Investor.ge

AMCHAM A MAGAZINE OF THE AMERICAN CHAMBER OF COMMERCE IN GEORGIA

ISSUE 35

OCT.-NOV. 2013

Georgia Is Number

For Ease Of Doing Business

Special thanks to the AmCham Editorial Board and the AmCham staff, especially the CLT and AgriBusiness Committees, for their helpand EPRC and ISET for their submissions.

Investor.ge is printed by CEZANNE

AmCham Georgia

36a Lado Asatiani Street, 3rd floor
Tel: 2 22-69-07
amcham@amcham.ge
editor@amcham.ge, www.amcham.ge

www.investor.ge

Investor.ge CONTENT

Investment in Brief

Gebrüder Weiss, Tegeta Motors Open Logistics Center in Tbilisi

A Gebrüder Weiss groupage-freight service has already been in operation since the start of 2012 on the Passau – Tbilisi line, according to the company's press service. The 10,500 square meter center was built by Gebrüder Weiss and Tegeta Motors, its partner in the Caucasus. The center currently employs 50 people.

Ivanishvili's Private Equity Fund Opens

Prime Minister Bidzina Ivanishvililaunched his $6 billion Georgian Co-Investment Fund on September 30. The fund, which will finance projects in priority areas, will include $1 billion of Ivanishvili's personal wealth.

Wendy's Franchise Opens in Tbilisi

Wissol Group, the Wendy's franchise holder in Georgia since 2012, opened the first Wendy's restaurant in Tbilisi on September 12 on Rustaveli Avenue, at the former Georgian Post Office location. Approximately fifteen Wendy's restaurants will be opened across the country over the next five years, according to the Wissol Group.

The Wendy's on Rustaveli Avenue is one of the largest Wendy's restaurants in the world, with 1,000 square meters of dining and entertainment space. Wissol Group is working with OPIC to finance additional Wendy's restaurants across Georgia.

Hilton Announces Expansion into Georgia

Hilton Hotels & Resorts, together with local partners, plans to open two hotels in Georgia starting in 2016. The first property, the Hilton Garden Inn Tbilisi Chavchavadze, will be fourteen stories and have 165 rooms. The European Bank for Reconstruction and Development is financing the project with an $18.7 million loan to the Georgian real estate group Redix. The 247-room Hilton Batumi includes plans for retail shopping, a casino and a health club.

Renovated Kazbegi Border Crossing with Russia Opens

Officials claim the new, modernized border crossing will be able to process nearly three times as many people, according to the Finance Ministry.

The new, 9-million-lari border crossing opened on September 10. Civil.ge reported there were 329,601 entries via this border-crossing point in the first six months of the year, more than half of those by Russian citizens.

Poti Sea Port Plans to Expand ICT GEZE

APM Terminals announced plans to expand ICT GEZE to seventeen hectares by July 14, which will allow the facility to handle all the containers coming through the port.

Currently just nine hectares, the facility will also be connected to Poti by a 2.5 kilometer rail link, and a 1.4 kilometer road linking it to the port.

New Millennium Challenge Compact to Bridge Work-Skill Gap

The $140 million grant, Georgia's second compact, will target education and human capital to help Georgians compete in the 21st-century workplace.

Georgia is focused on curtailing brain drain and improving labor market skills in the country's second compact with the U.S. government's Millennium Challenge Compact (MCC).

Signed on July 26, the new compact will allocate $140 million to three specific areas: improving the quality of elementary education, modernizing vocational education to meet market demands, and partnering a U.S. university with local partners to provide students with international-standard degrees in science, technology, engineering, and math.

The new compact is a strong departure from Georgia's original 2005 MCC grant, which focused largely on infrastructure.

The 2013 agreement, noted MCC CEO Daniel W. Yohannes, reflects Georgia's desire to create a modern, competitive workforce.

"[What the government] determined is that education is a critical sector for economic growth and the proposed compact would help the country become more competitive in the global market —

I think it is expected to increase wages and it is also designed to prepare the next-generation work force," he said in an interview.

"That is going to help the country compete in the global market… The program of science, technology, math, engineering — that will meet the demand of this country's market needs in the future."

Yohannes, who was in Tbilisi in July for the official compact signing, noted that the new compact's programs will marry top-rated education with international-standard accreditation. MCC is already in discussion with shortlisted American universities who are interested in partnering with a local school to create an American degree program. Prestigious American universities like San Diego State University and Michigan State University have expressed interest; a final decision is expected in 2014.

The compact is also working closely with the business community in Georgia to make sure new programs match current — and projected — needs in the market. By closing the gap between skills and demand, and providing Georgians with better tools to compete in the labor market, Yohannes noted, brain drain should decrease.

"I think this investment is also going to encourage businesses to make additional investment here in this country and that way they don't have to go outside where they can find skills," he said.

"I think in the long term that is going to have a huge impact on this country because it is going to prepare the next-generation workforce that is going to have specialties in a lot of the areas that we are putting an emphasis on — science, technology, math, engineering. Those are major required skills and I think that will help to stop the drainage that has existed."

The Comeback Kid:

Georgian Wine Outperforming Expectations in Russian Market

Russian demand for Georgian wine has exceeded predictions, creating an exciting potential for Georgian exports returning to the market for the first time since the 2006 embargo. Investor.ge spoke to Château Mukhrani, Georgian Wines & Spirits Company and Teliani Valley about their sales to the Russian market and how it will influence future production.

