

# Investor.ge



A MAGAZINE OF THE AMERICAN CHAMBER OF COMMERCE IN GEORGIA

ISSUE 23

OCT.-NOV. 2011



Pay it Forward: Businesses  
Invest in Community  
.....

A Guide to Hydro Investments  
.....

Supermarket Mania  
.....

## IPO: The Next Wave of Privatization



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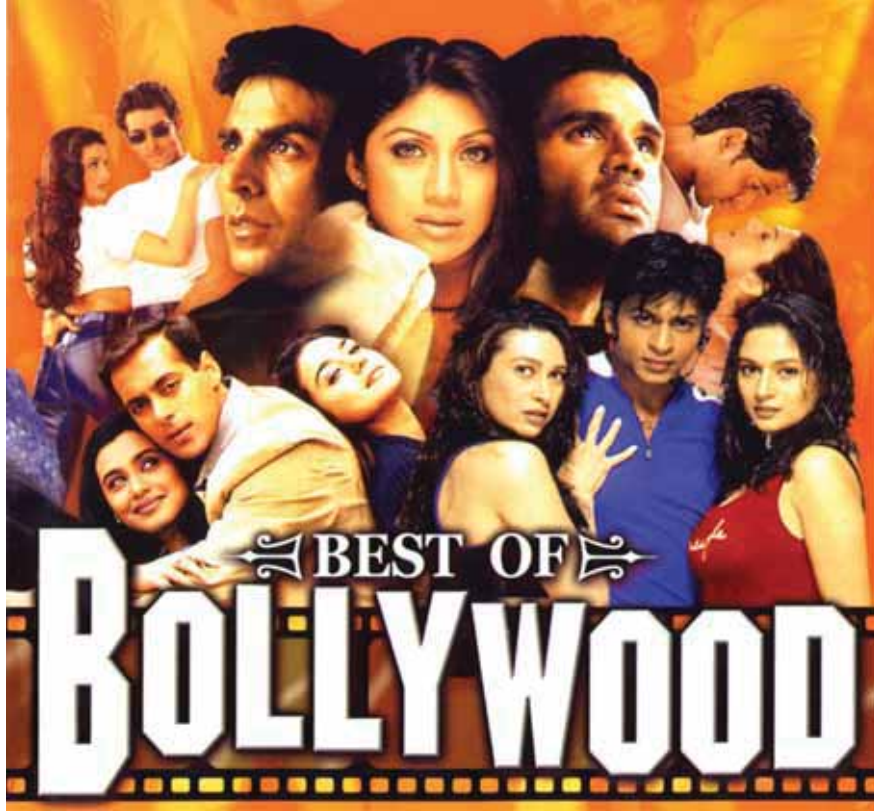
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## Investments in Brief

From hydro to real estate, Bollywood to ski resorts, Investor.ge reports on the latest developments in investment opportunities.

KETI KHUKHUNASHVILI

### Mziuri Park Reconstruction

**M**ziuri Park is expected to become the new central park of Georgia. Kensington Georgia, the company that developed Batumi Plaza in 2011, has been tapped to develop the park. Kensington Georgia ([www.kensington.ge](http://www.kensington.ge)) is a British-based company founded in 1998 with a portfolio that includes commercial and residential property developments in London and South East England. According to Lasha Matchavariani, the marketing manager at Kensington Georgia, nearly \$10 million has been invested in the park reconstruc-

tion project, which includes several business units - among them an Olympic-size swimming pool, outdoor pools, fitness, retail and entertainment centers.

### Bollywood Shoots Movies in Georgia

According to the Georgian National Investment Agency, Bollywood chose Georgia to shoot two upcoming Indian films. Roop Naik, Director of Wide Angle Creations, an India-based film production house, announced the project in August 2011. Tbilisi media-house Metro Studio and Georgian cinema production company Kartuli Filmi JSC will coordinate the production work in Georgia. The week-long production of the first film, *Billa II*, is set for later this month, while the 65-day shoot of the second film *Double Trouble* reportedly began in October 2011.

### Slovakian Thermal Park Besenova to Build a New Aqua Park on Lisi Lake

In an interview with Sarke, Tamar Giorgadze, Deputy Director of Slovakian Thermal Park Besenova, announced plans for a new aqua park and entertain-

ment center in Tbilisi. Construction of Gino Paradise Tbilisi is scheduled to start in late December. The complex, which will be built at Lisi Lake, will include hotels, swimming pools, a children's entertainment center, apartments, conference facilities and shops. The estimated cost of the 2-stage project is 50 million lari, over a two year implementation period, Giorgadze said.

The project will be funded by Slovakian Eurocom Investment and Eximbank, but may involve Georgian partners as well. It is expected that part of the first stage will be completed by summer 2012, including sideshows and an open air swimming pool. An indoor pool and spa center will be finished by winter 2012. The second stage will include construction of apartments and conference facilities. Thermal Park Besenova operates in Slovakia since 2000.

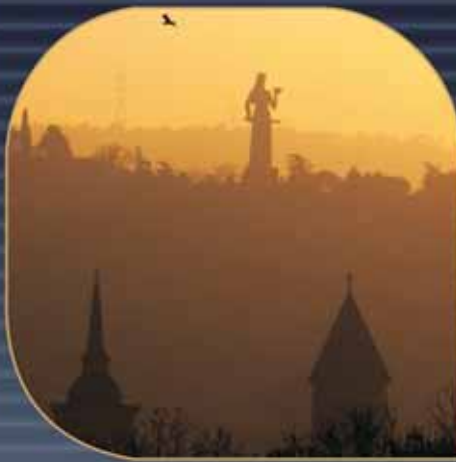
### Official FDI Figure Jumps 47%

Foreign Direct Investment (FDI) to Georgia was 47% higher last year than initially recorded, according to an amended report by the Georgian Department of Statistics (GeoStat).

The change, which pushed FDI to over \$800 million, was due to a number of factors, noted Zaza Chelidze, the head of GeoStat. A new international methodology allowed statisticians to survey companies created using FDI but also included foreign owned subsidiaries based in Georgia. This resulting in 200 more businesses being included in the final data. The annual survey reflects companies' revenues and losses proportionally to the percent of FDI in the business. Finally, not all eligible companies were included in the preliminary data because they did not respond to GeoStat's quarterly questionnaires. Their responses were however, included in the annual report.



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**A Purely Georgian with Regional Coverage**



# Investment Watch: Hydro Investment in Georgia

Investor.ge is expanding its coverage of investment and business opportunities. Analyst Aleksandre Bluashvili reports on new deals and trends in the hydro-power sector.

In the years since the Rose Revolution, the turn-around of the electricity production and distribution systems has been one of the government's most visible achievements. Thanks to increased production and more efficient distribution, most of the country now enjoys 24-hour electricity supply and Georgia has even become a considerable net exporter.

In 2004 annual generation of electricity was 6.9 million Megawatts (MW); by 2010 this had increased to 10.1 million MW. This has allowed Georgia to move from a net importer of 1.2 million MW in 2004 to a net exporter of 1.3 million MW in 2010.

At the same time, the Government of Georgia has been highlighting Georgia's potential for developing hydro-electric power as a source of clean energy production. The Ministry of Energy and Natural Resources of Georgia currently has preliminary agreements for up to 40 new hydro-electric power stations. If all of these are built, they will constitute \$4 billion in new investments in the sector.

However, in the wake of the war and the financial crisis currently only Mtkvari HPP (Hydro Power Plant) and Paravani HPP are under construction. The first company to start construction was JSC Caucasus Energy & Infrastructure; it is building a 46 MW hydro-power plant on the Mtkvari River in Akhaltsikhe, in Samtskhe-

Javakheti region. The location is particularly suitable as its proximity to the border with Turkey makes export easier, while the recently improved local infrastructure aids construction.

Construction began in December 2009 and is scheduled to end in 2015. When completed, Mtkvari HPP will be capable of generating 200 thousand MW annually. Taking into account that the average price of electricity in Turkey is approximately 12.5 cents per kWh, this would translate into \$26.25 million worth of electricity if it was all exported. Total construction cost is estimated to reach \$65 million. Caucasus Energy and Infrastructure received \$58 million in funding from the Overseas Private Investment Corporation to cover a large portion of the costs.

Another hydro-power plant under construction is Paravani HPP. Georgian Urban Energy, a subsidiary of Turkish Anadolu Industry Holding, has invested \$125 million in the project. Paravani HPP is located on Paravani River in south-eastern Georgia, 35 km from the Paravani Lake. Construction started in 2009 and will take four years.

Paravani HPP will start operating by the end of 2013 at a capacity of 425 thousand MW per year. In addition to the plant, the investment project includes construction of a 35 km transmission line that will connect the facilities to the national grid, as well as roads to improve access to the plant. EBRD and the International Finance Corporation have helped finance the project with a \$115 million loan.

## Projects in the pipeline

In addition to these two projects

that are already under construction, the Ministry of Energy and Natural Resources of Georgia also highlighted a number of projects that are at particularly advanced stages of investment. Investor.ge talked to the companies involved. "Clean Energy Invest", a Norwegian-based company, plans to build 4 HPP-s on the Adjaristskali river, in Adjara region, 15 km from the border with Turkey. At an estimated cost of \$385 million, the annual electricity generation of the Adjaristskali project will be 864 million kWh.

A feasibility study for the project is underway and, if approved, construction will start in January 2012. "We are currently optimizing the design of the project ... Hydro-power projects with dams and tunnels are very complicated construction projects and a lot of effort has to be put into the planning phase in order to ensure that the construction phase develops according to plan," noted Bjorn Brandtzaeg, Director of the Adjaristskali project in an e-mail interview with Investor.ge.

Clean Energy Invest plans to export more than 80% of the electricity generated at Adjaristskali to the Turkish market.

The development of hydro-power in Georgia is being supported financially by a range of international financial institutions, including the World Bank Group, Asian Development Bank, European Bank of Reconstruction and Development and European Investment Bank.

In addition, other donor assisted programs are helping the government to market the projects. The Hydro

Investment Promotion Program (HIPP) is a USAID funded project that assists government efforts to implement specific key tasks that should lead to more investments in the hydro-power sector, particularly in small and medium plants. HIPP is expected to attract investment of up to \$70 million, adding 400 MW of renewable energy to the current generation.

But if the opportunities are this big and there is so much support, why has it taken so long?

The most obvious reason is financing. In the aftermath of the financial crisis, credit is more expensive, which presents considerable challenges for large, capital intensive projects like hydro-power. Clean

Energy Invest, for example, identified this as the greatest challenge of the project. “We are working with IFC, a member of the World Bank Group, our co-developer of the project to make the project bankable,” said Bjorn Brandtzaeg.

Another reason for the delays is that the infrastructure for electricity export needs to be in place before companies are willing to invest. To that end, EBRD and EIB are currently implementing the Black Sea Transmission Network Project that will add 300 km of high-voltage transmission line across southern Georgia connecting the Georgian transmission grid to the Turkish grid.

The new 400 kV transmission

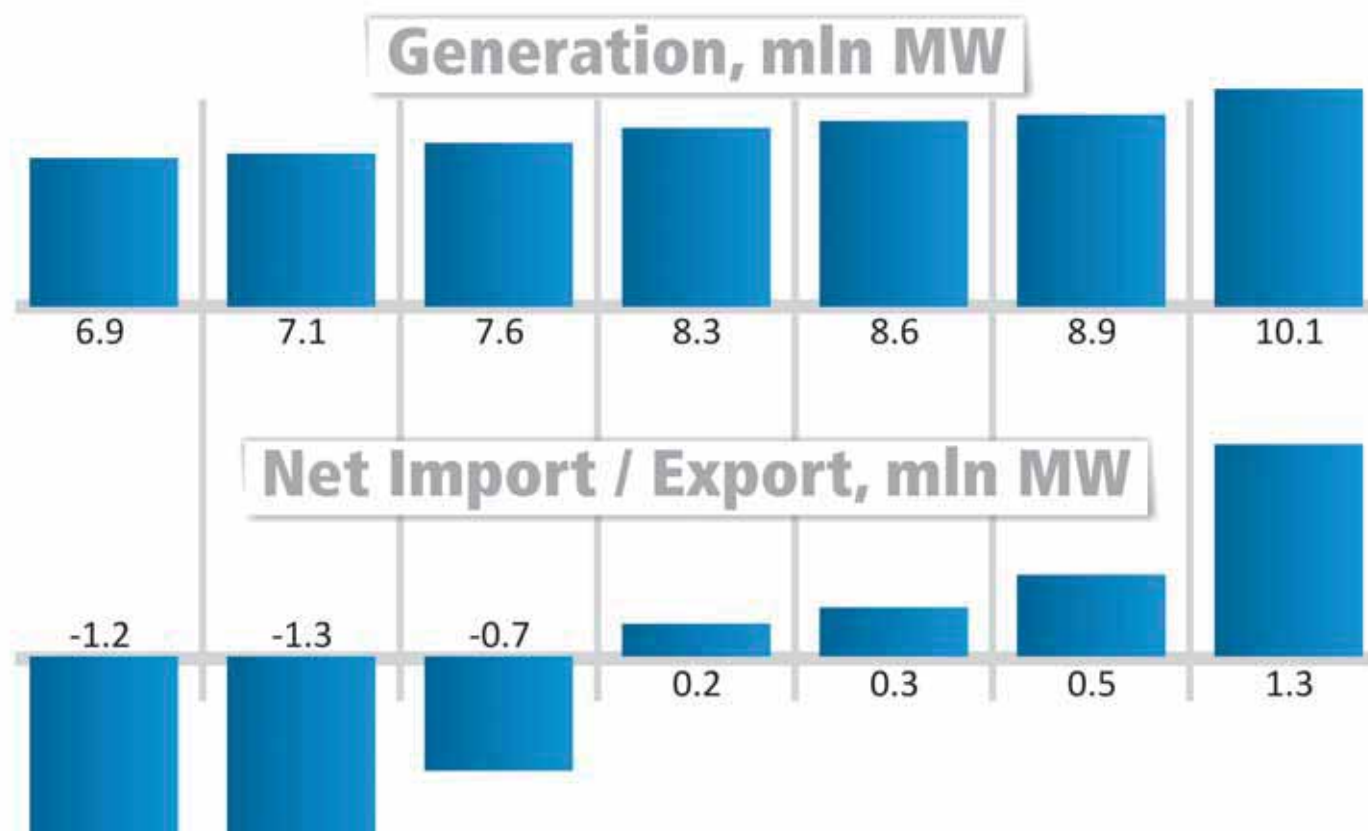
line to Turkey will be operational by 2012-2013, facilitating the export of Georgian electricity.

Finally, the regulatory environment, both in Georgia and Turkey, is still under development.

Jake Delphia, head of the HIPP project, told Investor.ge the biggest hurdles to investment in the Georgian hydro-power sector are the lack of “full harmonization of energy sector regulations to international standards, an operational transmission line to Turkey and an active promotional campaign”.

“Once everything is in place we will see much larger investment flows into the Georgian hydro-power sector,” he said.

## Electricity Balance



# Bidding Online

The government's systems of online auctions – [www.iauction.ge](http://www.iauction.ge) and [www.eauction.ge](http://www.eauction.ge) – are gaining speed and popularity with bidders at home and abroad.

ETERI MAISURADZE

Everything from houses to hairdryers is available on the government's two online auction sites: [www.eauction.ge](http://www.eauction.ge) from the Ministry of Finance (MOF) and [www.iauction.ge](http://www.iauction.ge) from the Tbilisi City government.

The sites, a reflection of the government's efforts to streamline procedures and transparency concerns over public auctions and privatizations, went online earlier this year.

On both sites registration and bidding are straightforward; auctions are open to registered individuals, as well as businesses. However language remains an issue on [www.iauction.ge](http://www.iauction.ge), which is at present only available in Georgian.

The MOF's site, [www.eauction.ge](http://www.eauction.ge), sells everything except for land and "immovable" property, Eka Jvania noted. Available in English and Georgian, the service has gradually built up a large following. The number of foreigners using the site increased 18 percent from July to August.

Jvania, the chief of marketing and innovation at the Ministry of Finance (MOF), said the volume of bidders has increased monthly since the site was launched in May. In the span of five months, over 100 million lari worth of goods has been sold on the site.

