CREATING THE BANK OF GEORGIA GROUP AND GEORGIA CAPITAL. INVESTOR.GE SPOKE TO BANK OF GEORGIA CEO KAHA KIKNAVELIDZE ABOUT THE DEMERGER AND ITS IMPACT FOR THE BANK AND THE GEORGIAN BANKING SECTOR.
Georgia has shot forward in its efforts to control tobacco use. In recent years it has steeply increased taxes on tobacco sales, and earlier this summer, introduced a series of amendments that restrict where cigarettes can be smoked and how tobacco products can be advertised. More changes are expected, which will further increase taxes and restrict packaging.

The changes have garnered international praise from health organizations. Smoking levels in Georgia are extremely high. An estimated 58 percent of men — and six percent of women — smoke. As a result, the health improvements could be dramatic. However, such a high incidence also means that the unintended consequences of a poorly implemented policy could also be severe for public health, public finances and the economy.

FROM ‘LAGGARD’ TO INTERNATIONAL STANDARDS

The new regulations, which went into effect on May 1, put Georgia at the forefront of international efforts to reduce tobacco consumption, according to Alex Liber at the American Cancer Society.

From May 1, enclosed public and workplaces are smoke free in Georgia, and the advertisement, promotion, and sponsorship of tobacco is prohibited. Other regulations are also set to be implemented over the next few years which will dramatically increase taxes, as well as placing more severe restrictions on point of sale advertising and cigarette packaging.

Health specialists, including the UN country team in Georgia, have argued that the changes are necessary to save lives.

“In Georgia, the prevalence of smoking among men is among the highest in the world at approximately 57 percent; the prevalence of smoking among women, despite still being relatively low, has almost doubled in the recent years,” the team said in a press statement.

“Half of all long-term smokers will be killed early by a smoking-related disease. Approximately 11,000 citizens of Georgia die prematurely every year from diseases caused by tobacco, and among those are approximately 3,000 non-smokers. The alarming figures clearly indicate a need for strong and imminent action in tobacco control.”

The new regulations represent a “quantum leap” for Georgia in terms of its tobacco control policy, according to Liber.

“Prior to this, Georgia was very much a laggard in tobacco control policy,” Liber said.

“Over half the world’s population is covered by some kind of smoking ban. Georgia was one of about 60 countries that only had a text warning on cigarette packaging. It has made a quantum leap forward.”

Liber noted that it is “hard to name” another country that went from so little to such high standards in tobacco control legislation.

CENSORSHIP AND ECONOMIC CONCERNS

It is precisely the speed with which the change is coming about that is a source of concern for some. The tobacco industry has been generally accepting of the need for new regulations.

“In general, we are for regulations, because tobacco is a controversial product. It is harmful and we think that there should be regulations,” Nona Mamulashvili, from Phillip Morris International, pointed out.

However, along with others in the industry, she says that laws have been brought in quickly and with little consultation. “The regulations should be
implemented gradually so that businesses have time to adapt, and there should be discussions with all the sides. For this set of regulations [that came into effect in May] we were excluded from any discussions,” she says.

As a result of the failure to include all stakeholders in discussions, she says, problems have arisen so “the same people who were pushing forward to pass the law very fast … now have to recall the law and regulate the technical details.”

For example, she says that they now realize, “there are some people in a hospital and in institutions who need to have a separate area where they will be able to smoke because, as of today, there is no smoking place on the territory of institution….so that a sick person has to go a few hundred meters away to smoke.”

Ovidiu Cernei from Japanese Tobacco International, makes a similar claim. “If we had been consulted previously when the law was drafted, maybe we would have been able to recommend some practices from other markets where similar laws have been implemented, but it was not the case because the law was passed in a hurry and we barely had the chance to comment and there was not too much consideration for our comments.”

Pub and restaurant owners interviewed by Rustavi-2 TV channel also voiced concern that they would lose business.

“It ends up you can smoke all you want at home, in your car, or at the casino but not in cafes and bars,” noted Chai Khana cafe owner Levan Jibghashvili. “In the end, this will affect all of us.”

Pub owner Levan Grigolia argued that the law is too strict for a developing economy like Georgia.