After seven years of embargo, Russian wine drinkers welcomed Georgian wine with open arms, purchasing seven times more wine since the market reopened in June than anticipated, according wine producers like Château Mukhrani and Georgian Wines & Spirits Company.

The Ministry of Agriculture reported that Georgia exported 1.7 million bottles of wine to Russia in just the first month after the embargo was lifted; 65 wine companies and four mineral water producers received permission from Moscow to export their products to the Russian market.

"[T]he conclusions of the first months are that the Russian consumer has not forgotten the Georgian wine, but on the contrary rushed to the shops to buy the first wines imported from Georgia leaving our distributors in a difficult situation to fill up the shelves in Russian shops," noted Jacques Fleury, CEO of GWS/ Georgian Wines & Spirits Company.

"All Russian importers are presently trying to originate more wines than they expected from Georgia."

Tea Kikvadze, the marketing executive at Teliani Valley, said currently 10 percent of the company's production is going to Russia but, based on the demand, 15 percent will be earmarked for the Russian market next year.

But, despite the surge of initial demand, wine producers are not abandoning the markets outside of Russia that helped them survive the embargo years.

Before the 2006 Russian embargo, 80 percent of Georgian wines were exported to Russia. In 2005, Georgian wine exports were worth $81 million; in 2012, after years of struggling to find new markets, exports were only $65 million.

"We do not want to change anything in other markets," Kikvadze noted."We operate in more than 25 countries and we are stable there. So we want to continue and increase sales in these countries."

Fleury stressed that no one is willing to forget the lessons they learned from the embargo – but if the Russian market remains open, there is room for Georgian wine producers to grow.

"The lesson from the 2006 embargo has taught us not to return to such a situation and to continue diversifying the markets for Georgian wines, and in any case … we shall keep … the markets that saved the Georgian wine industries during those ultimate 7 years," he said.

The Future of Georgia's Tourism and Hospitality Industry

An analysis of the tourism sector based on the tourism and hospitality industry chapter in the ISET Policy Institute's Georgian National Competitiveness Report 2011-12

ERIC LIVNY AND ANDREI SARYCHEV

Georgia used to be a premier tourist destination in the USSR era, and recent data suggest that it has the potential to regain its appeal with sunseekers, nature lovers, skiers, extreme sports enthusiasts, and other holidaymakers from around the globe. Indeed, since 2005, the number of international arrivals to Georgia has been growing exponentially, reaching 2.8mln in 2011 and 4.4mln in 2012 (an increase of more than 57%). In the first eight months of 2013 the number of international arrivals hit a new high of 3.57mln (26% above the record achievement of last year).

With all the hype about the tourism sector's potential to create jobs and bring foreign currency, it is important not to lose sight of the negative externalities the current form of mass tourism and transit carry for Georgia.

In a year or two Georgia's entire transport and tourism infrastructure, starting with sea, air and land border crossing points, may face major congestion issues, certainly during the high season. Several observations are worth emphasizing in this context.

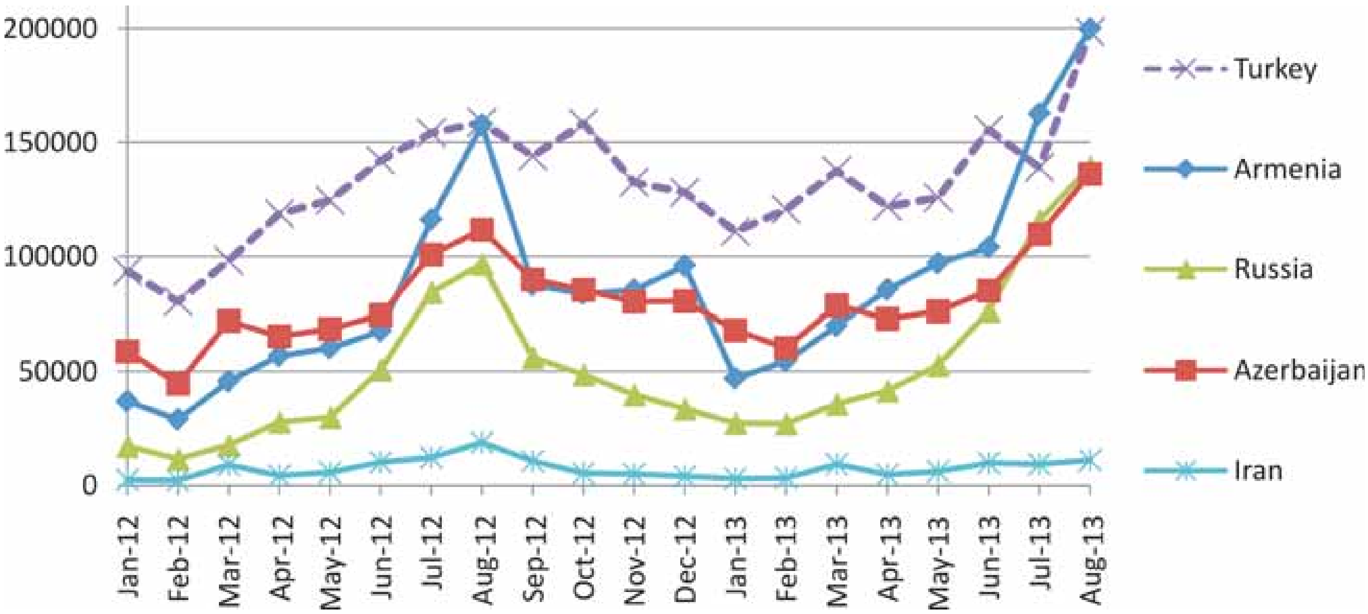
First, Georgia has done a lot to lift restrictions on travel to and through the country. In particular, it has no visa regime with almost 90 nations; citizens of most other countries can be issued visas (and, until last year, also bottles of wine!) at the border. Still, these measures did little to boost the number of arrivals from farther-away destinations. In 2012, 86% of all arrivals were from neighboring countries: Armenia, Azerbaijan, Russia and Turkey.