All the items available are state property, usually as a result of confiscation

during an arrest, noted Jvania. The site is also opening up the option for people to post items they would like to sell.

Mamuka Woweria, adviser to the chief of economic affairs at City Hall, told Investor.ge that their site is most popular with people bidding on land plots; unlike the MOF site, [www.iauction.ge](http://www.iauction.ge) offers property as well as goods.

Items offered for auction even include scrap metal, a traditional export for Georgia. Woweria said land sales are the most popular on the site, with the city providing maps and other terrestrial data so bidders can study the plots before the auction. Sales of government property are treated as privatization. Tbilisi City Hall has already paid more than 21 thousand lari in revenues to the budget this year, noted Woweria, and the MOF estimates that by the end of 2011 it will have contributed four million lari to the national budget.

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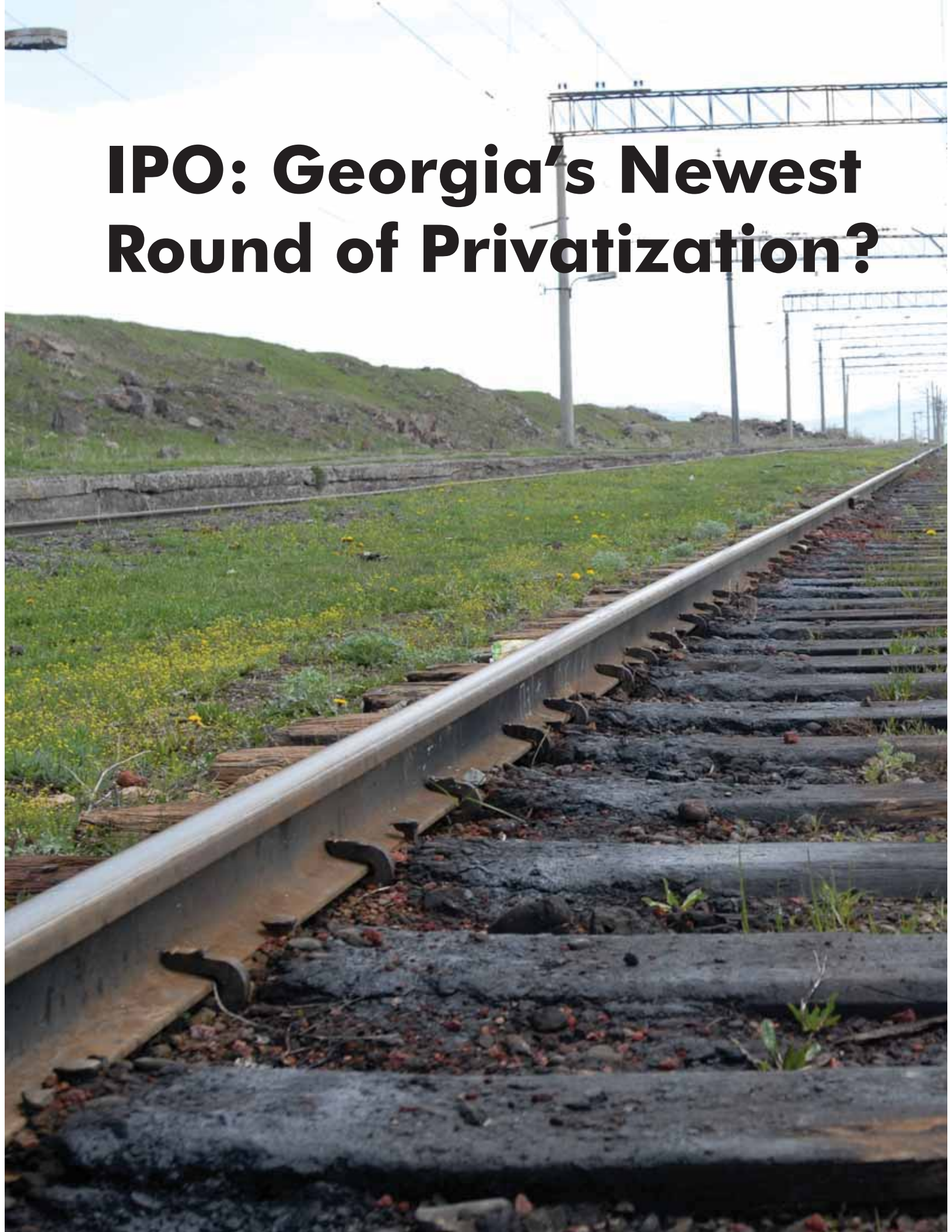


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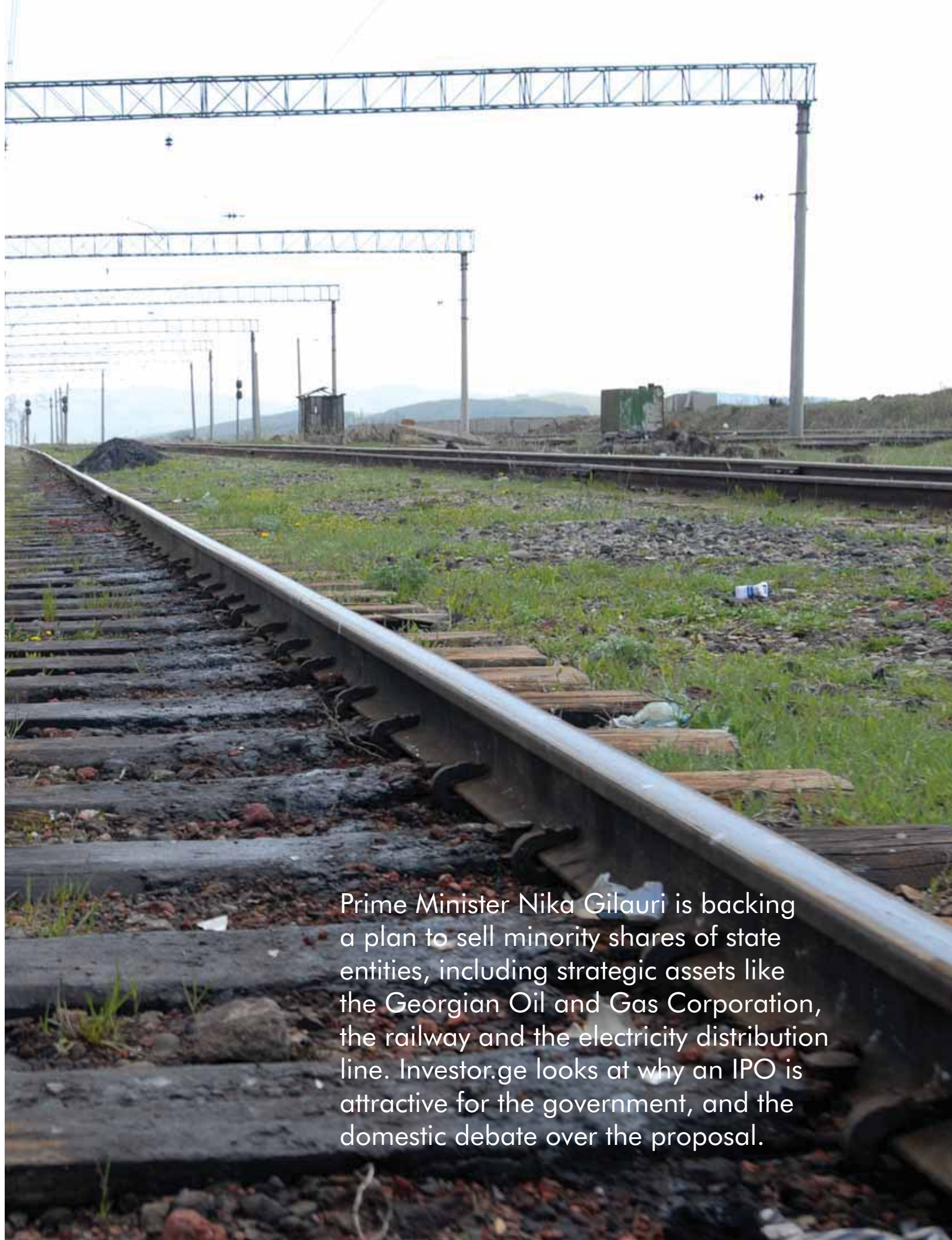
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# **IPO: Georgia's Newest Round of Privatization?**







Prime Minister Nika Gilauri is backing a plan to sell minority shares of state entities, including strategic assets like the Georgian Oil and Gas Corporation, the railway and the electricity distribution line. Investor.ge looks at why an IPO is attractive for the government, and the domestic debate over the proposal.



# Georgia Priming to IPO Shares in Railway, Pipelines

Government privatization is on the agenda again, although now the government seems to be considering share offerings as a means of making the sale. Georgian Railways is already well on its way to an initial public offering of a minority stake and Georgian Oil and Gas Corporation, the Georgian state electricity distributor and Telasi also seem set to follow. But how are these plans proceeding and how likely are they?

MOLLY CORSO

**T**he first step in any of these IPOs is the legislation to allow them to happen. Changes to legislation are being heard by parliament; if passed, the state would be free to sell minority shares in strategic objects like gas pipelines, the railway and the electricity grid.

Other entities earmarked for IPOs include a minority share in the Georgian State Electricity System and the state's minority share in the Tbilisi electricity distribution system.

Opposition parties, however, are concerned the proposed sales will open

up strategic objects to foreign ownership.

There appears little doubt that the amendments will be passed. Parliament has okayed the changes in the first two hearings; it is largely perceived the third and final vote will pass as well.

Prime Minister Nika Gilauri, who initiated the changes in August, believes the sale of minority shares could bring "hundreds of millions in additional investments".

Speaking to the cabinet in September, Gilauri tried to ease concerns that the sale of minority shares of strategic assets like the railway and Georgia Oil and Gas Corporation could harm national security.

"The Georgian government neither now nor in the future plans to sell the controlling stake of these enterprises," PM Gilauri said at a government session on September 14 - according to comments reported on Civil.ge.

"Our goal is to float minority stakes - 20, 25, 30 percent - of these strategic enterprises on the international stock markets; no more than a 49 percent stake in these companies will be floated."

According to some investors, these sales make sense because Tbilisi is no stranger to international markets. In 2006 Bank of Georgia was listed on the London Stock Exchange and in 2007 and 2011 Georgia made two large bond issues.

For this reason, Georgia is a known commodity for investors, noted BG Capital CEO Nick Piazza. It is also an easy place to engage with the government. While the region has a reputation as a place where "investors go to be forgotten and mistreated", Georgia has been an exception. The waves of reforms, coupled with the government's interest in engaging with investors, have helped create interest in the country.

However, selling equities on the international markets - IPOs for state

owned assets - marks a change to the government's usual method of straight privatization.

Former Finance Minister Kakha Baindurashvili noted that privatization can mean "different things". Now chairman of the supervisory council for the Georgian Post, he said the post office is not being considered for an IPO right now.

The government is, however, investing heavily in the postal service. The intensity of the reforms, which include raising the cost of mailing and moving a controlling share of the state lottery to the post, have raised questions about how long it will remain a state company.

But opposition leaders like Irakli Alasania have objected to the new IPO plan. In an open letter to Gilauri, Alasania said Georgian "reality" - an apparent reference to relations between Georgia and Russia - would make IPO sales potentially "dangerous" for the country.

Alasania also argued that the economic crisis will push down the value of the assets floated on international stock exchanges so Georgia will sell shares for less than they are worth.

Anders Åslund, a senior fellow at the Peterson Institute for International Economics in Washington, stressed however that IPOs are more secure than seeking a "strategic investor" for sensitive assets.

"You can get into a situation that a strategic investor sells and to a less desirable partner," he noted.

Investment analyst Stephanie Komsa noted that right now appears to be a "good time" for Georgia.

"I think there is growing interest," she said.

"I think this is a really good time for Georgia, there is political stability and you can still see the progress that is happening with Georgia's economic growth."

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The electricity distribution line one of the assets slated for a possible IPO.

# Georgia goes Public

## More Georgian companies list on International exchanges

ANDREW COXSHALL, KPMG

**I**n August 2011, the Prime Minister of Georgia announced that Georgian Railways (GR) along with Georgian Oil and Gas Company (GOGC), Georgian State Electro Systems (GSES) and Telasi would be seeking to list shares in International markets (London and Warsaw were mentioned by the PM). Also Bank of Georgia announced that it would be seeking a “Premium” listing on the London Stock Exchange (LSE) – a move that should increase the liquidity of securities and broaden the investor base. There is also speculation that another Georgian bank is looking to list.

Bank of Georgia became the first Georgian company to list its shares on an international exchange when, back in 2006, it was listed in London. However it has taken until now for other Georgian companies to follow suit. So why the increase in activity? What does it mean for Georgia and what could it mean for your business?

### The road to London

Since May 2005, nearly 40 companies from the former Soviet Union have been listed on the LSE. Of these, over 30 are from Russia, 4 from Kazakhstan, 2 from Ukraine and, until now, only 1 from Georgia. The number of listings

increased from only 4 in 2005, peaking at 12 in 2007 before dropping to zero in 2009. This is hardly surprising given the state of the global economy at that time.

2010 saw a slight revival with 4 listings and 2011 has already seen 11 listings. The listings/IPOs (Initial Public Offerings) have ranged from \$160 million to over \$10 billion. This year’s clear general increase in activity may partly explain the PM’s August 2011 statement.

The Prime Minister’s announcement in August appeared to indicate a new phase in Georgian privatizations (GR, GOGC and GSES are all 100% owned by the Government of Georgia) but this time selling minority stakes on the in-



ternational markets. So what is actually involved in a listing in, say, London?

### **What is a listing?**

When a company wants to have an Initial Public Offering this normally means that it makes its shares available for purchase on a recognized stock exchange. As an alternative, the company can issue global depositary receipts (GDRs). A GDR represents an interest in a share but is not actually a share itself and listing GDRs is the most popular method for listings of companies based in the former Soviet Union. If a company wants to list in London, for example, the question also arises whether to list on the main market, the “Official list” or on the Alternative Investment Market (also known as AIM). Generally listings on AIM are for smaller companies and AIM is perceived as a market for developing companies with higher risk.

### **“I own a big Georgian company; can I just list in London?”**

Firstly, it should be noted that listing shares or GDRs in London is not an easy or quick process; it requires a huge amount of effort by the management of a company and a great deal of time. Also it can be a very costly exercise – international bankers, who act as underwriters, Reporting Accountants and two sets of lawyers are expensive. Due to the amount of time, effort and expense involved in a listing it does not really make much sense to try and raise small amounts from the international markets – \$50 million is about the minimum. So only the very largest Georgian companies should contemplate this route.

Another very important issue to consider before thinking about an international listing is that markets (and the relevant listing authorities) will gener-

ally require the company to “comply or explain” adherence to the relevant standards and benchmarks in the applicable jurisdiction. For example, for a listing in London the company would need to take into account the Corporate Governance Framework in the UK (such as the Turnbull report, the UK Corporate Governance Code, the UK Companies Act, etc.).

For a few companies this may be straight-forward but for most companies unused to public scrutiny it will involve a large amount of work to put the necessary policies and procedures in place and to find the right people (for example to be Independent Directors, head up a proper internal audit department and to head up an Investor relations department).

### **Why go for a listing?**

At this point you might be asking if going for a listing is so expensive, time-consuming and difficult, why bother? It is a good question which is not simple to answer. It really depends on what the management or shareholders are seeking.

If shareholders are looking to unlock their investment but still maintain control and the company is already well-run, has good financial reporting systems and good corporate governance (audit committee, nomination committee, independent directors, etc.) then the process could be easier than trying to find a private investor to acquire a minority share in the business.

Also for a company to state that it is listed on an international stock exchange, carries a certain amount of kudos. Svetlana Marriott, a Capital Markets Partner for KPMG in the CIS, currently on secondment from KPMG in London where she spent 8 years working for KPMG explained, “Listing on an international exchange can hold many benefits for companies including relatively cheaper

financing (compared to debt financing), a way for shareholders to extract value and also cheaper financing in the future, as listed companies can generally obtain finance at better rates than unlisted companies.”