“This law should be more liberal. It shouldn’t be so strict especially since we are not in Germany or Austria or Greece,” he was shown saying. “First should come economic [growth] and then strict laws.”

In response to these concerns, the UN country team in Georgia noted that the impact of similar bans in other countries has been positive for the economy.

“Case studies from other countries in the region indicate that a total ban on smoking in restaurants and bars is likely to bring ‘plain-packaging’ into Georgia, so that cigarettes will simply be sold in white boxes with no logos.

Felizio Feraz, General Manager of British American Tobacco notes that “if not managed properly, that can make illicit trade grow significantly.”

“I worked in South America and I saw in Panama that [when they brought in these laws] while legal sales reduced by half, consumption did not reduce by half. Because, consumers, they find a way to get their product,” he adds.

This, he argues, will have an impact on government revenues. Which could be significant, as they say that tobacco is responsible for as much as 10 percent of government revenue. He also argues that plain-packaging makes this worse, by making it easier to counterfeit cigarettes.

“We have seen plain packaging…Australia was the first market and…illegal black-market increased, and they don’t respect any regulations. So, they will not comply with packaging regulations, they will not pay any excise,” Feraz says.

The answer, they argue, is that changes in the law need to be brought in more gradually, as Mamulashvili from Philip Morris International points out, “the EU is telling the country that you need to have the regulations in place, but… You are not obliged to do it in six months or even a year. Romania has taken 15 years to come to the EU requirements. Georgia is trying to do it much faster…”

All sides seem to agree on one thing. The new laws are an incredibly significant change in a country with extremely high levels of smoking.

What impact that will have on the incidence of smoking, connected businesses, smuggling and government revenues, only time will tell.

From May 1, enclosed public and workplaces are smoke free in Georgia, and the advertisement, promotion, and sponsorship of tobacco is prohibited. Other regulations are also set to be implemented over the next few years.
LAW ON PUBLIC AND PRIVATE PARTNERSHIP FINALLY ADOPTED

With the aim of establishing a unified legislative and institutional framework for public and private partnership (PPP) in Georgia, a long awaited PPP law was finally adopted by the Parliament in May 2018. Effective from 1 July 2018, the new law sets out the rules governing PPP process starting from evaluation and announcement of the project up until selection of the investor and monitoring the compliance with its PPP commitments. The law differentiates between concessions and non-concession PPPs, institutional and non-institutional, small and regular PPP projects. The law further acknowledges the role and interests of lenders financing a PPP project and provides for the possibility of granting step-in rights and other guarantees to the lenders through direct agreement with the public partner. Finally, a new PPP agency shall be created by the Government of Georgia to oversee PPP projects, while fiscal effect of each such project will be evaluated by the Ministry of Finance of Georgia.

LAWYERS AND LAW FIRMS ARE FINALLY ALLOWED TO MAINTAIN NOMINEE ACCOUNTS

On 21 May 2018, the Order of the President of the National Bank of Georgia regulating holding of specific types of bank accounts by various entities was amended to allow lawyers and law firms to hold, both joint and segregated, nominee accounts. As a result, lawyers and law firms will finally be allowed to hold funds on behalf of their clients on separate account, which will be bankruptcy-remote and ring-fenced against personal liabilities of the account-holder lawyer or a law firm.

INITIAL STEPS FOR REGULATING TAXI BUSINESS

From 24 May 2018, transporting passengers on the territory of Tbilisi via vehicle [category 1], i.e. provision of taxi services has formally become a regulated activity. In particular, effective from 9 July 2018 individuals willing to provide taxi services in Tbilisi shall obtain respective permit from the local municipality. The relevant procedure for obtaining a taxi permit, term of its validity, possible fees charged by the municipality for the permit, technical and safety requirements to be complied with by taxi drivers are yet to be determined. All we can tell at this point is that the Government has made first steps towards regulation of the taxi business, albeit within Tbilisi only. Stay tuned for more updates on this regulation.