Second, and related to the above, Georgia remains a rather expensive and hard-to-reach destination. The opening of the Kutaisi airport and the entry of WizzAir are certainly steps in the right direction; however, at present most foreign visitors enter Georgia by land.

Third, with the notable exception of Turkish visitors (see below), foreign arrivals are extremely concentrated in the high season around July and August. This highly pronounced seasonal pattern negatively affects the entire hospitality industry (by reducing incentives to invest in physical capital and skills), strains the environment, and creates congestion.

Fourth, three countries stand out as far as growth in the number of foreign ▸▸

THE SEASONAL PATTERN OF INTERNATIONAL ARRIVALS TO GEORGIA. TOP 5 SENDING COUNTRIES IN 2012-2013



arrivals is concerned: Turkey (up 117% in the first 11 months of 2012); Russia (up 85%); and Iran (up more than 45%).

- Russia. Georgia's unilateral move to abolish visas, the opening and modernization of the border crossing point in Larsi (in 2009, and, most recently, in September 2013), and the reinstatement of flights have all played a role. Moreover, Russian tourism remains way below its potential, and could double or triple in 2013 and 2014.
- Iran is a very special case: the economic sanctions imposed on Iran by the international community are pushing many Iranians to seek work and study opportunities abroad. Until July 2013 Georgia has been one of only 37 countries around the world that had a visa-free regime with Iran, making it an attractive destination for Iranian students, workers and businesspeople.The recent (temporary) reintroduction of the visa regime is likely to act as a restraint on the number of arrivals from Iran.
- Finally, what about Turkey? The more than doubling in foreign arrivals from Turkey is apparently related to Georgia's growing importance as an east-west transportation corridor. As international sanctions are beginning to bear on Iran, more and more of Azerbaijani and even Iranian trade is being diverted from Bandar Abbas and other Iranian ports to Turkey and Georgia. Thus, many of the Azeri, Turkish and Iranian "arrivals" are in fact truck drivers who transit through Georgia.

This is consistent with the results of a survey carried out by the Georgian National Tourism Agency (GNTA) from April 2011 until May 2012: 27% of all international visitors do not spend a single night in Georgia; the median visitor spends less than 2 days (the maximum allowed transit period); 78% are repeat visitors.

Engineering A Shift To High-End Tourism

It is a no-brainer that Georgia should strive to increase its share of wealthy tourists from Western Europe and North America, who currently account for less than 5% of total border crossings by foreigners.

Additionally, it would be important to increase the number of tourists visiting the country in the low season period. If successful in engineering such a shift, Georgia's hospitality industry would be able to attract additional investment in human and physical capital, improving the quality of services and boosting the sector's productivity.

Yet there are several serious obstacles to overcome before the more discerning crowds come to discover Georgia.These relate to the limited supply of accommodation and amenities, service standards, and transport.

First, while a number of international chains are already operating or building hotels in Tbilisi, Batumi, Kakheti and Gudauri, the overall hotel capacity and tourist amenities are still insufficient to accommodate future growth in tourism, particularly in the high season.

Second, the level of hospitality services remains very modest. Given the seasonal pattern of employment, professional workforce is in short supply. The interviews we conducted with major industry players suggest that the problem is particularly acute outside of Tbilisi, e.g. in ski resorts and along the Black Sea coast. Temporary high season positions are often filled with people who do not speak foreign languages and are unwilling to learn them.

Third, affordable, frequent and direct flights are of utmost importance for the development of tourism. Until recently, Georgia had two international airports, located in Tbilisi and Batumi (both operated on a concessionary basis by the Turkish firm TAV), serving approximately 1mln passengers per year.

The Kutaisi airport, which opened last year, is operated independently and is primarily designated for budget airlines. The Tbilisi airport currently offers direct flights to just 34 destinations, while the corresponding numbers for Batumi and

Kutaisi airports are a woefully low five and two, respectively.

Ongoing Coordination Attempts At The National Level

There are many aspects of the hospitality industry that create scale effects and threshold effects, providing justification for coordination efforts by a benevolent social planner (the Georgian government, in this case). For example, a minimum number of daily users is needed to justify investment in a modern ski lift; a resort location must have at least 800 beds to be able to engage a major travel agency; a minimum number of regular passengers is required for a commercial airline to offer a new route.

By the same token, staff training programs are costly and take time. For investors to commit to provide employee training, , they must be reasonably assured that their employees will continue to remain continuously employed.

The sharp seasonal fluctuations in the number of tourists (particularly outside Tbilisi) reduce the incentives for both employees and employers to invest in training.

Finally, private investment in hotels and other tourist amenities must be synchronized with public investment in infrastructure such as air and ground transportation and water and sewage systems that provide important public goods, such as potable water.