### **What to do next**

So if you believe that your company might be ready for a listing what do you need to do? Firstly, you need some good advice from professionals who know what is involved in the process. Your auditors should generally know what is required. The company will need to appoint underwriters, bankers, lawyers, accountants, specialists depending on your business and internal committees (audit, nomination, remuneration) and be ready for a great deal of work.

### **What to expect**

Lastly, be prepared for lots and lots of discussions with lawyers (your lawyers, the advisor’s lawyers, local lawyers, international lawyers) and be ready for some strange terms such as “greenshoe”, the “red herring”, “lock-up” and “book-runners”.

### **End of the journey**

The expected increase in listings of Georgian companies will mean that Georgia becomes known to a wider circle of investors and therefore could help promote further direct investment into Georgia. In addition, by making Georgian companies adhere to international best practice the general level of corporate governance should also improve which should lead to better run, more efficient and more profitable Georgian companies. However the journey is not a short one, nor is it easy, but it can ultimately be rewarding for those willing to take the road to London, or Warsaw, or New York, Hong Kong or Singapore . . .

## Georgia's Liberty Act: Ahead of the curve

European governments are passing similar measures inside the Eurozone to combat the financial crisis.

In 2009, President Mikheil Saakashvili's proposals to cap government spending and make tax increases subject to an obligatory referendum met with criticism and disapproval.

Fast forward to today: the Liberty Act seems on par with several similar initiatives coming out of capitals as diverse as Berlin and Madrid.

In August, Spanish Prime Minister Jose Luis Rodriguez Zapatero proposed creating a constitutional amendment to force the government to balance the budget. The law is expected to pass in November, before planned elections.

Germany and France have called on all governments in the Eurozone to incorporate similar laws in their constitutions.

# Liberty Act: Putting the "Burden of Proof" on the Government

The Georgian parliament passed the government's controversial Liberty Act in July. Among other things, the new law changes the constitution to make it more difficult for future governments to spend more. In an interview with Investor.ge, the prime minister's chief advisor Vato Lejava, outlines what the act means for business and investors.

**T**he Liberty Act will create a better fiscal environment for investors, according to Vato Lejava.

The act, set to come into force in 2013, is the Georgian government's ambitious law aimed at capping governmental discretionary spending. It sets "parameters" for a strict fiscal policy including a three percent cap on the budget deficit and a limit on government spending to ensure it does not exceed 30 percent of GDP.

The ability of the government to increase taxes is also strictly curtailed: parliament made changes to the constitution obliging future governments to hold a referendum in order to raise taxes.

Those restrictions provide a "stable" environment for investors, Lejava said.

"I think it is a message, internally and externally as well. It is about predictability. What investors need, whether domestic or foreign, is that the situation is stable and predictable," he commented.

But the final version of the law is quite a departure from the initiative President Mikheil Saakashvili laid out in 2009. Gone are the provisions banning new tariff regulatory bodies and new licenses and permits.

However the government can bypass the referendum if the tax increase is temporary. Spending caps are also subject to a two year grace period if needed.

Controversy over the initial proposal was premature, noted Lejava. In par-

ticular the International Monetary Fund (IMF) was concerned because it limited the government's ability to regulate shocks to the economy. The European Union (EU) was displeased with plans to limit regulatory bodies, permits and licenses – a move that might have conflicted with the deep and comprehensive trade agreement and negotiations.

But Lejava stressed that two years on, the goals laid out in the Liberty Act are far from radical. Many politicians in the EU and the United States are now considering "how to cut" spending to combat the global economic recession, instead of spending more – the ruling philosophy in 2009.

"Now during the last two years ... we can see a difference in the international arena; to tackle the crisis, is focusing exactly on how to limit the discretion of the government," he said. "[S]omething that was considered a novelty has become something debated. Now it is important to appreciate that the initiative of the president was quite visionary."

The restrictions on government spending fundamentally alter the "burden of proof" for changing fiscal policy, Lejava said, adding, "... any government who will say I need to increase my discretion will need to convince the public and then bring the changes through the democratic process."

"The burden of proof will be on the government."



*cutting through complexity*

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Goodwill hypermarket in Vake

Georgian shoppers – especially in Tbilisi – are no stranger to the supermarket phenomena as supermarket chains expand into neighborhoods across the capital. While the volume of new grocery stores appears unsustainable, CEOs argue the potential for even more stores is huge.

# Supersize Markets:

## Georgian grocery chains compete for new demand

NICK CLAYTON

### Tbilisi, the supermarket capital

Over the last decade, Georgia, traditionally a country of sprawling bazaars and corner shops has increasingly become a supermarket nation. This presents huge opportunities for retailers and challenges for farmers as food consumption patterns change.

A frenzy of new Georgian grocery store chains has hit the capital, with brands like Goodwill, Ioli, Nikora, Populi and Smart supermarkets competing for customers. The battle is fought block

by block, with nearly identical shops opening within meters of each other.

Populi, the biggest supermarket chain, opened 20 stores over the past two years, and plans to increase its 44-store network to 65 sites around the country by next year. Nikora, which specializes in selling its own fresh food products, runs more than 70 shops nationwide, while dozens of smaller supermarket competitors such as Big Ben, Ioli and Salve operate 3-6 stores and Goodwill operates three massive hypermarkets in Tbilisi and Batumi.

Newcomers, like Smart Retail and Nikora's line of supermarkets, are also moving into the market even as existing brands expand.

### From the farm to the aisle

However, as Georgian food retailers continue to grow, the country's food producers have largely stagnated. Despite the fact that more than half of Georgia's population works in the agricultural sector, the industry only represented 9 percent of Georgia's GDP in 2010 — down from 14.8 percent in 2005. Meanwhile, Georgia imports about

80 percent of its food products, making up a large proportion of its \$1.3 billion annual trade deficit.

A 2006 report on agricultural development in the former Soviet Union indicates integrating local farms into supply chains for large retailers was essential for meaningful agricultural development in the Commonwealth of Independent States.

The report, prepared by a large Russian think tank, found that smaller farms were consistently left out of retailer supply chains due to their inability to produce sufficient volumes, resulting in retailers passing over local production for imported food products of similar quality.

Samson Pkhakadze, general director of Smart Retail, estimates that about 28 percent of the products on Smart's shelves are local.

However, he noted that figure includes a high percentage of products from foreign companies who have distributors in Georgia, but produce their goods elsewhere. The rest of Smart's produce is directly imported.

"We are looking for companies who ►►



# SHERATON



GETTING better  
ALL THE  
time

- will invest in (Georgian) agriculture,” he said. “We will help those companies; if they invest in agriculture, then we will find shelves for their products.”

Investment is exactly what the sector needs, according to the Economic Prosperity Initiative (EPI)’s “Value Chains Assessment” report produced by USAID. The report’s researchers looked at ways to increase the overall value of Georgia’s agricultural sector from producer to processor to retailer.

Among Georgia’s agricultural products, it evaluated fresh Georgian vegetables as “underperforming and [having] significant weaknesses” including a need for investment, greenhouses to increase yields, a lack of proper logistical structures to get the produce to market and the inability to keep the produce in cold storage, leading to high margins of waste.

The EPI report found that processed fruit and vegetable products face similar difficulties as the country’s canneries are currently only operating at 15-20 percent capacity. And, as with fresh produce, processed food production in Georgia is restricted by a lack of cold storage, and a need for better training of local growers on international food safety standards.

Populi has gone local largely by producing its own goods. Part of Populi’s 1,100 strong workforce is involved in producing and packaging its own commodity products such as rice and sugar and the company is expanding its private brands to include toys, cleaning supplies and other consumer goods.

Populi Customer Relations Manager Khatia Jambazishvili said the company continues to lead in the supermarket category because they are “everywhere”.

Although any Tbilisian can attest that Populi is indeed unavoidable in the capital, the chain’s reach in the regions remains limited. Of its 44 existing locations, 41 are in Tbilisi.

Jambazishvili said this is largely because of differences in demand between Georgia’s urban and rural customer bases, as the latter continues to prefer shopping in open markets and has a lower average disposable income.

That is something that Pkhakadze, hopes to change. Smart is the newest arrival to Georgia’s supermarket scene and hopes to have five stores operational by the end of 2011. Although Smart’s first two stores opened in Tbilisi, Pkhakadze said Smart’s goal is to bring “new format” shopping to the regions.

Currently, he said, 90 percent of the Georgian retail market is made up of “old format” businesses – market vendors, corner shops and kiosks. That presents a major opportunity for growth.

“The upside potential is huge. The market penetration of modern supermarkets is around 10 percent, so there is an ocean of opportunities,” he said, “especially in the regions.”

One way Smart intends to exploit that potential is to open small trade centers outside Tbilisi that would centralize multiple services such as pharmacies and banks within its stores. Smart also plans to open traditional supermarkets and roadside convenience stores throughout the country.

Smart Retail is owned by Wissol Petroleum Georgia, the country’s largest chain of filling stations. As Georgia gains a greater role as a regional transit and distribution hub, Pkhakadze said he hopes to capitalize on the increasing demand for one-stop-shop locations for truckers and travelers passing through. Wissol/Smart are also in the process of completing the country’s first highway rest area near Gori.

### From quantity to quality

Jambazishvili said Populi has undergone major changes as the company has

transitioned from being the only chain of its kind to one of several vying for a market that continues to be wide open.

“We had an absolutely different strategy in those days; we rebranded two years ago and we’re now paying more attention to customers, not just our assortments,” she said. “The first strategy was to open a large number of stores, now we’re working on quality.”

Populi now operates a customer hotline, which Jambazishvili said gets around 100 calls per day. This is part of a wider move by the company’s new management to gather market research.

“We are conducting a lot of research at the moment. As you know, the Georgian market is not transparent enough and is highly fragmented, so very often we ask our customers to help us improve things and learn more about their expectations,” she said.

Both Populi and Smart have brought in scores of foreign consultants, primarily from EU countries, to modernize and standardize their brands and operations. Pkhakadze said that the consultants have been key for adopting best practices to ensure that Smart does not re-invent the wheel.

Every detail – from layout ergonomics to background music playlists – has been pored over with outside experts.

Jambazishvili stressed the rivalry for business is making Populi stronger, encouraging new innovation to win clients. Its move toward locally produced products, for example, is part of Populi’s strategy to produce cheaper goods as the competition multiplies.

In the end, she said, Populi has benefited from its growing base of rivals, which has pushed the company to continually reinvent itself.

“[The competition is] really good for us,” she said. “[It’s] why we can never relax.” ■



# Businesses Investing in the Community



BP Youth Capacity Building Project (YCBP). For more photos of projects, visit [www.investor.ge](http://www.investor.ge)

Responsible business practices are paving their way into the modern Georgian corporate culture. Case studies of prominent local and international companies indicate that social responsibility projects are now more diverse, systematic, long-term, and goal-oriented. Below are some of the most notable initiatives implemented by Georgian companies. An article analyzing the trend starts on page 25.

## Bank of Georgia: Partnerships in Corporate Responsibility

In addition to the more traditional areas, environmental preservation is a leading sector in Bank of Georgia's corporate responsibility portfolio. During its two-year partnership with the Borjomi-Kharagauli National Park, the bank has financed the Park's tourist center renovation works, which were completed this October. Since the Bank envisions a long-term investment in the Park, the tourist center – featuring tailored hiking tours and guide assistance, a guesthouse, an administrative center, and an exhibition hall – was designed to be functional beyond the short vacation season.

In addition to its social and environmental importance, BOG's patronage of the Borjom-Kharagauli Park is an example of a successful partnership between government institutions, non-profit organizations – the Caucasia Nature Fund – and private companies.

## Bank Republic: Corporate Culture Driven by Staff Initiatives

Bank Republic, as part of the bigger Société Générale Group, has numerous policies and programs in place to boost the company's positive impact on soci-

ety. Staff involvement at Bank Republic in Georgia is particularly active with the bank's latest project providing monetary support to the street children in Tbilisi.

The spirit of volunteering does stem from the overall corporate strategy of social responsibility. As part of Bank Republic's traditional Citizens Commitment Week, Bank employees donated blood to children suffering from leukemia at the Iashvili Children's Hospital, while the company purchased essential furniture and supplies. Other initiatives provided monetary and in-kind donations to several orphanages in Georgia and sponsored and participated in the breast cancer support race.

## BP: Responding to the Community Needs

BP's has established a complex and comprehensive approach towards corporate social responsibility with the aim to help develop socio-economic conditions in communities through capacity building. The company works in partnership with different organizations offering the hands-on expertise needed in each particular area.

In partnership with the Georgian Organization of Scouts Movement as an implementing partner, BP initiated a Youth Capacity Building Project

(YCBP) aims to teach students from 44 schools in the Baku-Supsa Pipeline's surrounding area leadership, presentation and communication skills through training sessions and summer camps at the Lagodekhi National Park. In addition to sharing daily choirs, the camp participants had the opportunity to take on leadership roles within the camp and get involved in Scout Organization's future projects.

## DLA Piper: Supporting the community with pro bono legal advise and charity

From supporting charities like The Way of the Future to providing pro bono legal advice to an organization assisting NGOs, DLA Piper is using the best of its experience to help Georgians and the local community. In addition, thanks to DLA Piper's support, Georgian students can participate in the International Moot Courts (Willem C. Vis International Commercial Arbitration Moot Court and Phillip C. Jessup International Law Moot Court Competition). We provide financial support and one of our lawyers usually serves as a judge/arbitrator for local competitions. The law firm was also one of the partners of European Law Students' Association Georgia for its project Student Trainee Exchange Programme.

## Eurasia Partnership Foundation: Awarding Green Business

Since 2008, the Eurasia Partnership Foundation (EPF) has administrated ►►



**TBC Bank supports community development**

- ▶ BP's Eco-Awards. The awards are an annual event that reward communities and organizations for finding innovative ways to build a stronger society and safer environment.

The program is an opportunity to “empower local communities by increasing their ability to address local environmental problems.”

In 2011, six proposals were awarded including a project to set up a nursery for Kolkhian Pheasants and bio-farming and eco-tourism in Upper Svaneti. In addition to Eco-Awards, EPF is active in educating businesses about CSR and social enterprise in Georgia.

### **JTI-Japan Tobacco International: “Sharing the Fruits of Success”**

JTI believes in sharing the fruits of business success through Corporate Philanthropy programs that improve or enrich the communities it operates in. JTI has historically always given special attention to two areas: social and welfare programs, and support of arts and culture. In Georgia we run a charity project with Caritas Georgia, providing support for a free soup kitchen. 190 elderly people are getting daily food at Caritas soup kitchen. We also provide support to Japanese cultural programs in the country in cooperation with the Embassy of Japan.

### **KPMG Promotes Healthy Lifestyles, Assists Families in Need**

KPMG Georgia, together with the David Mikeladze Fund for Future Scientists, started an annual charity football tournament in June. The fund was created to honor the memory of David Mikeladze, a KPMG employee killed in a car accident in January 2010. Proceeds from the tournament go to the fund to promote healthy lifestyles.

KPMG Georgia gave children presents, held a concert and donated books for the library at an orphanage in Kojori – as well as provided materials for repair and helped paint children's rooms. KPMG in Georgia also carried out a CSR project to help a settlement of low-income families in Dzegvi village, providing a refrigerator and other appliances for newly settled residents.

### **ProCredit Bank: Being a Responsible Corporate Citizen**

ProCredit Bank believes it is important to contribute to the preservation and protection of the environment. The Bank has thus organized two eco events supporting the Lagodekhi National Park, cleaning up the area and planting olive trees. ProCredit Bank plans to maintain an on-going partnership with the Park, organizing further clean-up and environmental maintenance campaigns.

Another notable feature of the Bank's CSR initiatives is its investment in a “transparent and low-risk profile.” ProCredit aims to become the trustworthy “neighborhood bank for small businesses and ordinary people”.

This aspect of corporate responsibility is especially timely in the wake of the ongoing financial crisis and has allowed the ProCredit group to boast a “remarkably stable” 2010 performance world-wide.

### **TBC: Building Community Support Traditions**

TBC Bank has been diligent in choosing long-term and goal-oriented community support projects. TBC's traditional areas of work include literature, arts, and culture, with exclusive events at the TBC Art Gallery, the annual literary award Saba and several publications made possible through the Bank's support.