DRAFT REGULATIONS GRANTING THE INDIVIDUAL DEBTORS PRIVILEGED PROTECTION VIS-À-VIS IMPOSING OBLIGATION OF RESPONSIBLE CREDITING TO Lenders

In our previous Newsletters, we covered various legislative measures implemented by the Government to tackle the problem of excessive indebtedness of individuals in Georgia. The Ministry of Finance of Georgia (MFG) and the National Bank of Georgia (NBG) continue to fight the unbalanced bargaining power between the lenders and individual debtors. To this end, on 7 May 2018, NBG published the draft of Regulations on Issuing Loans to Individuals applicable to all lending organizations subject to supervision of NBG, whereas on 31 May 2018 the bill of amendments to the Civil Code of Georgia was submitted to the Parliament by MFG.

Draft regulation of the NBG defines criteria for issuing loan and aims to improve lending standards and quality of credit portfolios, promote socially responsible credit relations in order to protect rights of borrowers from risks caused by buildup of excessive debt. Further, the bill of amendments envisages several major reforms granting privilege to individual debtors (including individual entrepreneurs). For instance, according to the bill, loans issued to natural persons by other individuals/entities not supervised by NBG cannot be secured with immovable property (other than loans issued in exchange for the right to use the property) or vehicles. Where security for the loans issued to individuals is permitted and thus applied, foreclosure of the security shall be considered to have fully satisfied the claim of the lender, irrespective of the amount recovered by the lender through such foreclosure. Any secured loan shall be issued to an individual borrower through a wire transfer to its bank account. The rationale behind such restrictive regulations is to fight easy access to debts for the individuals with low financial awareness and inadequate evaluation of their prospects and also to tackle the situation where primary interest of the lender has become default of the debtor, resulting in takeover of security, rather than due payment of the loan. None of the above regulations have been adopted so far.

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Excellence in WHAT WE DO
A 21st century version of the old adage ‘nothing is certain in life but death and taxes’ would definitely include garbage: today, there is nothing certain in life but death, taxes and the eternal question of where to put all the garbage.

Starting in 2019, municipalities across Georgia will have to start recycling. The Caucasus Environmental NGO Network (CENN) has been working with local governments in Tbilisi and three Georgian regions — Kakheti, Adjara and Shida Kartli — to help them prepare as part of the USAID-funded Waste Management Technology in Regions program.

A crucial part of the program has been to create waste management plans, and to raise awareness about the need to reduce, reuse and recycle.

“These waste management plans are very important because they are prioritizing the issues and recycling,” Nana Janashia, the executive director of CENN, told Investorge.

Janashia noted that raising awareness and financing are “the two most important areas for recycling.”

“Our strategy is to develop and push the laws, like strategies, and also to push from the ground, for people to demand recycling,” she said. CENN’s efforts have already made an impact: there are eight recycling locations for paper, glass, plastic and aluminum waste in Tbilisi: The French School of Caucasus, Public School #54, Green School, Goodwill Digomi Branch, GTC Carrefour, Ministry of Environment Protection and Agriculture of Georgia (Ortachala), Hotel Old Maidan and East Point.

ECO-FRIENDLY BUILDING MATERIAL, PARKS, INVESTING IN LOCAL INCINERATORS—COMPANIES IN GEORGIA ARE FINDING WAYS TO HELP THE ENVIRONMENT EVERY DAY.
Waste recycling companies have received and recycled 7540.5 tons of municipal waste (paper, aluminum, glass, plastic).

**A ROLE FOR BUSINESS**

CENN is also partnering with local businesses and organizations around the country to pick up trash and reduce litter as part of its Keep Georgia Beautiful Campaign (http://environment.cenn.org/join-us-keep-georgia-beautiful/).

Local businesses, including several AmCham Georgia members, are participating.

The Batumi Hilton, for example, has partnered with CENN to recycle as part of the Hilton hotels’ Travel With Purpose campaign.

The hotel chain has committed to cut its environmental footprint in half by 2030. To meet that goal, hotels across the chain are engaged in a wide-range of activities. At the Batumi Hilton, they are reducing the use of plastic bottles in every operation departments to minimum. There is also an effort to end the use of disposable straws.

Other hotels in Georgia are also working to reduce consumption and increase recycling. For example, Accor hotels launched a sustainability scheme called ‘Planet 21’ in 2010, setting up sustainability targets for 2021.