All the above suggests that the tourist industry is suffering from a classic coordination failure, justifying government action. This is not to say that the government should directly engage in the construction of hotels or casinos. Scarce public resources should be used to provide public goods with the broadest possible spillover effects. National transport infrastructure —e.g. the Kutaisi airport, East-West rail and road communication systems — clearly falls into this category. Next in the order of priority should be coordination failures affecting particular regions, such as the local road networks. Finally, there may be scope for coordinating the actions of individual investors — through planning and infrastructure development — in key touristic sites along the Black Sea coastand Georgia's ski resorts in Mestia, Gudauri and Bakuriani.

Thinking And Acting Locally

Addressing coordination failures should not be the exclusive concern of Georgia's national government. Georgia's regions, such as Adjara, Imereti, Kakheti, Racha and Svaneti could use a bit of thinking and a very modest investment in local public goods — better signs, environmental cleanup operations, fairs and festivals — to attract potential visitors and convince them to stay overnight.

Adjara, for example, has all the attributes of a tourism hub (in addition to transport and trade logistics): an excellent location close to the Turkish border, Black Sea resorts, beautiful landscapes, a train connection to Tbilisi, and the Batumi seaport and airport.

Very importantly, it has an autonomous status, allowing its government to pursue a consistent strategy, allocate funds for public investment and coordinate (and bargain) with the national government over overarching initiatives that affect the region.

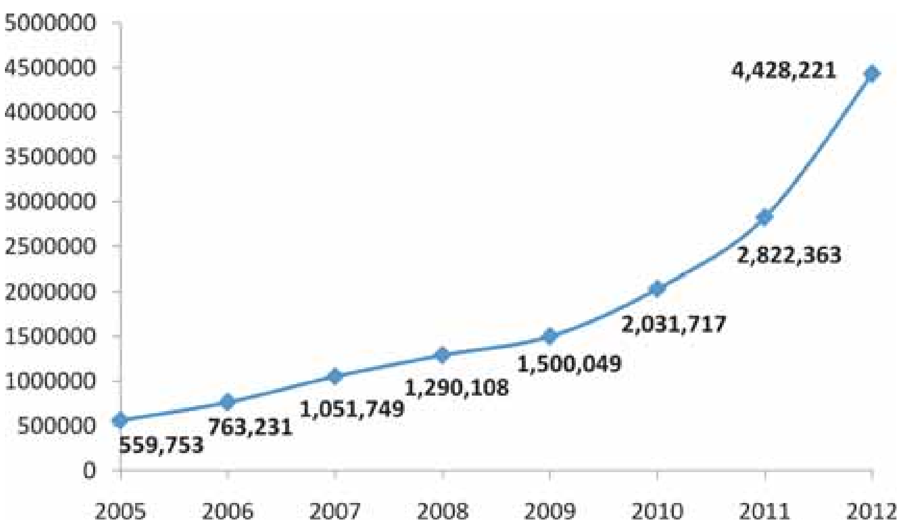
The Kobuleti bypass road, to be completed in 2013, is an excellent example of the latter.

The new road will promote Kobuleti's tourist potential by diverting through traffic from the sea resort area. A decision by the regional government to abolish the license fees for gambling establishments created a minor boom in casino tourism, of importance during the long low season.

The experiment in local self-government reform on which Georgia is about to embark at the initiative of the Ministry of Regional Development and Infrastructure will hopefully contribute to the ability of Georgian communities to act locally.

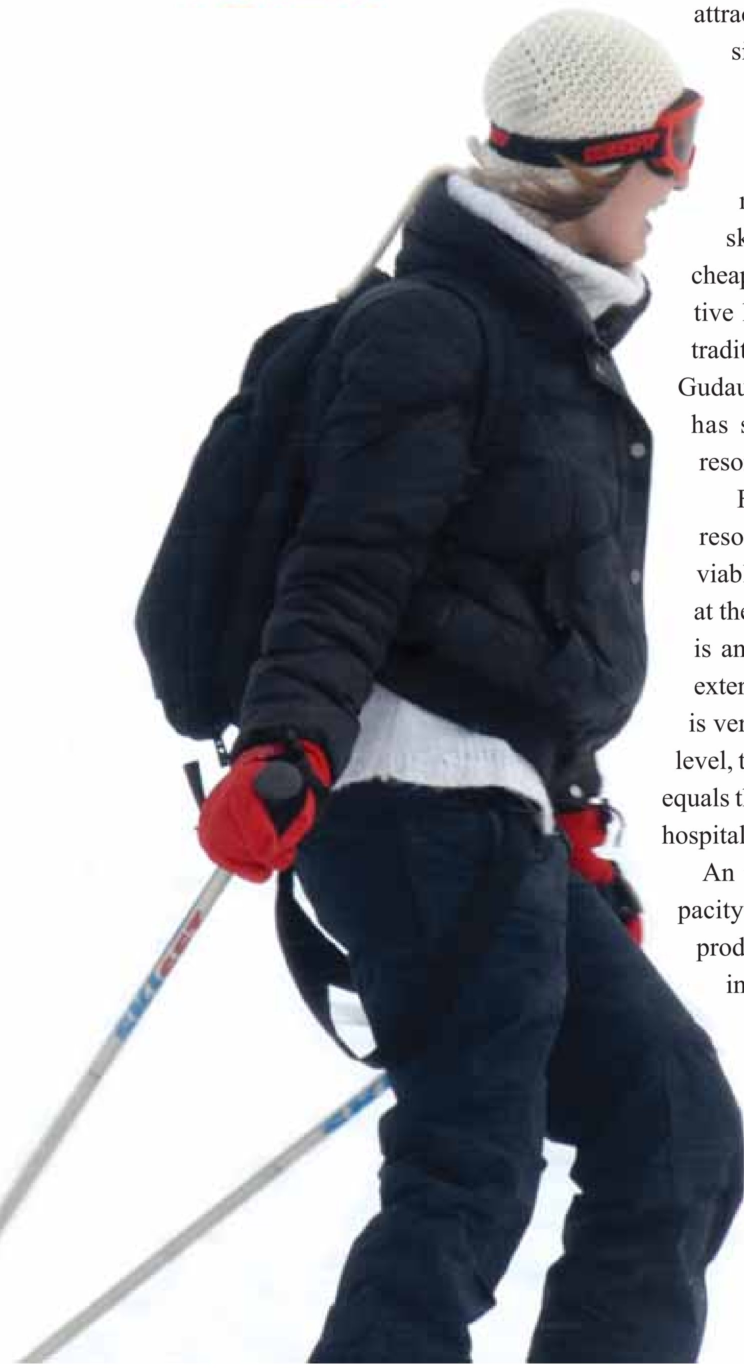
Local initiative, if coordinated with the national and regional authorities (and, in many cases, the international donor community), may indeed hold the key to the future of Georgia's economy, the tourism sector included. ■