Restoration of historic and religious sites is another on-going project. The Poka Monastery, Poti Cathedral and the Bagrationi Historical Stables are among the architectural monuments renovated and maintained by TBC. The work done through TBC Fund for Victims has been most urgent following the 2008 war and the accompanying humanitarian crisis. The Bank's patronage of the internally displaced (IDP) communities included such services as health care, education, infrastructure development, and sports and vocational training.

### **Wissol: Working for the New Generations**

Wissol CSR projects are particularly comprehensive in addressing long-term needs in society. Their youth-support programs aim to aid the development of future generations and include the support of the Iavnana Fund, the youth center Art Hall, and the #10 public school for special needs children.

Wissol is also adamant about supporting healthy lifestyles for the youth. To this end, the company has constructed several state-of-art sports complexes, purchased the rugby club Wissol Kochebi, and founded the soccer club Wissol Avaza. Another step toward promoting healthier choices is the new bio produce corner at Wissol's supermarket chain Smart. The Bio Corner offers products that are not genetically modified or treated with artificial colorings. ■



KPMG Georgia, together with the David Mikeladze Fund for Future Scientists, started an annual charity football tournament in June

## Pay it Forward: Corporate strategies help build strong business and strong communities

From banking to energy, education to transportation, companies from sectors across the Georgian economy are finding policies that promote safety and economic security are good for business.

KETI KHUKHUNASHVILI

### From the Board Room to the Living Room

From cultivating a healthier workforce through training and safety gear, to supporting healthier children by financing sporting events, Georgian businesses are finding innovative ways to blend ethics and business strategies to build stronger, more secure communities - while also bolstering the bottom line.

The practice of corporate social responsibility, known as CSR, can easily be confused with only charity or brand promotion. In fact, AmCham's CSR Committee Chair Michael Cowgill stressed it produces concrete results that can benefit any business. AmCham and its CSR Committee serve as the Secretariat, or operational body, in Georgia for the United Nations Global Compact Program which is a worldwide effort to promote CSR-related issues.

Cowgill, co-founder of Georgian American University (GAU) and a vice president on AmCham Georgia's Board of Directors, together with the Global Compact Steering Committee, is spearheading efforts to educate Georgian businesses on how social responsibility is

essential for creating a strong company.

For example, all companies seek to win consumers' trust and CSR can help to deliver just that. Cowgill explains that the best way forward is to "make [responsibility] part of the company's operational scheme and its long-term sustainability vision".

Viktor Baramia, the program manager of Economic Development Programs at the Eurasia Partnership Foundation, agreed that corporate social responsibility should revolve around a "strategic vision" and not just company marketing.

"The companies that try to look into the future - they do more today in terms of long-term CSR," he said.

This may begin as a simple code of ethics, an HR policy or a volunteering incentive. For British Petroleum (BP), community-focused projects combine the best of the company's corporate skills with local needs like infrastructure development, skill building and fundraising.

In addition, the company is using a volunteer incentive program to encourage its employees to reach out to the community. Rusudan Medzmariashvili, the Social Responsibility Manager at BP, noted when a BP employee volunteers at a charitable organization, the company matches the value of the employees' time

in a monetary donation to the charity.

The work of organizations like AmCham, together with businesses like BP, Wissol and many others, mirrors an increasing need and desire from communities and civil organizations to work with the private sector.

A 2007 survey by the Center of Strategic Research and Development of Georgia (CSR DG) found that 93% of the population believes implementing social projects is a "voluntary obligation that should be assumed by businesses".

Many Georgian companies are keen to respond to this demand. In fact, business-driven projects are plentiful, ranging from TBC Bank's efforts to build a school for families displaced during the August 2008 war, to Bank of Georgia's investment in Tsagveri forest rehabilitation.

### From Arts to Science

In Georgia, businesses are also developing more long-term, sophisticated methods to assist communities with core social issues. At Bank of Georgia, Brand Executive Sophie Balavadze explained that the bank is moving past its traditional role in finance to create social projects that support "themes that are important for our population, raising awareness and putting them at the forefront".

"[Corporate social responsibility] is beyond sponsorship and philanthropy ... [it] is not the same as simple advertising - BOG is now trying to do what is innovative and catch up with worldwide trends and tendencies," she said, adding, "... this is the private companies' job as [they] are visible on many levels and touch a lot of people lives."

Across the globe, corporations have discovered similar success using their business platforms to tackle serious social and medical issues.

In the UK, for example, Barclays ►►



## Social Enterprise: Putting Business to Work

In addition to its focus on corporate social responsibility, EPF promotes the development of social enterprise in Georgia. Social enterprises operate primarily with social objectives as the bottom line, investing profits back into the social objectives of the business. After a period of training and technical assistance, EPF funded three non-profit organizations. One, Association Women and Development, established the First Social Enterprise LTD and purchased equipment to start a small bakery in Gori that employs six people, including three during the 2008 conflict. Today the bakery is generating small but consistent profits.

NGO Tanadgoma used the financing to purchase equipment and trained five disabled people to make business cards, laminate and copy, and bind hand-outs and workshop materials. The income generated is used to pay their employees; profits are used to sustain the NGO.

Currently, EPF is looking to expand the program with a greater focus on IDPs throughout the country.

- ▶ Bank is a corporate sponsor for Macmillan Cancer Support, as is a chain of health and beauty shops that delivers cancer support services through its stores, fundraises for the cause and encourages its employees and colleagues to volunteer for the organization.

A large balance sheet is, however, not essential in order to answer the various needs that exist in Georgian communities. Large corporations with nationwide outreach and established track-records of educational projects, as well as service-based companies can help small organizations by offering expertise and advice.

Companies like DLA Piper, an international law firm in Georgia, are providing pro bono work in the country, donating their time and resources to serving clients in special need for free.

Lawyers at DLA Piper also support student competitions, sharing knowledge and experience through lectures and public talks – opportunities that larger companies like Wissol and TBC also make use of.

### Good Business Makes “Cents”

Pro bono legal work, a program offered by DLA Piper, and Wissol’s efforts to promote healthy lifestyles are an important bridge between corporate sponsorship and companies taking an active role in promoting better lives.

At the heart of the international drive towards more socially responsible businesses is the push for higher standards in ethics, corporate practices and investor relations. In international practice, companies that prioritize ethics and consumer relations have been better positioned to weather crises.

The U.S. healthcare and pharmaceutical giant Johnson & Johnson is a good example: in 1982, the company’s best-selling painkiller Tylenol caused the death of seven consumers and sparked a

media frenzy. While pundits predicted the company’s demise, executives rolled out a progressive strategy of recall and free replacement. Several months – and over \$100 million – into the crisis, Johnson & Johnson had reclaimed most of its market share, regained public trust and maintained its brand integrity.

Cowgill noted that many Georgian companies are establishing ethical standards for business operations. Leading Georgian banks manage this by working towards transparency and self-regulation, keeping policies in place for financing responsible businesses. Bank Republic, for instance, implements meticulously designed crisis-management and reporting policies, a strict code of ethics, and staff protection and development initiatives. BP has also made social responsibility its everyday business. The company begins each project with extensive research and assessment (including environmental and social impacts), a component of planning that, Cowgill pointed out, is often minimized in other Georgian business operations. However, safety and security, Cowgill noted, are not simply competitive advantages; as well as being marketing tools, they are core to good business practices.

“CSR does not always have to be part of the company’s competitive edge. In fact, it should be a standard of doing business that is upheld throughout the industry,” he said.

“For example, the energy business [companies] always talk about safety. Safety issues should not be thought of as a competitive advantage – this is something that helps everyone. This should be something that is above competitiveness.”

*For more information about Global Compact and CSR, please contact Ketis Sidamonidze, k.sidamonidze@amcham.ge.* ■

# IT: A New Frontier for Investors

Investor.ge continues its series of sector overviews to provide background, summaries and analysis of priority industries for investors in the Georgian economy. This is the first of three articles about the growing interest – and potential – of Georgia's IT sector. For more information, please contact Molly Corso, editor, [m.corso@amcham.ge](mailto:m.corso@amcham.ge)

From a new computer factory to cutting edge IT classrooms, Georgia is awash with innovative programs geared to capture a piece of the growing technology industry. A government program to support IT free zones and a push to introduce IT education in primary schools both indicate support for technology and investment in technology is growing.

## Mobile phones: the new wallet

Georgia's old-school economic reforms have created a fertile environment for new technology investments, noted Allen Gilstrap, the CEO of MobiPay.

MobiPay, the mobile payment platform created by U.S. investor Open Revolution Georgia JSC, chose Georgia over a list of 50 possible destinations when it decided to open its headquarters in 2009. The technology, which is new to the region, required extensive investment in software development and marketing and could make Georgia a regional hub for electronic banking services.

MobiPay's innovation is that it enables people to put money into an 'electronic wallet', similar to the credit people usually put on their phones to pay for phone calls. The innovation of the system is that this 'e-money' can be transferred to other phones, used to buy goods and services and retrieved as cash – all without the need for an ATM, a point of sale device or a bank. Unlike more high-end mobile banking platforms, it can be done with the cheapest available mobile phones and does not need a bank account.

Similar systems have been enor-

mously successful in both Africa and Asia, where they have provided access to bank-like services for millions of people in rural areas and facilitated huge intra-country financial transfers.

Bringing a similar platform to Georgia, MobiPay's Gilstrap said the company is a "poster child" for what the Georgian government is trying to do in IT development.

For MobiPay, the country's pro-business reforms, employable population and strong mobile networks made Georgia an obvious choice, he said and explained they were attracted to Georgia because of the "complete absence of business corruption, fervency of the government to promote foreign investment – Georgia has a fantastic future in front of it... we are a poster child for what we think they wanted to do."

The company's platform went online earlier this year and already has over 110 thousand customers. A network of 1800 merchants use the payment system and MobiPay is expanding to other cities around the country. They are also working on opening similar platforms in Poland and Ukraine.

The idea of transforming phones into bank branches has attracted interest from other potential investors, as well as from mobile phone operators.

Archil Bakuradze, the Project Coordinator at Crystal Fund/Mobile Finance Eurasia, is also gearing up to launch a mobile wallet system.

While the service will differ from MobiPay, he noted it would be a multi-currency wallet that will allow anyone to access funds from their telephone.

Georgia, he said, is a fertile market for innovative banking solutions.

"Georgia has become really a place where all these stories are unfolding, like Kenya was in Africa and I think there is a combination of factors," Bakuradze said.

"First are the liberal regulations; regulators are stimulating the emergence of new business models. Plus Georgia definitely needs something for financial services to expand to the rural areas and this is definitely a state of the art solution."

David Lee, the general director of Magticom, said the potential is real – if developers can hit on the right product.

"I think the mobile platform has a lot of potential, but the situation in Georgia is closer to the one in the west, not like Africa where these things initially took hold," he said.

While Geocell, one of the largest cell phone operators in Georgia, has signed on with MobiPay, Magticom is working on its own platform. Lee noted that they launched a banking service earlier this year, but are still working on finding the right mobile payment solution for the Georgian market.

"I think the killer application that will work in Georgia is still not here yet," he said.

But the "dynamic" telecommunications sector in Georgia is creating a deep pool for possible investments in the country, Lee underscored.

"The digitization of Georgia is taking place and I think the telecommunications sector is one of the more dynamic sectors," he said.

"The next stage will be [digital] TV and probably the final stage will be making sure that everyone has high speed internet in the home and Magticom will again be part of that...I think the future looks pretty bright in the case of Georgia."





## ► Bringing IT investors to Georgia

President Mikheil Saakashvili has praised the capability of technology to reenergize the job market and Economy Minister Vera Kobalia traveled to Silicon Valley in 2010 to lure software giants to the Georgian market. Giorgi Chirakadze, the founder and CEO of UGT a leading Georgian IT solutions company, said the government's efforts have paid off. He noted that large vendors like Cisco, HP and Microsoft have all entered the market. Intel has even partnered with a local firm to produce computers.

Lee noted the government's efforts have produced some tangible results, like MobiPay's investment. He stressed,

however, that policy making has been "disjointed". "[The government] seems to be doing a lot of good things and at the same time it is doing a lot of negative things," he said.

"On the good side, they are certainly consistently encouraging people to develop this sphere, but on the negative side they are taxing the mobile phone companies which are the most innovative IT companies."

Irakli Kashibadze, the head of the Communications, IT and Innovations Department at the Ministry of Economy and Sustainable Development, argued however, that the government's policy is focused on supporting innovation. "For us [the goal] is technology and in-

novation," he said. "That is why we are actively working to create policy that will support the e-commerce development in the country." A long-time advocate of IT development in Georgia, Chirakadze said officials have been particularly successful at getting the word out about Georgia's potential.

"The government is really trying to move forward; the government is really trying to find potential investors in IT and is pretty much reaching a lot of international companies who are potentially interested to invest, mainly in the services area, in software and outsourcing," he said.

"There are definitely some very positive movements." ■

## Information Technology Virtual Zone - favorable tax regime for IT companies



KETTI KVARTSKHAVA PARTNER,  
BLC LAW OFFICE

Georgia, like many small countries, is striving to carve a position in the market of innovative technologies by offering special incentives and benefits to the companies willing to expand to Georgia or locate a large part of activities in Georgia. Many companies consider developing countries as insignificant markets for innovative products and services. To combat this perception, developing countries use free zones to present unique opportunities for business. Free zones (sometimes called virtual free economic zones, virtual duty free zones, virtual tax free zones) - are specific areas where certain taxes or limitations on business or trade do not apply.

In order to enhance the business environment and foster the information technology sector, the Government of Georgia has undertaken an important step : adopting a law on the information technology zones, establishing information technology zones, while

applying special tax regimes on certain transactions, namely the ones involving information technologies created by the Person of Virtual Zone (PVZ).

PVZ status can be granted to an IT company registered in Georgia, by following simple a registration procedure, conducted electronically. The status is granted to a legal entity engaged in activities relating to the study, support, development, design, production and implementation of computer information systems, which result in the creation of the computer software.

The Financial Analytical Service of Georgia (FAS) – [www.mof.ge](http://www.mof.ge) -- grants applicants for PVS status. Together with the application, the FAS requires a list of the projects carried out by the applicant over the past three years (if any).

The FAS is authorized to request additional information on the IT activities of the applicant; all information is confidential. There is no registration fee and status is granted within 48 hours of submitting an application.

After conferring PVZ status, the FAS gives the applicant respective electronic certificate, authorizing the PVZ to enjoy respective tax benefits. PVZ does not

need any licenses, permits or any other regulation documents for conducting its activities.

Within the special tax regime, finances will remain in the company, boosting its potential and strength - providing an extra incentive for companies to invest in Georgia.

A PVZ enjoys considerable tax benefits, among them: profits received by the PVZ from the supply of the information technologies outside Georgia are exempt from corporate profit tax and VAT; export of information technologies by the PVZ is exempt from export tax; a PVZ may deduct the expenses related to the receipt of gross income from supplying of IT technology in and outside Georgia in proportion to the income generated from the supplies made in Georgia in its total gross income.

Although PVZ status is granted for the indefinite term, the law of Georgia on information technology zones stipulates that the status may be cancelled if it is being abused or used to evade taxes.

It is expected that this innovation will create an attractive environment for companies engaged in the IT sector to establish their presence in Georgia.



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## BP plans gas pipeline to Europe from Azerbaijan

**FT** News, analysis and comment from the Financial Times

DAVID BLAIR AND ENERGY CORRESPONDENT

**B**P is planning a pipeline stretching 800 miles across three countries to bring gas from Azerbaijan to Europe.

The scheme is a new entrant in the highly charged competition to construct a supply route to the Caspian Basin and reduce Europe's dependence on Russian gas.

Until now, three projects have been under consideration, each of which would alter the strategic picture of European energy by constructing a "southern corridor" to Azerbaijan's Shah Deniz gas field, currently being developed by seven

companies, including BP.

The existing proposals are the Nabucco route, favoured by the European Commission; the Trans-Adriatic Pipeline; and the IGI Poseidon scheme.