At Mercure Tbilisi Old Town, that translates to specific recycling programs as well as food waste reduction and efforts to reduce water waste and energy consumption, according to the hotel’s SD Quality & Project Manager, Tamuna Chkhikvadze.

BP Georgia is working on innovative ways to deal with its waste, as well.

All non-hazardous waste from BP’s sites are collected at a waste processing and recycling center; the waste is segregated, compacted and routed to the appropriate facility.

“We have saved more than $600,000 annually and significantly reduced environmental impact by using seven local recycling companies, step-by-step implementation and development of 12...”

Janashia noted that raising awareness and financing are “the two most important areas for recycling.”

Regional Corporate and Investment Banking Services

PASHA Bank is a Baku-based financial institution operating in Azerbaijan, Georgia and Turkey, providing corporate and investment banking services to large and medium-sized enterprises.

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PASHA Bank
New heights. Together.
minimization/reusing options of waste treatments,” BP told Investor.ge.

In addition, in 2015, BP Georgia started usage of an EU/UK compliant hazardous waste incinerator. BP and its partners have also supported total 34 projects to support energy efficiency in Georgia. McDonald’s Georgia is investing in energy efficiency by using eco-friendly and efficient building materials on its restaurants in Georgia. The restaurant chain is also planting trees and working to create a clean environment for residents living near its facilities, Nikoloz Darbaiseli, McDonald’s Georgia Development Manager, told Investor.ge.

**INVESTING IN THE FUTURE**

HeidelbergCement Georgia is building a modern dry line cement plant in Kaspi municipality as part of its efforts to provide clean building materials, according to the company’s environmental manager, Giorgi Chaladze.

The new plant will use less water than the old, wet process plants, he noted.

Enviroserve has been working with governments and communities in many countries for over 20 years to find solutions for e-waste related issues.

“The plant will be equipped with continuous emission monitoring system – for measuring dust, also nitrogen, sulfur and carbon oxide emissions…The new system will help company to reduce emissions and increase efficiency of the whole production cycle,” Chaladze said.

“The dry line project provides opportunity for using alternative fuel, for example municipal waste or used tires, which can result in a better waste management and will reduce waste accumulation in Georgia,” he added.

ENVIROSERVE Caucasus has made a business of collecting and recycling e-waste, including old computers, phones, printers. Enviroserve has been working with governments and communities in many countries for over 20 years to find solutions for e-waste related issues.

In Georgia, ENVIROSERVE Caucasus collects e-waste, sorts it and ships it to the company’s facilities in the UAE. “As the volume grows, we will invest and expand with further facilities in the recycling chain,” David Barker, the director of ENVIROSERVE Caucasus, told Investor.ge.
OFF THE BEATEN PATH: Georgia’s Untapped Potential for Agrotourism

GEORGIA’S RURAL COMMUNITIES REPRESENT AN UNDERUTILIZED MARKET FOR TOURISM, BOTH DOMESTIC AND FOREIGN. FROM WINE-MAKING AND SPA TREATMENTS TO COOKING CLASSES AND WILDERNESS TRAILS, THE POTENTIAL FOR TOURISM BEYOND THE TBILISI-KAZBEGI-BATUMI CORRIDOR CONTINUES TO ATTRACTION INTEREST AND INVESTORS.

LIKA JORJOLIANI

Homemade wine, organic tomatoes, fresh cheese straight from the farm: rural tourism in Georgia has always seemed like an easy fit. But for years the sector struggled to compete with the draw of Tbilisi and traditional destinations like Kazbegi and Batumi. Today, that is starting the change, according to tourism specialists and policymakers.

UNTAPPED POTENTIAL

Georgian villages are benefiting from the international trend toward more rural tourism, noted Tamar Toria, the Executive Director of the Association of Farms of Georgia.

The tendency could be a boom for local farmers and rural communities as an alternative source of income, but more needs to be done to develop the sector, she told Investor.ge.

Noting that Georgia has “potential,” Toria said it is “not developed properly” right now due to a myriad of reasons, including the lack of local experience, absence of promotion and poor infrastructure.

She noted that two years ago, the Association invited a Dutch specialist to evaluate the potential of ten member farms that are engaged in agricultural tourism.