INTERNATIONAL ARRIVALS TO GEORGIA: 2005-2012



Georgian Ski Resorts Receive A Major Upgrade

ISET



Considering the small number of international ski visitor and limited local demand, the Georgian market is currently simply too small for large international investors. Given this and the fact that ski resorts are very capital intensive, the social planner's role is to bring the industry to the point where it becomes attractive from the international investor's point of view.

There are several options to develop Georgia's potential as a regional ski destination: Popularize skiing in Georgia, beginning with school education; attract visitors from Ukraine, Russia, Belarus, Baltic countries and Poland for "mass ski tourism; attract visitors from Western Europe (Austria, Swiss, Germany) for niche (heliskiing) skiing, highlighting Georgia's cheaper, less regulated, more attractive landscapes. In addition to two traditional resorts in Bakuriani and Gudauri, the Georgian government has started developing two new resorts in Mestia and Adjara.

Financially, investment in ski resorts may not be commercially viable at this stage, especially not at the going interest rates, but there is an important rural development externality to consider. The industry is very labor intensive: at the 4-star level, the number of beds at a resort is equals the number of people providing hospitality services.

An important way to improve capacity utilization and thus increase productivity of private investment in ski resorts is to enhance summer tourism at the resorts. Bakuriani and, particularly, Mestia, have four-season destination potential, but need additional investment in summer infrastructure, including international airports within a radius of 120km of the resorts.

The Case Of Gudauri

Located on the sunny side of the mountain, Gudauri has a very low risk of avalanches and lots of sunny days. Yet, coordination among individual investors is essential for Gudauri to become an attractive international destination. Construction on the mountain takes time, the landscape is difficult, and the construction season is very short. At present, Gudauri has only 800-1000 commercial beds, whereas the international benchmark for a commercially viable ski resort is about 5000 visitors/day.

The Gudauri Development Fund was created in 2011 to coordinate public and private investments in road access, ski lifts, grooming equipment and a modern pedestrian alpine village providing retail shops, night life, and hotels. The Fund undertook investment in water, electricity, sewage, internet infrastructure, and roads. It also built new ski runs and a gondola lift, bringing total lift capacity from 2,700 to 5,600 person/hour. It is now up to private investors to build new hotels according to available designs. Three private hotels are already under construction (with investment of $5-10 mln each), including Radisson Blue. Total planned capacity is 1,500 beds.

The Fund also rehabilitated all major installations to avoid lift accidents, installed generators, and trained rescue personnel.

Additionally, it improved queue management and increased the number of ticketing booths.

As a result of these improvements and the opening of the Larsi border crossing with Russia, the 2011-2012 season saw a 65% increase in ski visits compared to 2010-11 (including both tourists and locals).

Sanatoriums in Tskaltubo are predominately state owned. Some, however, have been purchased by private investors.

Urban Renewal Program Offers New Life for Villages, Soviet-era Resorts

The World Bank's Regional Development Program, together with local governments and the Ministry of Infrastructure and Regional Development, has already brought an estimated $17 million of direct and indirect private investment to Kakheti. Now, they hope to duplicate their success with the western Georgian region of Imereti.

MOLLY CORSO

A multimillion dollar World Bank (WB) program is betting better roads, modern sewage systems, and updated infrastructure can convince Georgian and foreign businesses to invest in the once-famous village resorts that dot the Georgian countryside.

From the mud baths and wine vineyards of Kakheti, to the thermal water springs of Imereti, Georgia was once synonymous with Soviet holidaymaking and curative water treatments.

Years of neglect, however, turned once prosperous villages into poverty-stricken rural communities that lacked the resources to attract tourists or modernize their fading resorts.

Today, however, the Georgian government, together with WB and private investors, are eyeing the aging sanatoriums for a possible foothold in the $2 trillion global spa and wellness market.

Ahmed Eiweida, the sustainable development sector leader for South Caucasus at the WB, said the program is focused on using the regions' strengths – like their spa legacy – to help attract investment.

"We have a regional development program for Georgia and we are using the regional development approach … to generate employment in the private sector … by making the regions attractive to private sector to invest [in] and thus create investment, invest jobs," he said.