BP's new plan - known as the "South East Europe Pipeline" - has emerged before a crucial deadline: on Saturday, Nabucco and its two competitors will present their tariff offers to the Shah Deniz consortium, which includes BP. The consortium will decide which pipeline to favour by the end of this year.

Al Cook, BP's vice-president for Shah Deniz development, described the South East Europe Pipeline as "another possible solution", saying that BP was "open to the idea" of direct involvement in the project. He added: "It doesn't follow from this that we necessarily find flaws in the three offers. But it is wise to have another option."

Mr Cook noted that BP had led the construction of two existing pipelines linking Azerbaijan with Turkey. "This gives us the confidence that we could do it again," he said.

The Nabucco proposal, described as "heavily politicised" by one banker, involves a 2,400-mile (3,863 km) pipeline running from Turkey to the European gas hub in Austria. The price tag would be as high as \$20bn, according to people familiar with the scheme. Moreover, Nabucco would have annual capacity of 31bn cu m, compared with the 10bn cu m that will be available from Shah Deniz from 2017. Europe's strategic interests explain Nabucco's size and cost. The idea is to open a new corridor for the Continent to import gas not only from Azerbaijan, but also from the wider Caspian region and the Middle East, including Turkmenistan and Iraq.

BP's new plan envisages a smaller and cheaper pipeline, geared to the commercial interests of BP and its partners, who plan to invest \$22bn in expanding the Shah Deniz field.

The new proposed pipeline would start in western Turkey and run across Bulgaria and Romania to Hungary's eastern frontier. It would make use of existing infrastructure to link to Azerbaijan in the east and the Austrian gas hub in the west. In all, it would be about a third of Nabucco's length, making it far cheaper.

It would also have about a third of the capacity, commensurate with the gas that Azerbaijan could supply. However, the pipeline would be flexible enough to be scaled up if other sources of gas emerge.

"It is in the interests of everybody to find that magic number which makes that pipeline both commercially viable and politically interesting," said Riccardo Puliti, head of energy and natural resources at the European Bank for Reconstruction and Development.

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# The inexorable rise of the MBA politicians

**FT**

News, analysis and  
comment from the  
**Financial Times**

BEN SCHILLER

**W**hat do William Hague, Hank Paulson and P. Chidambaram have in common?

Answer: they are all MBA graduates who have reached high public office

(respectively British foreign secretary, former US Treasury secretary and Indian home affairs minister).

There are plenty of management graduates in politics these days.

In Europe, the Dutch finance minister, Jan Kees de Jager, is an MBA from Nyenrode (which also produced former prime minister Wim Kok). Jean-Louis Borloo, French minister for ecology and energy until last November, and higher

education minister Valérie Pécresse are graduates of HEC Paris. In the UK, Mr Hague has an MBA from Insead and Cabinet Office minister Oliver Letwin and former shadow home secretary David Davis both studied at London Business School. Harriett Baldwin, Tory MP for West Worcestershire, holds an MBA from McGill in Canada.

The US has also seen several MBA politicians in recent years, including



Mr Paulson, (Harvard Business School) former president George W. Bush, (HBS) and former secretary of commerce Donald Evans, who has an MBA from McCombs.

Elsewhere, others include the deputy prime minister of Singapore, Wong Kan Seng, (LBS) and the vice-president of Indonesia, Jusuf Kalla, (Insead).

There are several competing explanations for the prominence of such politicians: from the need for greater professionalism in government, to the simple fact there are more business school graduates in circulation these days.

Not surprisingly, however, opinion is divided about their effectiveness in office. Depending on the point of view, MBA politicians either offer technocratic common sense, or are symptomatic of a creeping managerialism.

Rajeev Gowda, chair of the Centre for Public Policy at IIM-Bangalore, is in no doubt. He says India needs the skills and perspectives MBAs can offer. "As democracies mature, you need different types of people. You go from wanting people who can lead political agitations and write constitutions, to people who can manage a budget and improve the efficiency of programmes. That's where an MBA training comes in useful."

India's raft of MBA politicians include Mr Chidambaram (HBS); the minister of social justice Mukul Wasnik (Nagpur); defence minister Mallipudi Raju Pallam Mangapati (Temple University, Philadelphia); commerce and industry minister Jyotiraditya Scindia (Stanford); and energy minister Jitin Prasada (IMI, Delhi). Sachin Pilot, a 31-year-old minister for communications and technology, studied for an MBA at the Wharton School at the University of Pennsylvania.

Prof Gowda says Mr Prasada, Mr Scindia and Mr Pilot represent a new

guard in public life. "They are less ideological than previous leaders - the ideology today is growth and economic success. The question is how you move from a big government to a government that facilitates, where it is private enterprise that makes the big difference."

Prof Gowda, a Wharton MBA politician, argues that modern governments need officials who are comfortable interacting with the business community - both to spur economic growth and to deliver social services that the government cannot provide on its own.

This is a theme echoed elsewhere by Kakha Shengelia, president of Caucasus University, Georgia, where several management graduates are in government. Vladimer Gurgeneidze, former prime minister of Georgia for example, has an MBA from Gouizueta Business School, Emory University.

"In the old days, we were a Soviet Republic and there was no business education. It was all sciences and mathematics. Now, if you want to be president you need some business education."

Mr Shengelia, a former deputy mayor of Tbilisi and an MBA from Hartford, credits business school-trained politicians for recent improvements in Georgia's "business environment", and in its railway services, for example.

Similarly, last year the Economist praised Mr Hague for bringing an "MBA's wariness of passions and world views" to the Foreign Office, claiming he had imported a calm professionalism.

Not everyone is convinced that management graduates are as effective as advertised, however.

James Pfiffner, a professor of public policy at George Mason University, who studied George Bush's performance as the US's "First MBA President", says the public tends to overestimate the abilities of the private sector.

"Voters like to think that business people are efficient and that they can bring good practices to government. But they only think about the best run companies and the worst run agencies. They forget about the thousands of start-ups that go broke every year."

And, there is no guarantee that management graduates will govern as their training might suggest. Prof Pfiffner argues that an MBA has limited usefulness for aspiring politicians.

"Analytical skills and being able to think clearly are important for politics. But things like accounting, marketing or finance are not going to be directly relevant. The types of things that politicians do need might be better gotten with things like history or even philosophy."

But Maurits van Rooijen, rector at Nyenrode, says this misses the point about business school. An MBA is not simply standardised knowledge about various corporate functions, he says, but - at its best - is a programme that encourages self-development and fosters leadership skills. It is therefore potentially useful for lots of occupations.

"What we don't want is the classic MBA who is just capable at analysing data, and making decisions. We are trying to teach contextual intelligence. It's not always precise data and facts that lead you to a certain solution. You have to develop a sensitivity which goes beyond facts and figures. That's what you need in business as well as in politics," he says.

Assessing politicians is subjective. But Prof van Rooijen says whether a politician is effective ultimately depends on the individual, rather than his or her training. "You can do an MBA by sitting behind a computer, acquiring knowledge. Or you can have an MBA that's beyond the knowledge, where it's about leadership. That's what we try to be about."

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## Dip fails to deter 'brave' private investors



CHRISTOPHER THOMPSON

**P**rivate investors bought a net £1.3bn of UK equities between May and August, despite their shareholdings losing £20bn in value in the period, according to data from Capita Registrars.

It marks the biggest net purchase of equities over a quarter since spring 2009 and came as the world's stock markets fell heavily.

The buying lifted the proportion of UK-listed companies owned by retail investors to over 12 per cent for the first time in two years, with volatile resource and financial stocks the most heavily bought sectors.

"During August's wild swings, private investors on average lost or made £4.4bn every single day, so it was exceptionally brave of them to be buying

when they saw a dip," said Charles Cryer, chief executive of Capita Registrars. "It's unusual to see retail investors buying in very volatile times but there are so few investment alternatives they were tempted into the market."

The value of private investors' shareholdings dropped by a total of £34bn between the end of May and September 22, according to figures compiled by Capita.

Until September, bargain-hunting investors had been net buyers of equities for five consecutive quarters, representing the longest sustained period of net buying for at least six years.

Investors bought a net £1.6bn of cyclical stocks, mostly in the resource and financial sectors.

By contrast they sold £300m of so-called defensive stocks, such as utilities.

At the market's low point on August 10, private shareholdings were down £35bn to £201bn, 15 per cent lower than their end of May close and £46bn lower than their pre-2007 financial crisis peak.

Much of that was caused by losses in the resources sectors. In early August the FTSE All-Share Mining index hit its lowest level in a year, down 29.6 per cent from a peak set last December, even as the cost of many commodities such as oil, copper and iron ore remained close to historically high levels.

Yet in spite of the market turmoil UK dividends rose 27 per cent to £19.1bn in the second quarter of this year compared with the same period in 2010, according to Capita. Mining companies - whose stocks have borne the brunt of the recent volatility - increased their pay-outs almost fourfold, from £491m to £1.85bn.

September has offered little succour in terms of stability. On September 22, the worst day of trading since the collapse of the US-based investment bank Lehman Brothers in 2008, the market closed down 4.7 per cent as private shareholdings fell back to £203.1bn, costing investors £10bn.

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# Gas field discovered off Azerbaijan

**FT**

News, analysis and  
comment from the  
**Financial Times**

ISABEL GORST IN MOSCOW

**T**otal, the French oil group, has discovered a large gas field off Azerbaijan that will boost the European Union's plans to import Caspian gas and diversify away from Russian energy supplies.

Ilham Aliyev, the president of Azerbaijan, said the gas find was a "major event" that underscored Azerbaijan's long-term prospects as a global energy supplier.

"This will allow us to press ahead more confidently with our gas strategy and strengthen the position of our country as a world gas exporter," he said.

Total said it had found a large gas reservoir that could potentially hold

"several trillion cubic feet of gas reserves and associated condensates" while drilling a first well on the Absheron block offshore Azerbaijan about 25km from the huge Shak Deniz gas field.

"This discovery could be very significant in terms of resources," Marc Blaizot, senior vice-president of exploration at Total, said in a statement. "Drilling will continue to explore further deeper objectives that look attractive."

Analysts said the gas discovery brightened the prospects for the EU-backed Nabucco pipeline to transport Caspian and Middle East gas to Europe and reduce dependence on Russian energy supplies. Investors have struggled to secure sufficient gas supplies to fill the 31bn cubic metres a year pipeline.

Russia is competing for control of Caspian gas and has offered to buy all Azerbaijan's surplus gas production. Gazprom, the Russian gas monopoly, plans to build the South Stream pipeline to bring gas across the Black Sea to south and central Europe that would compete in markets targeted by Nabucco.

Azerbaijan exports small amounts of gas to Turkey, Georgia and Greece from the Shah Deniz field, where a foreign consortium led by BP is developing one trillion cubic metres of gas reserves. The group is in talks to supply gas to Nabucco from the second phase of Shah Deniz expected onstream in 2017.

Azerbaijan exports about 1m barrels a day of oil through a pipeline across the Caucasus to the Turkish Mediterranean that bypasses Russian routes to world markets. Growing gas exports in the coming decade will help compensate for an anticipated decline at Azerbaijan's Caspian oil fields.

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# Georgia: Moving towards a Free Trade Area with Europe

The European Union and Georgia have been engaged in an ambitious process for more than eighteen months towards achieving a "Deep and Comprehensive Free Trade Area" (DCFTA).

This has become one of the most important issues in Georgia's political agenda. Virginie Cossoul, EU Trade Officer at the EU Delegation to Georgia explains what this may mean for the country.

## Explaining the "Deep and Comprehensive" trade agreement

**T**raditionally, standard free trade agreements foresee mutual opening of markets for goods and services. The reason that this agreement is called 'Deep and Comprehensive' is that it would go much further. It would be "comprehensive" because it would cover a wide array of trade-related issues and it would be "deep" because it aims at eliminating 'behind the border' obstacles to trade, thus partially opening/extending the EU internal market to Georgia.

The European Union's (EU) internal market consists of 27 member states. The removal of barriers faced by economic operators, as well as the introduction of high standards of consumer protection is the main foundation of the EU's operation. Notwithstanding the current difficulties in the Eurozone, most agree that this internal market has created enormous benefits for its members.

The free trade area will provide, as far as possible, the gradual integration of Georgia with the EU's internal market. Extending the internal market to Georgia will bring benefits for:

- Domestic and foreign investors and entrepreneurs: as more legal certainty creates trust and a fair and business-friendly environment, and reduces corruption (e.g. by introducing transparent rules on competition);
- Consumers: because EU internal market rules would institute modern standards in the field of industrial products and food safety, ensuring better product quality;
- Inventors and artists: because their ideas and creativity would be better rewarded, thanks to higher standards of protection and enforcement of intellectual property rights;

- Central and local government authorities: as they would spend more efficiently and hence save taxpayers' money, thanks to a competition-based and transparent system for public tenders.

## The export potential of the DCFTA

On the export side, Georgian producers and exporters will be offered free access to the EU market with over 500 million high income consumers for almost all products traded.

At present Georgia enjoys unilateral trade concessions from the EU through the so-called Generalized System of Preferences (GSP+). This system offers limited preferences compared to the future DCFTA. Once the DCFTA replaces the GSP+, tariffs will be abolished for almost all products and on top of this both sides will address regulatory barriers. This would be a major improvement over the current GSP+ treatment which has a unilateral, temporary character and is not negotiable with the EU.

## The new status would bring tangible benefits to Georgia, such as:

**Substantial economic gains:** a predictable legal and institutional environment initiated and strengthened by the DCFTA will greatly increase the attractiveness of Georgia as an economic partner. It will facilitate business-to-business contacts and encourage foreign and domestic investments.

**A stronger external anchor for the reform process:** Georgia is an economy in transition from a centrally planned to a market economy. The economic reforms in Georgia will have to continue in the future in order to put the country on the path to sustainable economic growth.

The DCFTA will establish a transparent scenario for economic operators

who will be able to prepare their strategies based on the agreed calendar of regulatory compliance with the legal framework of the EU.

**Encouragement for investment:** DCFTA will help to create a favourable business climate and attract investors, thanks to its positive impact on eliminating or streamlining complicated, unpredictable and often poorly implemented business regulations.

**Benefits for Georgian consumers:** Phasing out existing customs tariffs and regulatory barriers will increase the variety and quality of products and services available to consumers. In addition, the competitive pressure stemming from the liberalisation of market access will encourage specialisation, thereby lowering costs and generating innovation. Better

products enhance the overall standard of living.

### Not just more regulations

It is true that the DCFTA is a very ambitious agreement and implies a lot of reforms by the government. Like any process of reforms it has a price, but one should view this short-term price against the long term benefits.

Closer integration with the EU will require short-term costs, but will significantly improve the competitiveness of Georgia's products along with the investment climate making it more conducive to attracting more stable FDI. This would, in turn, create a positive impact on Georgia's socio-economic development.

It is also important to think in broader

terms. What is at stake is not simply the increase of trade flows between the EU and Georgia but market development, consumer protection and product quality; in other words Georgia's 'modernisation'. Furthermore, this process is a gradual integration of legislation and standards. The EU is not asking Georgia to implement the full EU market rules within few months. Even when it comes into effect, it is expected there will be a transitional period in many areas.

Importantly, the EU trade related regulatory standards are used by many other countries in the world, notably (from the point of view of current Georgian exports) Turkey and the Balkan states, so compliance with those standards will help not only trade with the EU but with other significant partners of Georgia.

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# Georgia's 'one-stop shop' for citizens and businesses

A reform-minded government tries to break down "silos" to speed government services

MCKINSEY QUARTERLY

## Challenge:

To help establish its legitimacy quickly after the 2003 Rose Revolution, Georgia's government needed to boost its revenues. Citizens expected a rapid turnaround in the quality and delivery of services. Businesses wanted to see measurable results before investing. As President Mikheil Saakashvili took office, the World Bank, citing onerous regulations and corruption, ranked Georgia 137th out of 153 countries as a place for doing business.

## Emerging solution:

To deliver high-quality public services efficiently and to streamline regulatory and licensing processes for businesses, the government created customer-oriented, high-tech "one stop shops." After waging a major anticorruption campaign, the administration turned to service delivery strategies common in the private sector: financial incentives to improve performance and the elimination of bureaucratic silos and paperwork.