16th AMCHAM US INDEPENDENCE DAY PICNIC

SPECIAL THANKS

L.A. BOHÈME

CONTEMPORARY MEDITERRANEAN
After the trip, Toria said, the specialist was generally impressed with the accommodations. His main complaint: the toilets and bathing facilities.

Nana Kartvelishvili, the coordinator of the Network of Agricultural Tourism at Association Elkana, agreed that providing high-standard infrastructure and “hygienic sites” is still a problem.

But she noted that the growth in agricultural tourism has been noticeable over the past decade and Elkana has helped create a chain of rural guesthouses that meet international standards.

Rural tourism development in Georgia was first initiated by Elkana’s Tourism and Rural Development Project, which ran from June 2006 through June 2012 and was financed by the Swiss Agency for Development and Cooperation. Prior to that, there were few family-run guesthouses, and those that did exist were located close to the major tourism sites.

“Ten to fifteen years ago, tourists were located only in large towns; today tourists have more choices. But, still we have a problem with equipping of these hotels, improving of the infrastructure and hygienic sites,” she told Investor.ge.

The six-year program helped create a base for agricultural tourism, Kartvelishvili said.

“A tourist network for agricultural tourism was created after 2012, combining family hotels. We are working in eight regions and want to connect the ninth one—the Samegrelo Region . . . We created a website and have a system for the booking of hotels,” Kartvelishvili said.

The network, known as the Rural Tourism Network, unites 186 guesthouses in eight regions of the country. Members of the network meet a unified quality standard and are promoted through the organization’s website, www.ruraltourism.ge.

She added that, as part of the program, Elkana inspects the hotels and gives them recommendations to help improve their services, including training for farmers.

One of farmers’ biggest takeaways from the training was the need for investment to create guesthouses and hotels that meet international standards.

In general, Kartvelishvili said, at this stage agricultural tourism is not “a main source for receiving incomes,” although...
it does provide an additional source of revenue for farms.

**BUCHAREST, ROME, KUTAISI**

There have been some exceptions, she said, and some rural households have succeeded at making tourism their main business.

The potential is real, and the desire—and need—in local communities for such business is palatable.

Search any Georgian destination on Booking.com and a flurry of guesthouses from Batumi to Oni pops up.

Farmer Levan Khmelidze lives in the Tsageri municipality, in the village Korelishi, where he and his partner have been operating Rich Point Georgia, a tourism agency, for the past two years. “It is a family business; we opened a hostel two years ago. At this stage, we can host 16 people,” he said, noting that most of his business comes from tourists from former Soviet countries, although there has been interest from European tourists and tour operators.

Khmelidze said tourists are usually interested in the family’s vineyard and winery, where they cultivate Tsolikauri grapes for Tvishi wine.

He said that while many of the country’s over seven million visitors opt to travel to Kakheti, Svaneti or Kazbegi, his family is working hard to promote Racha and their region, Lechkhumi.

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“Here we have all the conditions for the development of agricultural tourism, high mountainous jeep tours and ski tourism. In addition to beautiful nature, we offer local dishes made from locally cultivated products... Lechkumi bacon is very famous. We have already researched Lechkhumi’s potential and created several tour packages consisting of two-, three- and seven-day packages. In the scope of the tours we acquaint tourists with local sightseeing spots and folklore,” he said.

Their efforts have already started to pay off: last year, a group of Italian winemakers and journalists stayed at the hotel.

“We organized a tour for them in seven regions, including Lechkhumi. They visited our wine cellar and tasted wine. After visiting of the site, they posted a lot of interesting comments and articles. We are working on actively promoting of our region... I think that it is very important to raise awareness about our region, as well as to have well-developed infrastructure,” Khmelidze told Investor.ge.

Deputy Minister of Agricultural Sector and Natural Protection of Georgia Gela Khanishvili underscored that infrastructure is a key component to bringing tourists to rural areas, like the country’s remote Tusheti, famed for its mountain vista views and delicious cheese.

The government has been actively expanding and improving the road network between cities and rural communities. In addition, international airline Wizz Air is bringing tourists directly to Imereti, which makes it easier for tourists to visit Kutaisi and other areas nearby.