"While doing that we are improving the living conditions of people, we are improving connectivity, and we are improving the situation and targeted intervention in each region based on its competitive advantages."

The WB has already had some success: after investing in Kakheti's tourism infrastructure, roads, water systems, and modernizing the region's approach to marketing, the regional development project helped bring $17 million of direct and indirect private investment, including the country's first wine spa, Kvareli Eden Spa.

The resort opened in March, and now, according to marketing manager Khatia Benidze, is working on attracting tourists and educating people about its unique spa facilities.

"The potential of Georgia to become a spa destination is pretty strong, considering that this will be a new destination. We will have to educate even better the population, organize more activities and promotions," she said.

"Our target market is [the] population of Georgia with medium and high income, wine lovers and experts, who appreciate the wine-making tradition of Georgia and are open to live a different experience using wine not only via drinking, but also in [a] therapeutic way."

Other resort areas are also hoping to tap into Georgia's potential as a spa destination.

Mariam Surmava, the administrative manager at Sairme Hotels and Resorts, agrees Georgia has the potential to attract guests for spa and wellness treatments. Sairme is already attracting guests from around the world: this year, most of the main hotel's 5,000 visitors came from post-Soviet countries like Kazakhstan ▶▶

GNIA is in the process of creating a strategy for developing the sanatoriums in Tskaltubo

and Azerbaijan.

Tskaltubo, a well-known sanatorium center during the Soviet Union, is also a potential favorite for spa tourism. Together with the government, the WB is investing $37.5 million in upgrading the region's infrastructure; 75 percent of the funds have been earmarked for Tskaltubo.

Plans for the aging resort include an overhaul of its water and sanitation systems, as well as the resort's 80-hectare city parks and train station.

Revitalizationis a key part of the World Bank's strategy for aiding economic development in the region, Eiweida stressed.

"[T]he vision for our investments in Tskhaltubo is for Tskhaltubo to regain its glory. You know in the Soviet time, it was the spa and wellness and sanatorium destination for the entire Soviet Union," he said.

A resort of sanatoriums, Tskaltubo was a playground for the Soviet elite and a place of rest and healing for the USSR's sick for generations. Thermal water and mineral springs provided curative treatments for everything from skin diseases to infertility.

The Georgian government is also interested in developing Tskaltubo: the question of investing in the resort was raised during the official launch of Prime Minister Bidzina Ivanishvili's initiative – the Georgian Co-Investment Fund – on September 30.

Giorgi Pertaia, the head of the Georgian National Investment Agency, told Investor.ge that the agency is planning to commission an international study to explore the best development options for the resort.

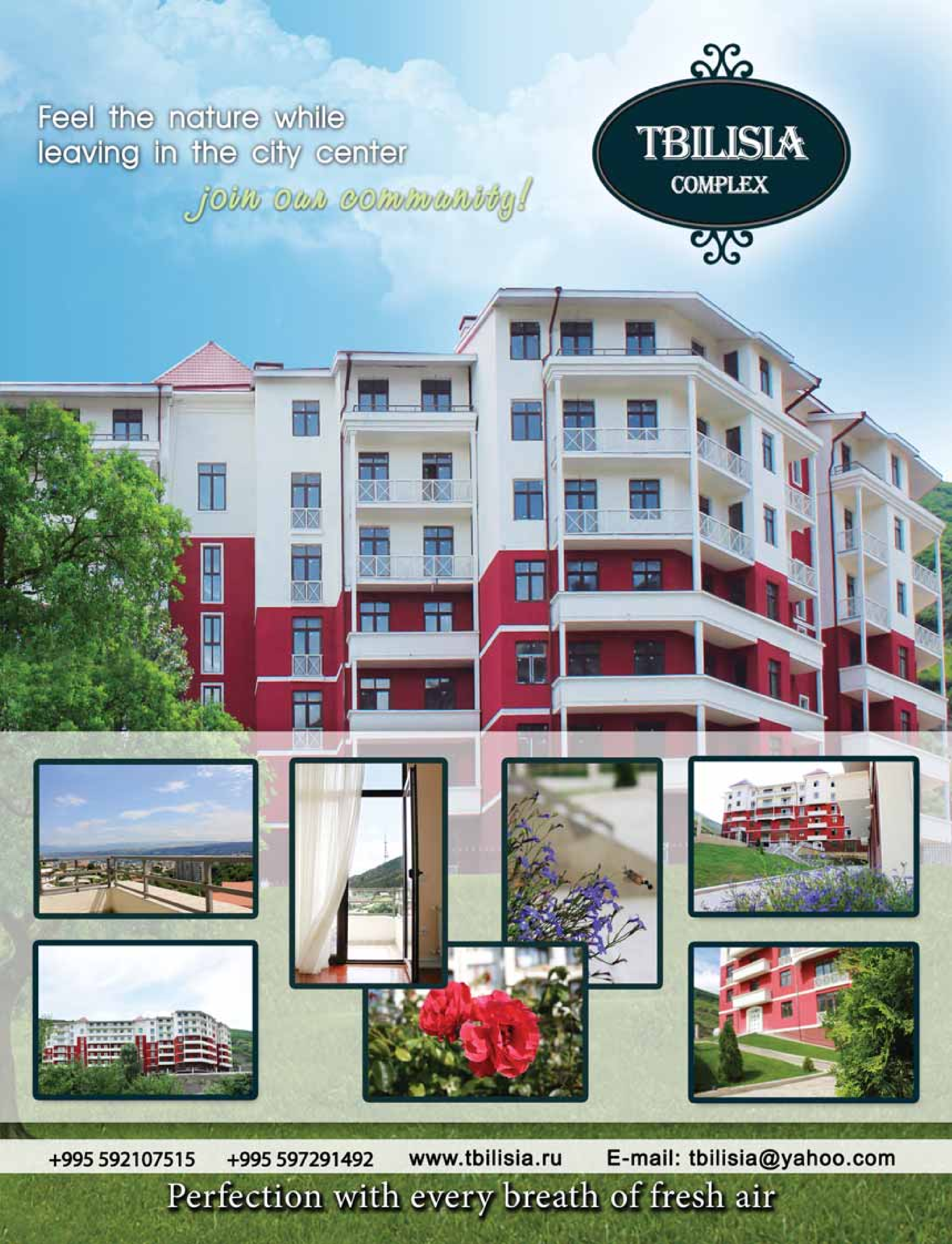
"Tskaltubo has a huge potential, because of the water first of all … because of the nature and because of the buildings that we have right now," he said.