RENÉE PARADISE AND KEN SCHWARTZ

In the seaside resort town of Batumi sits a glass structure with an open atrium and tinkling Muzak chosen by marketing gurus. The blonde-wood counters and children's play area suggest a Scandinavian furniture store. But this is a government facility in a country once pockmarked by Stalin-era concrete.

Welcome to the Batumi Public Service Hall, exhibit A in the Republic of Georgia's quest to treat citizens and business investors more like discerning shoppers. True to the slogan hung in the lobby—"Everything in one place"—the integrated center offers 250 different government services, from birth certificates to divorce papers, under one roof.

Uniformed greeters known as "consultants" welcome arrivals and direct traffic: simple requests, to self-serve computers; more complex cases, such as a visa for a family member from Azerbaijan, to staffed desks. The emphasis is on speed and convenience. Need a photo for that passport application? There's a booth in the lobby. Forgot cash to pay for a marriage certificate? Hit the ATM. The key point is that a citizen's problem is characterized by how quickly it can be resolved—fast, medium, or slow—not by the government department (say, a justice issue, a security issue, or a health issue) in which it falls. "The customer is king," explains Tamar Samsonia, who oversees the center. Citizens "don't need to waste money or time or energy. They just need to come here to receive their services very quickly."

All across Georgia, officials are erecting glistening new service centers like the Batumi hall, visible evidence of the shift under way in the government's management philosophy. From family land deeds to licenses for hydropower plants, Georgia's government is pressing to simplify and streamline its opera-

tions in the belief that one-stop service not only makes citizens happy but also entices investors.

So far, Georgia has three such one-stop government centers offering individuals and businesses a range of services, including customs clearance, new-business licenses, land deeds, and automobile licenses. Thirteen more public-service centers are scheduled to open by the end of 2012. While the halls currently provide services only from the Ministry of Justice, in the future they will include services from the Ministry of Energy and Natural Resources, the Revenue Service of Georgia, the Ministry of Finance, and more. Eventually it might be possible to register a car and a marriage at the same place.

In a nation still climbing out of deep unemployment—officially pegged at about 16.4 percent in 2009, but estimated by some nongovernment observers to be much higher—managers such as Samsonia can draw on large talent pools. Applicants, she said, fought for the 100 positions in Batumi because the pay is good, the atmosphere is pleasant, and they can compete for awards, such as shopping discounts and ski trips.

At the Batumi hall, which services about 1,500 people a day, the goal is to help visitors dispatch their business in less than 30 minutes. Operations are enabled by a technology platform built over a unified database, so citizens need not fill out multiple government forms. The centers aggressively monitor employee performance, collecting statistics on error rates and wait times. Customer surveys, mystery shopper programs, and even unannounced visits by cabinet ministers reinforce the performance goals.

By using technology to simplify processes, the government is mimicking the efforts of many successful private firms to disrupt traditional service channels. The focus on business analytics and

improving service has translated into real money. From 2005 to 2010, tax collections in Georgia rose to 28.2 percent of GDP, from 17.8 percent.

“The first phase was about getting rid of corruption,” President Saakashvili told McKinsey. “The second phase is about moving toward government as a service.” According to Nina Chichua, head of the Justice Ministry’s Marketing Division, before the reforms citizens found it nearly impossible to receive passports for the official fee and within the official processing times; they paid about \$100 in bribes and waited one month. Citizens can now receive a passport in ten working days for \$59—and in just one hour for \$120. Similarly, before the reforms, the wait time to register a business was about one month; businesses paid an unofficial “fee” of \$150 and visited nine government institutions to get the 35 documents required. Registering a business at the Batumi Public Service Hall now takes four working days and a \$29 fee. Georgia’s government is also using one-stop systems—both in person and online—to enhance the range of services it offers business. The numbers, from the World Bank, tell a story of improvement:

- Georgia now ranks eighth out of 183 nations in the ease of starting a business and second in registering property.

- It takes just three days to start a new business in Georgia, compared with an average of 14 days for the countries in the Organisation for Economic Co-operation and Development. Georgians spend about 2 days to register property, versus the OECD average of 33 days.

- Average wait times for construction permits and property registrations have fallen, respectively, from six months in 2005 to 98 days and from 39 days to 2.

Perhaps the best example of change in action can be found along Georgia’s borders. With the exception of hydropower, the country largely lacks natural

resources. But its location—tucked between Russia to the north and Turkey to the south, with the Black Sea along the western coast—offers opportunities as an international transport corridor.

To facilitate trade, Georgia’s government has brought one-stop customer service to its customs facilities. Similar in design and approach to the hall in Batumi, the customs houses combine creature comforts with modern technology to screen cargo and collect duties on goods rapidly.

Customs cases are triaged for complexity to expedite the process. Malkhaz Mukutadze, owner of the Martve-5 construction materials firm, agreed to let

McKinsey follow him as he navigated the process at a customs house near the Turkish border.

After parking his truck, Mukutadze draws a number in the reception area and sits in a sunny waiting room. Soon a neon sign directs him to a desk where he presents his documents—license, registration, and a manifest detailing the shipment. Salome Mamulashvili, a newly hired customs officer, punches the information into a computer that runs an electronic “risk engine” identifying which loads to search. About 95 percent clear without inspection, but authorities say the system helps target high-risk cargo while speeding up legal trade.

With a few more keystrokes, Mamulashvili calculates the duty on Mukutadze’s four truckloads of cement. Customers can pay immediately at a bank counter a few feet away or at other locations within a few weeks—an option Mukutadze, with his cash flow in mind, decides to take. “Before the new system, I would sometimes wait for an entire day and my number would not be called. I would have to come back for a second day,” said Mikutadze through a translator.

On this Saturday, he departed 30 min-

utes after arrival. Despite the changes, Georgia has room to further simplify cross-border trade. The improvement is quite real, however. In 2006, it took 52 days and 15 documents to import a container into Georgia; today it takes 10 days and 4 documents.

Officials use continuous-improvement techniques to fine-tune customs operations. Early on, the government switched from paper forms to digitized records with electronic-signature machines, but it still takes too long to enter information, have customers verify it, and print out documents. The next move will be to equip each agent with a second computer monitor enabling customers to correct errors in real time, said Vano Merabishvili, the minister of interior, responsible for protecting Georgia’s borders. Soon the government hopes to install a preclearance system allowing some businesses to submit manifests ahead of time, to avoid customs facilities altogether. Georgia is still a long way from ensuring that its early innovations will deliver broader economic growth. Corruption still lingers in certain corners—most notably, health care.

Tensions with Russia and unrest continue. President Saakashvili acknowledges that it is difficult to maintain the postrevolution “constant crisis” mentality that provided the energy and leverage to enact many bold, even radical, changes. Still, a customer-focused mind-set appears to be taking hold. “Our strategy is to mobilize our human capital through technology,” said Saakashvili. “If we make it easier for people to work with the government, we do our jobs right and earn people’s trust.”

*Exhibit from “Innovation in government: Kenya and Georgia”, September 2011, McKinsey Quarterly, [www.mckinseyquarterly.com](http://www.mckinseyquarterly.com). Copyright (c) 2010 McKinsey & Company. All rights reserved. Reprinted by permission.*





# Tourism: Government paves the way, private initiative must follow

The new dolphin show in Batumi

Georgia has come a long way to recapture its reputation as a tourism destination. With new infrastructure, big events and fresh destinations, the country is positioning itself to compete with Turkey and other regional holiday spots. Now entrepreneurs and businesses need to catch up.

PAUL RIMPLE

**T**ourism in Georgia is generally traced back to when Jason and the Argonauts traipsed across Colchis, yet for practical purposes we can say modern tourism took root in Georgia during Soviet times when, for the majority, traveling beyond the Iron Curtain was not an option, and poor service was not an issue.

By 2001, ten years after the fall of the USSR, the Georgian tourist industry should have improved, but in fact it regressed to a condition more closely resembling that of Jason's era. Batumi was an utterly corrupt, gritty little port town; Svaneti was the most likely place to get

robbed and Tbilisi was adorned with 50 billboards advertising a kidnapped businessman. If there was a tourist attraction in Georgia at this time, it was crime.

Fast forward ten years and we see nothing short of a miracle occurring in Georgia. Batumi is a Riviera in the making; Svaneti welcomes visitors in guesthouses and Tbilisi is a legitimate business center. While no one doubts this sudden metamorphosis from Midnight Express to Casino Royale is an exemplary undertaking, there is an across the board understanding that before Georgia can be the major global tourist destination it aims to be, a lot of work still needs to be done in very basic areas.

Numbers are one way of revealing how far Georgia has come this past decade. In 2001, 302,215 international visitors entered Georgia. Today, that number has risen to 1.79 million and is expected to reach 2 million by the end of the year, despite a global economic crisis and the fallout from the 2008 war with Russia. While these numbers don't reflect the actual amount of tourists, their presence

fully booked the major hotels in Tbilisi and Batumi this summer. For the government, this is a sign there is a demand for more luxury hotels. However, industry professionals are saying Georgia needs to provide more mid-range hotels and improve the services of existing ones, while the Georgian National Tourism Agency underlines there is a shortage of accommodation across Georgia.

"There are enough big hotels in Tbilisi. Maybe after three or four years there will be room for more. The market is still developing," says Atakan Turhan, General Manager of Radisson Blu Iveria Hotel in Tbilisi. "As for Batumi, it's too early to say," he adds.

Mamuka Kelauradze, tourist manager for Levon Travel says there are not enough 3 to 4 star hotels in Batumi and complains that prices are high and services poor. "There is a big problem with service. Too often, they give you one price and then change it after booking without notice - not the chain hotels, but the small ones," he says.

Kelauradze claims the problem is

common wherever private businesses operate, such as in Svaneti, where guesthouses, which were fully booked this season, are the principal accommodation providers.

“We booked rooms for our clients at one guesthouse. We even called one hour before we arrived to confirm and when we got there, they told us, “you have no room.” ”

Chicanery is universally acknowledged as a bad business practice and reflects one of the biggest obstacles for tourist development in Georgia. The concept “it’s bad for business” does not yet compute; it’s a mindset that can only be exorcised through education.

Typically, people expect the government to be responsible for educating the

private sector, when in reality it is the private sector that needs to step up and take advantage of the opportunities the government has made available in the tourism field, including education. So far there are two private institutions that specialize in tourism and hotel management - Icarus and Tishom. These alone are not enough to accommodate the rapidly growing need for professionals in the service industry. Moreover, institutions do not address the problems encountered in the regions, which are becoming increasingly popular travel destinations.

Deputy Chairman of the Georgian National Tourism Agency, Beqa Jakeli, says the government has been supporting short-term training sessions in Kakheti, Signaghi, Mestia and Tusheti,

to improve administrative concepts for guesthouse owners, including two-month English courses to provide locals with basic English skills. Hospitality workshops sound pretty ludicrous in a country renowned for its hospitality, but when a host becomes a hotelier they often need to learn how to assume the role, but the lessons don’t stop there.

When the government revamped Signaghi into the “city of love” locals immediately opened guesthouses and restaurants, but tourists need more than a place to eat and sleep from a tourist destination. Sightseeing is limited and if locals want people to stay for more than a day, they need to create a reason to come. The government tries to help by providing free buses from Tbilisi ►►

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# Exploring Tbilisi: A guide

Two new guidebooks were recently published for foreign and expat residents in Tbilisi – an effort to bridge the gap in information available about the Paris of the Caucasus.

Falling in love with Tbilisi is easy – but learning the city can be difficult. For years tourists and expats alike have struggled over the lack of information, maps and guidebooks.

But two recently published books are treasure troves of information for newcomers – as well as good references for long term residents.

In September, the International Women's Associations (IWA) released its second edition of Tbileasy, a guide that caters to newcomers struggling with the day to day problems of moving in and getting settled.

Designed as a directory, Tbileasy provides up-to-date information on everything from catering to emergency ambulance services, including information about internet connections, banks, schools and language courses.

"[T]he guidebook was envisioned to provide day to day information for people who live in the city," Marta Lubeck explained.

"[T]here are a number of good tourist guides on sale already, so creating a guidebook for tourists would not add very much to what is already out there. We decided to focus on something in which we have relative expertise."

City Pass Tbilisi Guide takes a different approach. The pocket-sized guide is heavy on restaurants and shopping, with maps and walking tours included. There are directories of pharmacies and business services, as well.

▶ and organizing events on the weekends, but Signaghi's huge potential is being overlooked and government sponsored events can be way off target.

"I went to Signaghi for the weekend and there was some live music - way too loud. There was no harmony with the surroundings. You look around and expect tradition, not loud music," recalls Atakan Turhan.

Much of the problem could be resolved if there was more coordination between the government and the private sector, notes Ia Tabagari, Chairman of the Georgian Incoming Tour Operators' Association. Many people have the private resources but not the know-how to think out of the box. Although the government has rebuilt the infrastructure, she feels it could do more by attracting the private sector. For example, inviting national groups to perform is a great idea, but why do that when there aren't enough places to sleep? "People are keen to learn how to exploit what they have, but the private sector can't do much without help from the government," she says.

"The big opportunity tourism provides is being missed," says hotelier and entrepreneur Betsy Haskell, who has spent nearly 20 years in Georgia doing business. She explains that part of the reason we see a lack of development is that people in Georgia have a particular aversion to taking risks in investments. Additionally, there exists an inherent trend in short term thinking. The tourist season is three months long and hotel investors want a return in three years, which makes things expensive. "People don't think in five to seven year terms," she says. "There's no business savvy."

In Batumi, tour operators say increasing prices have driven Georgians to Turkey where one week all-inclusive package deals can be found for \$400. The Turkish Culture and Tourism Ministry

report there were over 101,000 Georgian tourists this year - a growth of 4.18%.

Nugzar Davitadze owns a guesthouse in Kvartali, a Georgian beach-side community near the Turkish border, where many Tbilisians typically go on holiday. "Last year we were up to here," he says running a finger under his chin. "We had to turn people down; some offered us money to kick guests out. This year was slow." He blames the economy and August's rainy weather for the bad season.

But tourist seasons fluctuate, states Jemal Inaishvili, Chairman of the Board of the Georgian Chamber of Commerce and Industry. He goes on to say that the arrival of Pegasus airlines in Batumi means Georgians can easily afford to travel to Turkey, which is all perfectly natural in a competitive market.

"I flew to Batumi from Istanbul, which is very expensive now, and half the plane was full of Turks coming to Georgia," he observes.

As a successful businessman in his own right, Mr. Inaishvili views the entire Black Sea coast as a huge opportunity waiting for development. When asked about the wisdom of developing Anaklia, which borders the Abkhazian conflict zone, he retorts that something must be done for the Zugdidi region and talks about Anaklia's potential as a sailing destination from Batumi. Never mind there are no sailing boats to speak of in Batumi, there will be soon, he assures. And how can you doubt him? New buildings are sprouting up like dandelions all along the Adjara coastline. Hotels are going up faster than they can find employees to fill the positions. More foreign tourists are arriving each year. Sure there are problems, but the Chairman's optimism reduces them to trifles.

"A lot has to be done, but we are very close. Step by step, we are closer to our final goal," Inaishvili smiles. ■

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Desiani Haf cares for dogs at the shelter as a volunteer

# Helping the Strays of Tbilisi

FIONA COXSHALL

**F**or locals and foreigners who have lived in Georgia for a number of years, the sight of stray dogs wandering around is a familiar one. For the most part people are indifferent towards these animals and while some are kind enough to feed the dogs a few food scraps, that is usually the extent of the care. In Tbilisi alone, despite various

dog control programs being declared, it is estimated there are some 25,000 dogs wandering the city's parks and streets fending for themselves, struggling to survive and stay out of reach of the 'dog catchers'.

More importantly for the general public are the health issues: cats and dogs that have not been immunized may carry disease and without sterilization programs the street dog population gets



out of control – dogs gather in packs that can potentially become dangerous and then mass rounding up and culling takes place.

Like other developing countries of the former Soviet Union, Georgia has numerous ‘people’ issues to address and animal welfare is not seen as a priority. This became even truer during the worldwide financial downturn and following the August 2008 war with Russia when most of the focus turned towards assisting the homeless IDPs (Internally Displaced Persons).