Rural communities in other areas are also working to promote their regions to tourists.

Karina Bezhashvili, the chair of the NGO Interethnic Union of Kvemo-Kartli, has been actively promoting rural tourism for years.

Bezhashvili has been working with guesthouses in Armenia and in Kvemo-Kartli as part of a project to build cooperation between countries in the EU’s Eastern Partnership.

Tourism, she said, helps rural communities create employment for the youth and build ties across borders.

“The project is focused on expanding the tourism potential of the region. Mainly, the project supports the creation of cross-border tourism packages to attract domestic and international tourists,” she said, adding that locals received training as guides and are working to meet a growing interest in agricultural and ethnic tours.

“Bolnisi is populated by many ethnic groups, mainly Greek, Armenian and Azerbaijani families. In fact, we offer trips to our farms and the opportunity to taste national cuisines,” she told Investor.ge.

The NGO is planning a festival in September in honor of the local Khachinski pepper, a delicacy that was well-known during the Soviet Union. In addition, they are working on preserving local wine-making traditions with the 50 grape varieties that are native to the area.

Cheese and Wine

The government has also been promoting traditional products such as regional cheese and qvevri wine—Georgia’s ancient method of fermenting grapes in large, oblong terracotta vessels buried in the ground.

In Kakheti, Shiumi wine company hosts tourists from around the world, company director Akaki Tsopurashvili told Investor.ge.

Interest in Georgian wine is so high that Shiumi created the country’s only museum dedicated to grapes and Vasioni wine. The museum, located at the winery in Tsinandali, has vintage wines from over 300 types of grapes, including 92 European varieties, he said.

It also provides guests with a detailed history of Georgia’s winemaking traditions.

Tsopurashvili said the wine museum and tours are so popular that the winery is opening a hotel near the winery.

He noted that developing agricultural tourism is important for the country for more than just economic reasons. Tsopurashvili agreed that developing the sector could help to create jobs and improve the livelihoods of rural communities. Equally important, he added, is that it could motivate people to preserve and “study local traditions”—helping sparsely populated areas in the country develop.

Guesthouses are marketing local traditions and wine.
INVESTOR.GE INTERVIEWED CARLA CAPALBO, THE AUTHOR OF TASTING GEORGIA: A FOOD AND WINE JOURNEY IN THE CAUCASUS, ABOUT HER BOOK AND GEORGIA’S POTENTIAL AS AN AGRITOURISM DESTINATION.

Carla Capalbo’s award-winning book, Tasting Georgia: A Food and Wine Journey in the Caucasus, has brought the dialogue about Georgia’s rich cuisine and wine to audiences in the United States and around the world. Through her beautiful photographs and stories, Capalbo has captured the natural grace of rural life and exposed the country’s largely unused potential for agricultural tourism.

“BOWLED OVER”

The book highlights the diversity of rural life and cooking throughout Georgia, with special attention to winemakers.

Capalbo, who has written over a dozen books that capture the beauty of rural life and winemaking, predominately in Italy, was inspired to come to Georgia by the ancient art of qvevri wine.

In 2013, she came to attend an international qvevri conference, organized by Jonathan Wurdeman of Pheasant’s Tears Winery and Alaverdi Monastery.

Within days, she was captivated by Georgia’s food and its people, but when she looked for books that reflected the recipes and beauty she had experienced, she couldn’t find any.

“Had I found the books that met my expectations, I wouldn’t have written this one. But the fact is there was nothing. ►►
really,” Capalbo said.

“There was nothing about the kind of rural life that I have spent so many, many decades working on and interested in. And yet that was the kind of thing I had kind of bonded on in Georgia.”

With help from Wurdeman, Capalbo started coming to Georgia to do field research and take photographs for her book. Over the course of three years, she spent around five months traveling around the country and spending time with families—mostly winemakers—in rural communities.

While she did not set out to write a book that focused on women winemakers, the stories and talents of strong Georgian women stand out.

“First of all, of course one cannot help but be bowled over by the hospitality and generosity and openness really of the Georgians and, I found, in particular of the women,” she said.

Capalbo was particularly impressed with their ability to turn very basic ingredients into sophisticatedly flavored dishes.