"One of the important things, on top of everything else we have, is that Tskaltubo is already a brand. In Georgia people don't know so much about Tskaltubo as in Moscow and in Kazakhstan."

Eiweida noted that a revival is already underway in the resort: one sanatorium, the Tskaltubo Spa Resort, opened in 2011.

He said Tskaltubo also has the potential to tap into the global trend for spa and wellness tourism.

"It is a specialized kind of tourism.… Tskaltubo targets a special niche of tourists who look for spa and wellness," he said.


Feel the nature while
leaving in the city center
join our community!
TBILISIA
COMPLEX
+995 592107515
+995 597291492
www.tbilisia.ru
E-mail: tbilisia@yahoo.com
Perfection with every breath of fresh air

EPRC
Economic Policy Research Center
ეკონომიკური პოლიტიკის კვლევის ცენტრი

The Price of the State

Everyone demands something from the state budget: pensioners — increased pensions, public-sector employees — higher salaries, the needy — adequate social assistance, everyone else — free healthcare, education, etc. Not many realize that there is no such thing as a “free lunch.” As a matter of fact, that “someone” is every single citizen of the country. Post-Soviet/ post-Socialist societies, like Georgia’s, find it difficult to comprehend who a taxpayer actually is. In Georgia, much like elsewhere, a taxpayer is not only a hired individual or an employer, but rather any consumer in the economy, and therefore virtually every citizen.

To put it simply, society has little or no understanding of the “price” it pays for running the state. A layperson does not understand the true financial load that he or she bears individually for receiving public services. To remedy this, an innovative web portal designed by the Economic Policy Research Center (EPRC) will give answers to a wide range of questions regarding public finances. The website user can gain awareness of the size of the state budget; its annual collectables (tax revenues as well as other inflows); priorities of budgetary expenditures; state debt of the country; personal contributions in providing healthcare, education and other programs; personal contributions for paying salaries to government officials; how much one works for oneself and how much for the state. Moreover, the website presents budgetary expenditures from a per-capita and per-employed-individual perspective, thus helping visitors to better understand the real “state burden” for each citizen and each working individual.

As of 2013, state budget expenditures exceed 8 billion GEL. According to the “bill” for government services presented below, this figure translates into a 2,134 GEL “burden” per capita annually. Given the low number of individuals who are employed as “hired” (approximately 662,000, roughly 14% of the entire population), and not taking into account the self-employed, the “burden” is as high as 13,203 GEL per year. The most “expensive” of such “burdens” is transfers to the local budgets – 285 GEL per capita; next come pension provisions and road infrastructure with 231 GEL per capita. The “cheapest” services are financing the public broadcaster – only 6 GEL per year, and providing aid to internally displaced persons – 9 GEL per year. The “bill” explains to citizens how much the state “overspends,” which results in a budgetary deficit. As of 2013, 82% of the budgetary expenditures are planned to be financed through tax and non-tax revenues, while the remaining 18% will be financed through borrowing, privatization receipts and other inflows. In 2013 the state debt will increase by 193 GEL per capita to reach 2,136 GEL per capita by the end of the year.

This “cash register receipt” represents an easy-to-use tool for distributing and explaining this information to ordinary people, that is, where their taxes end up and what amount they contribute for public services. The “bill” presents state-provided services and their per-capita cost. At the same time it provides information on deficit spending per capita as well as growing public debt. Due to the calculation method — per capita — it is clear that the data only illustrate the existing costs of services; on the other hand, this method allows everyone to calculate how much the per-capita tax burden would grow, if, for example, pensions should rise by 10%.

The web portal further presents a number of simulation “games” to its users. For example, a virtual shop, “Buy Your Own State,” helps to illustrate everything that the state does today and how much money it costs taxpayers; at the same time, by entering this imaginary shop one will be able to choose which services he or she really wants from his or her personal state and those for which he or she would not pay even a single tetri. The price of the “personal” state will then be calculated based on the choices made and the user will discover how much cheaper or more expensive his or her state would be.

The site's calculator, entitled "What Do You Pay," will help to count how much a person pays for state-provided services. After entering information on monthly gross income, monthly expenditures in total (while breaking these down further as per monthly rent/mortgage, spending on fuel, smoking and drinking habits), the calculator will show the person's own monthly balance, and even how much in an eight-hour working day that person works for him- or herself and how much for the state.