In some ways Georgia is lucky – millions of dollars in foreign aid has flowed into the country over the past few years and there is a huge number of charitable organizations helping people in need. But who helps the homeless animals?

Arriving in Georgia in 2008, Dutch businessman and AmCham Board member, Ivo Bakhuijzen was astounded at the number of stray animals lying around the streets of the capital and shocked to

witness car after car simply driving past a semi-conscious puppy that had clearly been hit by a vehicle; only Ivo stopped to help. From that moment, Ivo decided something had to be done and so established the charitable foundation - Dog Organization Georgia (DOG) to provide shelter and food for homeless animals; prevent unwanted and uncontrolled births of stray animals and stop their abuse together with the reported use of inhumane culling methods.

After extensive fundraising and overcoming numerous obstacles DOG eventually opened Tbilisi’s first western style dog shelter early this year. Located near Lisi Lake, the shelter currently houses around 20 canine guests rescued from the streets, saving them from the city’s dog catchers. They are guests because it is hoped that for most of the dogs and puppies their stay will be temporary as the organization tries to re-home these adorable animals.

However this is a difficult task when

it is not viewed as fashionable to have a pedigree-less pooch. Clearly attitudes towards mixed breed dogs need to be changed. – DOG aims to educate the population: showing not only how loving, fun and loyal these animals can be but also the rewards of owning and caring for one.

The Haf family are already reaping the rewards of adopting a dog. Shortly after returning to Tbilisi for a second contract, Alex and Desiani Haf’s dog died. To help their two young children cope with the loss, the couple visited the shelter and adopted first one young dog (Ladi), and then a playmate for her (Flecki). Within just a few days both dogs were playing happily together and gently with the two toddlers and Desi now talks happily of her ‘four precious babies’.

Adoption frees up space at the shelter, enabling the organization to care for and hopefully re-home more of Tbilisi’s stray dogs. DOG shelter has a dog to suit everyone: lively or calm – puppies from ►►





- ▶ just a couple of months; small dogs of 1 or 2 years or larger and older dogs. To view photos of dogs that are looking for loving homes, visit the Dog Organization Georgia Facebook page.

Dog Organisation Georgia not only cares for and vaccinates the rescued animals but also neuters them to prevent more unwanted dogs. However the long term solution for controlling the stray population lies in changing the attitude of the public, which is another of DOG's goals: to educate adults and children alike to appreciate the benefits of steril-

izing animals (including their own pets who are often allowed to wander the streets). While a few dogs and puppies enjoy the sanctuary of the shelter, the facility is small and there is still much that needs to be done – water is currently pumped out of the ground and the site needs proper drainage, for which funds are required. This is in addition to the everyday costs of caring for the dogs. DOG is totally reliant on donations.

To achieve its long-term goals and to finance the ongoing care of the dogs at the shelter, Dog Organization Georgia is

in great need of more funds. In addition the shelter welcomes gifts of dog food or bowls along with any unwanted pet beds/baskets, old blankets, old towels, collars and leads or dog toys. Or perhaps you would like to volunteer some time to walk or groom a dog or play with a puppy.

*To find out more about how you can help support the dogs and to donate, please visit the Dog Organization Facebook page or website: [www.dog.ge](http://www.dog.ge) (originally in Dutch; English translation available) or email [dogshelter@live.nl](mailto:dogshelter@live.nl)* ■

## Case: Heineken Office Chair Grand Prix (Singapore)

A CASE STUDY BY PUBLICIS HEPTA

### Background:

■ Heineken has been enjoying a strong market position as one of the leading international premium beers in Singapore with a cosmopolitan image. However recently, other international and boutique beer brands (microbreweries) have invaded the market making it challenging for Heineken to retain its status as the preferred brand

### Objectives:

- Reinforce Heineken as an innovative brand (a key differentiator for Heineken in Singapore)
- To increase brand affinity & preference
- Drive talkability and PR value of campaign beyond paid media
- Increase volume sales (especially in “cluster drinking” areas)

### The Insight:

- Singaporeans are some of the most industrious corporate workers in the world, who spend from 10 to 14 hours confined in their office daily
- A poll among Heineken core target audience - “cosmopolitan achievers and survivors”, revealed that their working week was filled with deadlines, targets, reports, presentations etc.
- Heineken's challenge was to reward all workers with

year-end bonus, by finding an innovative and unexpected way to bring smiles to their faces and end the year on a high

### Solution:

- Centred around the big idea of giving the busy bees the avenue to “end the year in good fun & company”, a first-ever experiential event was created. Just for good fun!
- ‘Heineken Formula Chair Race’ was held in Clarke Quay
  - Carpets became the race track
  - Water-cooler containers became obstacles
  - Office chairs were transformed into motorized chairs so participants could race their workmates
- Ultimately, it was about letting loose and enjoying the year-end
- Class 95FM was the anchor media partner, recruiting the race teams, activating DJs to participate in the race, host the event and amplify via live broadcasts

### Results:

- 13,6% sales increase vs last year's festive campaign
- 75% volume uplift in drinking zones
- >2x targeted increase in brand imagery scores
- 257% increase in media and PR value vs last year



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## **BP 15th Anniversary Celebration**

- |   |   |   |
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| <b>50 The Economist's Conference in Tbilisi</b>                                 | <b>52 IT&amp;T Committee Discusses IPR</b>                  | <b>54 Member Directory</b>  |
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## The Economist's Conference In Tbilisi: "A forum for some of the best and brightest minds "

Georgia's reforms have left it in a strong position to attract investment, but more needs to be done to bring businesses here, stressed David Lee, the general director of Magticom and the president of AmCham Georgia.

Lee, a panelist at the November 17 Economist's Conference in Tbilisi, noted the event will be "a good opportunity" for progressive business leaders and policy makers to discuss Georgia's potential – and how to make the best use of it.

Despite eight years of successful reforms, the Georgian economy has not fully recovered from the shocks of the 2008 financial crisis and the conflict with Russia.

"The government must continue with

its policies of being business friendly, in particular it needs to improve the operation and transparency of the legal and tax processes. It is very important that the existing and new businesses have complete confidence and a full understanding of both the legal processes and the tax laws and regulations," Lee stressed.

"The conference is important because the Economist brand is an international, intellectual leader. It will be an opportunity in an open forum for some of the best and brightest minds to discuss the situation in Georgia and, most importantly, how it can be improved for businesses and the general welfare of the Georgian people." Lee has spent the past seven years in Georgia, managing one of the

largest telecommunication companies in the country, as well as investing in agriculture.

He said the government's increased interest in agriculture – which employs 50 percent of the population is vital to develop the sector's potential.

"With 50 percent of the population employed in this area, and with agriculture representing one of the limited number of sectors where Georgia enjoys true natural advantages, it is timely and indeed urgent that this sector starts to develop its obvious and historical potential," he noted.

*For more information about the conference, please visit [www.economist-conferences.com/georgia](http://www.economist-conferences.com/georgia)*

## AmCham Takes on New Project to Improve Legal Environment for Business



American Chamber of Commerce has just been awarded a grant to start conduct a 12 month project intended to analyse developments in the area of tax and commercial law and identify ways in which the law, and its implementation, can be improved so that businesses face the most transparent, predictable and equitable environment possible.

The grant is part of the Eurasia Partnership Foundation's (EPF) Civic Initiative for an Independent Judiciary, a program implemented by EPF and funded by the USAID through East West Management Institute.

EPF's Tamar Mosashvili said the goal of the program is to establish constructive, results-oriented cooperation among NGOs, media outlets, and the authorities in order to achieve greater government accountability and tangible policy improvements regarding judicial independence in the country.

To guide the project, AmCham will form a new commercial law and tax committee that will be co-chaired by Ted Jonas, the Managing Partner of DLA Piper, and Justin Bancroft the new Director of Deloitte. The board will provide guidance to a small team of legal analysts in AmCham. This team will review legal cases as well as commercial law procedures and tax dispute resolution mechanisms, to try and identify problems in the current system and to suggest possible ways to improve the system.

The project will then liaise with government to try and resolve the concerns they identify, and publish regular reports and articles to publicise their analysis.

"We consider this project to be crucial," said Ted Jonas, co-chair of the committee. "It is commonly accepted that the perception of poor legal due-process and inequitable application of the tax code continues to be a big hurdle to

business growth and export promotion."

"Our project will aim to help the government in fixing these problems by giving them, and the general public, an unbiased sense of what is happening with businesses in Georgia," he said.

*For more information about Civic Initiative for an Independent Judiciary and its upcoming public forum, please contact Tamar Mosashvili - [tmosashvili@epfound.ge](mailto:tmosashvili@epfound.ge).*

*Businesses who would like to talk to the project about their experiences should contact the Project Coordinator, Gigi Liliashvili – [g.liliashvili@amcham.ge](mailto:g.liliashvili@amcham.ge).*

*This article is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents do not necessarily reflect the views of USAID, the United States Government, or EWMI.*

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## MCC Working with Georgian Government on Potential Second Compact

Discussions between the Millennium Challenge Corporation (MCC) and the Georgian government could lead to a second compact.

U.S. Ambassador John Bass, MCC Resident Country Director Jim McNicholas and Giorgi Oniani, an advisor to Prime Minister Nika Gilauri, briefed AmCham members on a potential second compact for Georgia during the September 14 roundtable meeting at the Sheraton Metechi Palace hotel.

The size and model of the second compact is still under discussion, and final depends on financing available from the U.S. Congress, as well as approval by the MCC. If Georgia is granted a second compact, it will be considerably smaller than the compact that was completed in April. Ambassador Bass also discussed the on-going WTO negotiations between Georgia and Russia, as well as President Mikheil Saakashvili's planned trip to the UN General Assembly in New York.

Other presentations included an announcement from Caucasus School of Business about two conferences planned in September.

## IT&T Committee Discusses IPR

Timothy Trainer, an IPR expert, was invited to the IT&T committee on October 6 by the U.S. Embassy. During the September 22 meeting, Irakli Gvilia overviewed plans and strategy of the BSA. He shared vision of the alliance about the violation of the intellectual property rights and about measures that they are going to take against software infringement. Committee members discussed strategy of BSA ;Wouter Metz facilitated discussion.

## Georgia: "Great Potential" for American Investors

John Ashworth, the new Deputy Chief of Political and Economic Affairs and Senior Economic/Commercial officer at the U.S. Embassy, answered Investor.ge's questions about investment, trade and opportunity for American businesses in Georgia.

U.S. investment in Georgia increased last year, jumping to \$135.8 million in 2010 – almost reaching 2008 levels.

Increasing American trade and investment with Georgia is one of the U.S. Embassy's "primary goals" Ashworth said in an email interview, noting that the "dramatic pace of reforms" has made the country an attractive location for investment.

He stressed, however, that current economic crisis means Georgia will have to "work that much harder" to implement reforms "quickly and correctly".

While trade continues to be a priority, a free trade agreement with Georgia is not on the immediate agenda, he said.

Ashworth, the new ex-officio member of the AmCham board, noted that while Georgia has "great potential" for

American investors, a perception of risk continues to concern possible investors.

He comes to Tbilisi after a career that spans embassies in Tashkent; Uzbekistan; Bridgetown, Barbados; and the India Desk at the State Department in Washington.

"All these previous jobs have taught me things relevant to Georgia," Ashworth said. "Working on India taught me that big companies like to invest in large markets, even if the investment climate has some problems. For Georgia, as a small country, it means businesses and government have to work harder to get major companies to notice and consider Georgia as an investment destination." Fears of a new conflict with Russia, coupled with possible domestic tension during the 2012-2013 election season are concerns for some American businesses, he noted. "The more the Georgian government can do to lower these perceived risks by consolidating political and economic reforms, the more attractive Georgia will become as an investment destination," Ashworth said.

## Growing Number of Georgians Getting News Online

Over the past two years, the number of people who use the internet as their primary news source has doubled, according to surveys by the Caucasus Research Resource Center (CRRC), presented to members on September 28.

At the Courtyard Marriott, Dr. Hans Gutbrod, the director of CRRC, told AmCham members while television is still the primary source of information in Georgia, new media is becoming more popular.

Internet use has increased over the past two years, based on surveys from

2009 and 2011. Gutbrod noted that 70 percent of Georgians online are using the internet to access social networks, an increase from 2009. The number of people using the internet daily also increased over the past two years, growing from 13 percent to 23 percent in 2011.

Georgians are also increasingly aware of the influence of media owners on the quality of news presented. Over half the people questioned in 2011 - 59 percent - said it was not acceptable for the government to check information before it was broadcast.

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7 Bambis Rigi St., 0105  
Tel: 2439025;  
Fax: 2439026  
www.chartisinsurance.com

### Chemonics International

6a N. Ramishvili St., 0179  
Tel: 2234311; Fax: 2234309  
www.chemonics.com

### Deloitte

36a, L. Asatiani St., 0105  
Tel: 2244566; Fax: 2244569  
www.deloitte.ge

### Diplomat Georgia

65, Kakheti Highway  
Tel: 2984950  
www.diplomat.ge

### DLA Piper Georgia LP

10 Melikishvili St.  
Tel: 2509300; Fax: 2509301  
www.dlapiper.com

### Ernst & Young

44 Leselidze St.  
Tel: 2439375; Fax: 2439376  
www.ey.com

### Georgian American University

21a Chavchavadze Ave.,  
2d Arch #3  
Tel: 2915003; Fax: 2915004  
www.gau.ge

### Georgian Audit & Consulting Company

47 Kostava St. Suite 29  
Tel: 2984039; Fax: 2438352  
www.gacc.com.ge

### GMT Group

4 Freedom Square  
Tel: 2988988; Fax: 2988910  
www.gmt.ge

### Greco Group

1 Nutsubidze St.  
Tel: 2393138; Fax: 2311107  
www.greco.ge

### GT Group

48 B. Cholokashvili St.  
Tel: 2740740  
www.gtgroup.ge

### Hall, Booth, Smith & Slover, P.C.

41 Vaja Pshavela Ave. 0177  
Tel: 2394417, Fax: 1-404-9545020  
www.hbss.net

### HSBC Bank Georgia JSC

15 Rustaveli Ave.  
Tel: 2177777  
www.hsbc.com

### Iberia Refreshments, JSC

Tetri Khevi Hesi District, Orkhevi  
Tel: 2241091; Fax: 2241090  
www.pepsi.ge

### Imedi L International

20 Chavchavadze Ave.  
Tel: 2223520; Fax: 2293075  
www.inedi-l.com.ge

### KPMG CIS Ltd. Tbilisi Branch

3rd Floor, Besiki Business Center,  
4Besiki St., 0108  
Tel: 2935713; Fax: 2982276  
www.kpmg.ge