As an example, she tells the story of a woman who produces amazing food using next to nothing.

“This woman has no running water in her house; she is cooking in her bedroom. However, the food that she makes is in terms of the palate of it, in terms of the favors, of the subtly and the complexity, is as good as anything I have eaten anywhere,” Capalbo said.

“She will take a handful of dry stinging nettle—of course, you have to have thought in the [growing] season to pick them and dry them—and she has that in her larder.

And a little cup full of cracked wheat, and she will make something out of it, what you could never imagine would ever be good, and is actually just delicious,” she noted.

**ECHOES OF ITALY**

That ability echoed what Capalbo had experienced during her time in Italy.

“As a foodie . . . to me what was interesting was the kind of foreignness and exoticness; the otherness of what I was seeing in the landscape—and in the kitchens—and at the same time what struck me was how familiar it all seems . . . I spent years living in rural, southern Italy where the people similarly have no money—they are cash-poor but have big vegetable gardens, probably still have some animals, and they live—they make a lot out of nothing,” she said.

“I have written about all that for a long time, and so when I went to Georgia it was as if I could parse the landscape. I looked out of the window from the little bus and I saw all sort of things that actually I understood: I understood the shapes of the vegetable gardens, the scale of them, animals being free.”

The appeal of the cooking and the people were so apparent to Capalbo that she found herself encouraging local winemakers to turn what came naturally to them into stops for tourists traveling in the area.

Over the three years she worked on her book, the changes were notable: Capalbo can list the families that took her advice, and started serving paying guests as wineries and small restaurants—and even guesthouses.

The Georgian people, she said, “are suddenly rediscovering this unbelievable richness that they have inherited: the diversity of the landscapes, the climates, but also cultures and down to grape varieties or tomato types,” she said.

“It is an exciting time. Even from the time when I started writing this to when it came out, it has already really shot forward. The potential, as we have seen over the past 20-25 years in Italy, is huge—and in particular, in areas where the rural economy is struggling because there is effectively no work,” she said.

“It is a way of bringing an income into the households—they don’t even have to go out to work, they can stay in and work. What I think has been very interesting to me has been I could see all of that because I have seen it done before, and so, I have encouraged people to do it.”

**KEEP IT SIMPLE**

Capalbo noted that she had to reassure people that tourists don’t need anything fancy. What visitors want is a “genuine rustic experience”—and, if possible, a modern toilet.

She recalled one family in Samegrelo, which, over the course of three years, created a place where visitors can eat and watch how traditional food is prepared.

“People come and all they want to watch is the old woman stirring the holmi, they [the Georgian family] are surprised that people would be interested in this. We want that, we want the genuine rustic experience to feel and to taste the vegetables because the quality of the ingredients, when they are good in Georgia, are absolutely outstanding,” she said.
NEWS

AmCham

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On June 26, AMCHAM Georgia hosted a Members’ Only Luncheon at Radisson Blu with Turkish Ambassador Fatma Seren Yazgan. Ambassador Yazgan spoke about Turkish-Georgian and Turkish-U.S. relations. Her presentation was followed by a lively Q&A session between members and the ambassador.

On July 7, 2018 The American Chamber of Commerce in Georgia invited AFG’s beneficiaries from the Dzegvi Shelter Community and Nikozi Rehabilitation Center projects to celebrate the 241st anniversary of the signing the U.S. Declaration of Independence.

Happy kids were rushing from one place to another: They were lining in the corner for ice-cream, soft drinks… dancing under live music. They were given lovely toys… they enjoyed taking pictures, listening to wonderful live music, and watching the beautiful fireworks.

“I always wanted to see how Zaliko is doing his portraits. I was excited to meet him in person. I was asking lots of questions about his techniques and was watching how he was doing it,” said Nick, who studies cartoon animation at Nikozi Center.

Dzegvi Shelter Community is an important project not only for AFG but Georgia as well. It is the only free center of its kind in the country of Georgia, where vulnerable individuals of all ages live together as one large family. With the help of many businesses, AFG has been able to start rebuilding a part of the shelter to house 60 more homeless people and run rehabilitation and vocational programs.

AFG is hoping the generosity of its partner organizations and friends will help provide funding to complete the reconstruction work on the building.

Nikozi where Art rehabilitation and Education Center was constructed in cooperation with the Embassy of Japan is located near the border of Russian-occupied South Ossetia. The center has played an important role in helping war-affected children and adolescents of Nikozi through art and vocational education.
AMCHAM HOSTS U.S. DEPUTY CHIEF OF MISSION

**School of Tomorrow LLC**

**Corp A**

School of Tomorrow was founded in 1992 as the first private school in Georgia. It offers the approved Georgian curriculum in addition to the American based program. Recently the American program was accredited by “Accreditation International,” an organization based in the U.S. The American program is based on Dr. R. Howards curriculum and aims to identify and develop the intellectual abilities of children. The School of Tomorrow has had graduates since 1999.

[www.st.edu.ge](http://www.st.edu.ge)

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**CaucasTransExpress Ltd.**

**Corp B**

CaucasTransExpress started operating as an international freight forwarder in Tbilisi, Georgia in 1999. In this short time, everyone worked hard to achieve the goal of making the company capable of providing a full and comprehensive range of services. Nowadays the company provides all modes of land, sea and air transport. CaucasTransExpress covers Caucasus the Central Asia and main ports of Black Sea, including Poti, Batumi, Chornomorsk (Illichivsk), Odessa and Istanbul. With representative offices and business ties with partners throughout the world, the company can truly guarantee that CTE provides services on a global scale.

[cte.ge](http://cte.ge)

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**CENN Non-Profit**

CENN has been working since 1998 at the local, national and regional levels in the Caucasus region to foster modern and sustainable development values and practices. CENN works with the government to develop sustainable solutions to existing challenges, assists businesses to maximize profits while minimizing the impact on the environment and is innovative and pro-active to respond to environmental and socio-economic concerns. With representation throughout the Southern Caucasus and more than 50 full time members of staff across the region, CENN has the capability and commitment to provide a service that is consistent, professional and of the highest quality. CENN delivers modern solutions for the public and business sectors and communities, assisting them in managing their environmental and related risks and helping them to achieve a competitive advantage through improved environmental and social performance.

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- Mira Hotels Ltd.
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  Tel: 2422444/55/88
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- Murphy Bridge
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  0160
  Tel: 2901180
  www.murphybridge.com

- MyGPS
  6 Bokhua St., 0159
  Tel: 2007107
  www.mygps.ge

- National Center for Dispute
  Resolution
  4/7 Rustaveli St., Rustavi
  Tel: 2193406
  www.ncdr.ge
ANNUAL FOURTH OF JULY PICNIC

The American Chamber of Commerce in Georgia (AmCham) jointly with the U.S. Embassy in Georgia hosted a family picnic celebrating the 242nd anniversary of the signing of the U.S. Declaration of Independence on July 7th. Over 1500 American, Georgian and international guests enjoyed an American-style picnic with a giant barbecue, live bands, bouncy castles.

[Images of people enjoying the picnic and a clown with a child.]
AMCHAM US INDEPENDENCE DAY PICNIC SPONSORS’ APPRECIATION COCKTAIL

AMCHAM GEORGIA HOSTED AN APPRECIATION COCKTAIL FOR THE COMPANIES THAT SPONSORED THE ANNUAL FOURTH OF JULY CELEBRATION. THE EVENT WAS HELD AT THE MOXY HOTEL ON JULY 20.
AMCHAM FAREWELL COCKTAIL RECEPTION

On June 8, AMCHAM Georgia hosted a farewell cocktail reception at Andropov’s Ears for U.S. Embassy Chief Economic and Political Officer Dwight Nystrom and Economic Officer Charles Seten. AMCHAM Georgia President Michael Cowgill greeted the guests and thanked Andropov’s Ears for hosting the reception. Mr. Cowgill and other board members expressed their gratitude to Mr. Nystrom and Mr. Seten for their contributions and for supporting AMCHAM. Members also bid them farewell and wished them all the best while they enjoyed drinks and tasty food.
AMCHAM PRESENTATION, COCKTAIL RECEPTION AT STAMBA HOTEL

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