### Levon Travel

20 Chavchavadze Ave.  
Tel: 2250010; Fax: 2232399  
www.levontravel.ge

### Maersk Georgia LLC

6 Khetagurov St.  
Tel: 2200800; Fax: 2200815  
www.maerskline.com

### Magticom

5 Politkovskaya St.  
Tel: 2171717; Fax: 2171171  
www.magticom.ge

### Marriott Hotels, Resorts & Suites

13 Rustaveli Ave.  
Tel: 2779200; Fax: 2779210  
www.marriott.com

### Metromedia International Group

8000 Tower Point Dr., Charlotte, NC  
28227  
Tel: 2171201; Fax: 2210101  
www.metromedia-group.com

### Microsoft Georgia LLC

6 Marjanishvili St.  
Tel: 2424478  
www.microsoft.com

### Mobipay (OpenRevolution Georgia)

19 T. Abuladze St. 0162  
Tel: 2235403  
www.mobipay.ge

### MSD (Schering Plough Central East AG)

44 K. Abkhazi St. 0105  
Tel: 2438978  
www.merck.com

### Pfizer Luxembourg SARL Representation Office in Georgia

58 I. Abashidze St.  
Tel: 2252986  
www.pfizer.com

### Philip Morris

7 Bambis Rigi Str., 0105  
Tel: 2439001; Fax: 2439005  
www.philipmorrisinternational.com

### ProCredit Bank

154 Agmashenebeli Ave.  
Tel: 2202222; Fax: 2202222-2226  
www.procreditbank.ge

### Radisson BLU Iveria Hotel

1 Rose Revolution Sq.  
Tel: 2402200; Fax: 2402201  
www.radissonblu.com

### Salford Georgia

44 Leselidze St.  
Tel: 2505400-03; Fax: 2505406  
www.salford.com.ge

### SEACOR Response

9 Khvichia St. 0160  
Tel: 2244141, 2382825  
www.seacorresponse.com

### SEAF Management LLC

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

### Sheraton Metechi Palace Hotel

20 Telavi St.  
Tel: 2772020; Fax: 2772120  
www.sheraton.com/tbilisi

### T&K Restaurants (McDonald's Georgia)

1 Dzmebi Kakabadze St.  
Tel: 2921246; Fax: 2251422  
www.mcdonalds.ge

### TBC Group

7 Marjanishvili St.  
Tel: 2272727; Fax: 2228503  
www.tbc.com.ge

### TBSC Consulting

6 Marjanishvili St.  
Tel: 2959019; Fax: 2420215  
www.tbsc.ge

## CORPORATE B MEMBERS

### AGV Czech Republic Ltd

63 Kostava St.  
Tel: 2242559; Fax: 2242549  
www.agv-czech.com

### Aliance Georgia Ltd

33 Samurzakano St.  
Tel: 2243773  
www.groupaliance.com

### Alioni-99 Holding Company

12a Kazbegi Ave., 0160.  
Tel: 2922993; Fax: 2389737  
www.alioni99.ge

### GZ American Academy in Tbilisi

37a Chavchavadze Ave.  
Tel: 2227441; Fax: 2227889  
www.aat.ge

### Bagebey City Group

49b Chavchavadze Ave.  
Tel: 2913152; Fax: 2290169  
www.bagebeycity.com

### Baker Tilly Georgia Ltd.

Meidan Palace, 44 Kote Abkhazi St.  
Tel: 2505353; Fax: 2505353  
www.bakertillyinternational.com

### Bank of Georgia

3 Pushkin St.  
Tel: 2444134; Fax: 2983269  
www.bog.com.ge

■ **Bank Republic**  
2 Gr. Abashidze St.  
Tel: 2925555; Fax: 2925544  
www.republic.ge

■ **Basis Bank JSC**  
1 Ketevan Tsamebuli Ave.  
Tel: 2922922; Fax: 2986548  
www.basisbank.ge

■ **Batumi Oil Terminal**  
GMT Plaza, 4 Freedom Sq.  
Tel: 2241818; Fax: 2241817  
www.batumiport.com

■ **BDO LLC**  
42 Kazbegi Ave.  
Tel: 2545845; Fax: 2399204  
www.bdo.ge

■ **BG Capital**  
23 Chavchavadze Ave, 3rd fl. 0179  
Tel: 2444687; Fax: 2235804  
www.bgcapital.ge

■ **BGI Advisory Services Georgia**  
18 Rustaveli Ave., II fl.  
Tel: 2997292; Fax: 2996615  
www.bgi.ge

■ **BLC Law Office**  
4 Gudishvili Sq.  
Tel: 2922491; Fax: 2934526  
www.blc.ge

■ **Casino Adjara**  
1, 26 May Sq.  
Tel: 2335519; Fax: 2334520  
www.casinoadjara.com

■ **CaucasTransExpress**  
10a Tashkent St. 0160  
Tel: 2375715  
www.cte.ge

■ **Caucasus Online LLC**  
71 Vaja-Pshavela Ave.  
Tel: 2480048; Fax: 2480048  
www.caucasus.net

■ **Château Mukhrani, J.S.C.**  
III floor, Didube Plaza,  
116 Tsereteli Ave.  
Tel: 2201878; Fax: 2201878;  
www.mukhrani.com

■ **Citadines Apart'Hotel**  
4 Freedom Sq. 0105  
Tel: 2547030; Fax: 2547040  
www.citadines.com/en/georgia/tbilisi/  
freedom\_square.html

■ **Development Solutions LLC**  
37 Rustaveli Ave.  
Tel: 2241555; Fax: 2241552  
www.ds.com.ge

■ **Dika Ltd.**  
40 Rustaveli Ave.  
Tel: 2990994; Fax: 2990994

■ **Donut Stop Cafe**  
10/12 Abashidze St.  
Tel: 2251466; Fax: 2999252

■ **Dutch Design Garden**  
20 km, Agmashenebeli Alley  
Tel: 2530779  
www.dutchdesigngarden.com

■ **Education and Training International Ltd.**  
4 Kuchishvili St.  
Tel: 2250945; Fax: 2250945  
www.educatraining.ge

■ **Geocell**  
3 Gotua St.  
Tel: 2770100, ext. 7435;  
Fax: 2770119  
www.geocell.ge

■ **GeoEngineering LLC**  
15a Tamarashvili St.  
Tel: 2311788; Fax: 2311787  
www.geoengineering.ge

■ **Georgian Airways**  
12 Rustaveli Ave.  
Tel: 2999730; Fax: 2999660  
www.georgian-airways.com

■ **Georgian Lottery Company LLC**  
34 Chavchavadze Ave.  
Tel: 2649649  
www.georgianlottery.com

■ **Globalink Logistics Group**  
14-A Shartava St, 2nd fl, Suite 7  
Tel: 2253262; Fax: 2439002  
www.globalinkllc.com

■ **Goodwill**  
1 Parnavaz Mepe Ave. 0131  
Tel: 2243673; Fax: 2243673  
www.goodwill.ge

■ **Gosselin Georgia**  
3 M/D, Didi Digomi  
Tel: 2596601/02/03; Fax: 2596600  
www.gosselingroup.eu

■ **Gvinadze & Partners LLC**  
44 Leselidze St, Tbilisi 0155  
Tel: 2235683; Fax: 2438971  
www.gvinadzeandpartners.ge

■ **Holiday Inn**  
1, 26 May Sq., 0171  
Tel: 2300099  
www.hi-tbilisi.com

■ **HRG Georgia "Sky Travel LLC"**  
Meidan palace Business Center,  
44 Kote Apkhazi St.  
Tel: 2438958  
www.hrgworldwide.com

■ **IOLI Supermarket**  
13 Abuseridze-Tbeli St.  
Tel: 2745053  
www.gastronomia.ge

■ **Intourist Palace Hotel**  
11 Ninoshvili St., Batumi  
Tel: 422-75525; Fax: 422-76606  
www.intouristpalace.com

■ **JTI Caucasus**  
15 Kipshidze St.  
Tel: 2604111  
www.jti.com

■ **Kor-Standard Bank JSC**  
43 Chavchavadze Ave.  
Tel: 2507700; Fax: 2507707

■ **Kutaisi Free Zone, Georgian Int'l Holding Ltd**  
6 Shio Mgvimeli St.  
Tel: 2232997; Fax: 2232997

■ **Legal Partners Associated LLC**  
Office #203, Besiki Business Center,  
4 Besiki St. 0108  
Tel: 2200203; Fax: 2250458  
www.lpa.ge

■ **Liberty Bank JSC**  
74 Chavchavadze Ave.  
Tel: 2555500; Fax: 2912269  
www.libertybank.ge

■ **Madneuli JSC**  
3/5 Kazbegi Street, 0179  
Tel: 2474545, ext. 55  
www.madneuli.ge

■ **Mgaloblishvili, Kipiani, Dzidziguri (MKD) Law Firm**  
24 Suite, IV Floor,  
71 Vaja-Pshavela Ave.  
Tel: 2973880; Fax: 2973884  
www.mkd.ge

■ **Mina JSC**  
4 Besiki St.  
Tel: 2449981/82/83; Fax: 2449980  
www.mina.com.ge

■ **Navigator Ltd Publishing House**  
34 Anton Katalikosi St.  
Tel: 2923615  
www.navigator.ge

■ **New School - Int'l House**  
35 Tskneti Highway, Bagebi  
Tel: 2231728  
www.newschoogeorgia.com

■ **Oriflame Georgia**  
57 Uznadze St.  
Tel: 2911064; Fax: 2911068  
www.oriflame.ge

■ **Overall Management Group (OMG) Inc.**  
12 M. Javakhishvili St.  
Tel: 2436052; Fax: 2436052

■ **Publicis Hepta**  
17 V. Jorbenadze St.  
Tel: 2745672; Fax: 2745671  
www.publicishepta.com

■ **Rakeen Development LLC**  
2 Baratashvili St. 0105  
Tel: 2933393; Fax: 2933993  
www.rakeen.ge

■ **Rentals Ltd.**  
46 Rustaveli Ave.  
Tel: 2454566  
www.rentals.ge

■ **Rompotol Georgia Ltd.**  
39 Navtlugi St.  
Tel: 2910727; Fax: 2910763  
www.rompotol.com

■ **Silknet Ltd.**  
95 Tsinamdzgvrishvili St.  
Tel: 2910345;  
www.silknet.com

■ **Statoil Azerbaijan AS**  
96 The Landmark Building, Nizami  
Street, Baku AZ 1010.  
Tel: +994 (50) 2168981; Fax: +994  
(12) 4977 340  
www.statoil.com

■ **Teliani Valley JSC**  
2 Marshal Gelovani Ave.  
Tel: 2313245; Fax: 2313249  
www.telianivalley.com

■ **VD Capital**  
77 Kostava St., 0175  
Tel: 2363672; Fax: 2364302

■ **Wimm-Bill-Dann Georgia Ltd**  
Village Ponichala, Tbilisi 0165  
Tel: 2475290  
www.wbd.ru

■ **Wings and Freeman Capital**  
Green Building, 6, Marjanishvili St.  
Tel: 2940051; Fax: 2940053  
www.wfcapital.ge

■ **Wissol Georgia**  
74b Chavchavadze Ave.  
Tel: 2915315; Fax: 2915615  
www.wissol.ge

## NON PROFIT ORGANIZATIONS

■ **American Friends of Georgia**  
77 Nutsubidze St.  
Tel: 2937174; Fax: 2388495  
www.afgeorgia.org

■ **East West Management Institute, Inc (EWMI)**  
3rd Floor, 5 Marjanishvili St.  
Tel: 2505404; Fax: 2202441  
www.ewmi-gpac.org

■ **The Eurasia Partnership Foundation**  
29/31/33 Chavchavadze Ave.,  
2nd Floor, 0179  
Tel: 2253942; Fax: 2252763 (ext. 112)  
www.epfound.org

■ **Foundation - Centre for Training and Consultancy**  
34 Al. Kazbegi Ave., Plot #3, 0177  
Tel: 2206774  
www.ctc.org.ge

■ **Georgian Wine Association**  
5 Marjanishvili St.  
Tel: 2505456

■ **International Relief and Development Inc.**  
66 Paliashvili St.  
Tel: 2250106; Fax: 2224837

■ **International School of Economics at TSU**  
16 Zandukeli St.  
Tel: 2507177; Fax: 2984815  
www.iset.ge

■ **QSI International School of Georgia**  
Village Zurgovani, Tbilisi  
Tel: 2537670; Fax: 2322607  
www.qsi.org

■ **The Salvation Army**  
16 Ikaltto St.  
Tel: 2333786; Fax: 2330227  
www.salvationarmy.org



# SOCIAL PAGE

BP in Georgia  
celebrated  
its fifteenth  
anniversary on  
Saturday 17th  
September 2011  
in the Open Air  
Ethnographic  
Museum



# SOCIAL PAGE



Photos by Jessica Lewis

On September 14, the International Women's Association in Georgia launched the second edition of Tbileasy guidebook with a presentation at Prospero's Books.

The IWAG supports projects directed at women, children and elderly at risk due to poverty, poor health or disability. IWAG supports projects that help vulnerable people, focusing on medical, social and educational issues. The proceeds of the Tbileasy Guidebook – on sale at Prospero's Books - will help fund IWAG's work with women, children and the elderly.

Mark your calendars: IWA's annual Christmas Expo will take place on Saturday December 10 this year.

Fei World  
Cup Jumping-  
Caucasian League  
Friday, September  
30-October 2





# Board Of Directors 2011

## **David Lee, PRESIDENT**

David Lee is the General Director of Magticom, the largest telecommunications operator in Georgia and took up his position March 2004. David is also the Chairman of the Eurasia Partnership Foundation and is a Chartered Accountant with an MBA from Warwick Business School. A Russian speaker, he has worked extensively in the former USSR and served as a Royal Naval Officer for 9 years.



## **Sarah Williamson, First Vice-President**

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.



## **R. Michael Cowgill, Vice-President & Treasurer**

In his 12th. year in Georgia, Michael Cowgill is currently the President and co-founder of Georgian American University's business and law schools in Tbilisi, Georgia.



## **Irakli Baidashvili, Director**

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.



## **John Braeckveldt, Director**

John Braeckveldt arrived in Georgia in 2003 as the General manager for GOSSELIN in the Caucasus region. In recent years John also started up a customs brokerage company, building new European style warehouse in Tbilisi for freight forwarding/storage solutions and customs bonded warehousing for diplomatic goods.



## **Esben Emborg, Director**

Esben Emborg has been in Georgia since 1999. He has worked a General Manager for Caucasus Region for Cadbury Schweppes and Nestle until 2008. Now he is working as Principal Partner for an Investment Fund (SEAF) that is currently managing a 30 mil USD portfolio of investments all over Georgia.



## **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.



## **Badri Japaridze, Director**

Badri Japaridze has been the Deputy Chairman of the Supervisory Board of TBC Bank since 1999 and the Vice-President of Georgian Glass and Mineral Water Co. (GG&MW) since 1995.



## **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.



## **Ted Jonas, Director**

Ted Jonas is the Managing Partner of DLA Piper's Tbilisi office. He advises clients on international business transactions, energy and infrastructure projects, government relations, and dispute resolution.



## **Ivo Bakhuijzen, Director**

Ivo Bakhuijzen spent 9 years in the military, 5 of which as an officer within the airborne infantry; with missions in the former Yugoslavia and Afghanistan. Ivo has been in Georgia since 2008 as the director of Dutch Design Garden, a sister company of the famous Dutch landscape architect Martin Veltkamp.



## **John Ashworth, Ex-Officio Member**

John Ashworth is the Deputy Chief of Political and Economic Affairs and Senior Economic/Commercial Officer at the U.S. Embassy. He worked previously in Uzbekistan, Barbados, and on the State Department's India Desk in Washington.



## **Betsy Haskell, Founding Advisor**

Betsy Haskell is an 18 year resident of Georgia who started four successful businesses, and is currently developing a resort hotel and villas in the wine country. For the past 15 years, she has been the Georgia Contractor for Metrica, Inc, a US Treasury Department sub-contractor.



## **George Welton, Exec. Director**

George Welton came to Georgia as a university lecturer in 2004. Soon after arriving he started working as a professional researcher and founded GeoWel Research in 2008. His company conducts research and analysis for non-profits like KfW, GIZ, UNDP, DfID, CARE International and some private companies.





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#### **Chambers Global:**

*"This firm continues to benefit from its long-standing ties with international corporate clients and financial institutions, handling some major engagements over the past year'... Singled out as "a highly sophisticated practitioner" and "one of the brightest lawyers" in the market, Lasha Gogiberidze acted for several international financial institutions ... Interviewees pointed to Zaza Bibilashvili's "fantastic client relation skills."*

#### **Chambers Europe:**

*"This firm attracts praise for its instrumental role in the development of the Georgian legal market. Its 20-lawyer group enjoys a long track record in business litigation. .... Zaza Bibilashvili acts for high-calibre clients ... handling tax and customs litigation as well as arbitrations.... regulatory guru, Giorgi Kavlashvili is admired as a leader in white-collar criminal defense work as well as commercial litigation."*

#### **IFLR 1000:**

*"Thanks to universal praise from competitors and clients alike, BGI sits comfortably in the top tier ... "In terms of local law firms," says one competitor, "BGI [is] still a leader." Clients agree, with one saying: "I have seen up-close work done by ... the other leading law firms in Georgia ... I have a strong preference for BGI..."*

For more information contact joint managing partners

Zaza Bibilashvili (zaza.bibilashvili@bgi.ge) or

Lasha Gogiberidze (lasha.gogiberidze@bgi.ge)

18, Rustaveli Avenue, 0108 Tbilisi, Georgia

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