Conducting such research and making it available and accessible for the public in an understandable manner will help citizens realize their personal financial role in the state, which will raise civil awareness. Individuals will have an easy reference to understand the sources of budgetary expenditures, to assess the necessity of particular budgetary expenses proposed by the state, and to analyze the economic effects that an increase in budgetary expenses has on their pockets. Thus, the aim of the project is to empower citizens with knowledge and information needed to engage actively and meaningfully in critically important budgetary processes at every stage — formation, allocation, implementation and monitoring. The capacity to understand the budgetary processes and priorities of the government is a necessary step toward the greater objective of developing a politically engaged citizenry and a more accountable government.

Find out more by visiting www.priceofthestate.ge.

PUBLIC BUDGET

GEORGIA 2013

YOUR RECEIPT FOR GOVERNMENT SERVICES

Item	**Price per Capita**
1 Pensions	231
1 Healthcare Program	128
1 Local Budgets	285
1 Social Assistance	99
1 Road Infrastructure	231
1 The Parliament	128
1 Agricultural Program	40
1 Rural Aid Program	10
1 Regional Projects	91
1 Election Committee	10
1 Servicing foreign debt	134
1 Servicing domestic debt	30
1 Public Broadcaster	6
1 Energy Sector infrastructure	12
1 School Infrastructure	17
1 Scientific Research Programs	26
1 Primary Education	86
1 Security and boarder Police	111
1 Armed Forces	120
1 Penitentiary System	29
1 Culture and arts	16
1 Foreign Affairs	16
1 Aid to IDPs	9
1 Sports and Youth Affairs	10
1 State Security	10
1 Other	249
Total	**2134**

In 2013 82% of total consolidated budget expenditures was financed through tax and non-tax revenues, the remaining 18% was financed through borrowing, privatization receipts and other inflows. In 2013 the state debt per capita will increase by 193 GEL to reach 2,136 GEL at the end of the year.

THANKS FOR YOUR PURCHASE!

www.priceofthestate.ge
www.eprc.ge

Why the Georgian Economy May be in Better Shape Than You Realize

On September 18, GeoStat announced that the overall growth rate of Georgia's GDP for the second quarter was 1.5 percent. This sounds awful. However, a more detailed consideration of the breakdown of that number, and other information coming out of the government statistical office, tells a far more optimistic story. Outside of the government sector, the economy is actually doing better and FDI also looks better than the headline figure might suggest. This is quite surprising given the state of uncertainty in politics and may suggest a positive outlook for 2014.

GEORGE WELTON

The simplest way to understand the basis of this growth is to look at nominal (non-inflation adjusted) growth. This is a reasonable approach as inflation has been very low over the last year (less than 1 percent) and because "real" growth figures, for a range of reasons, can miss dynamic changes in the structure of economic activity.

When thinking about growth it is important to look at relative growth in a sector and the absolute importance of a sector at the same time. Below is a table that, based on GeoStat figures, shows the relative importance of major sectors as well as the nominal growth in that sector between Q2 2012 and Q2 2013.

Relatively slow "trade" and "manufacturing" growth are definitely a big part of the overall picture, but the most significant decline in the economy, in nominal terms, was in public administration. As this sector had an 8 percent decline and the sector is worth 10 percent of the economy, this drop alone is worth 0.8 percent of lost growth. Similarly, construction dropped by 15 percent, and this sector is worth 5 percent of the overall economy, so this is worth 0.75 percent of growth. Put another way, if we exclude these sectors then growth would be 3.5 percent rather than 2 percent and this does not even take into account the multiplier effects that stronger performance in these sectors would have.

Understanding why these sectors have declined is, therefore, critical. Both figures confirm the common suspicion that the biggest drag on economic growth is slow government spending on infrastructure. In the area of public administration, while the nominal growth is -8 percent, the "real growth" for the sector, provided by GeoStat, is +2.4 percent. This discrepancy exists because the nominal figure given by GeoStat includes the depreciation of current government assets, while the "real" figures do not. This large depreciation would usually be offset by new government expenditure on infrastructure. That fact that this does not happen here is reflective of the slow-down in government spending on infrastructure.

This slow-down is also the main

Sector Size and Growth in GDP (Q2 2012 to Q2 2013)

	Sectoral percent of GDP	Nominal growth by sector
Trade	17 %	3 %
Manufacturing	10 %	4 %
Public administration	10 %	-8 %
Agriculture	10 %	11 %
Transport	8 %	-2 %
Health and social work	6 %	8 %
Real estate	6 %	13%
Education	6 %	12 %
Construction	5 %	-15 %
Financial intermediation	3 %	8 %
Communication	3 %	-5 %
Other	16 %	-1 %
Overall		2.0 %

Source: GeoStat GDP Breakdown by sector at current prices (reviewed Oct. 2013) reason for the decline in construction. GeoStat further breaksdown construction into three subcategories.

What this first shows is that the majority of the construction sector is doing well. This is consistent with the experience of most people who look around Tbilisi and see fairly considerable building work taking place at the moment. However, the construction of roads and infrastructure is down by more than 50 percent, so that even though its overall contribution to the economy is not dramatic, the impact is considerable.

In addition, a slow-down in some parts of construction can also help to explain some of the slow movement in other sectors. Steel and cement, are large parts of the manufacturing sector and they are heavily dependent on construction. Similarly, large volumes of "trade" are imports related to government and infrastructure construction. And as a significant employer, a slow-down in construction has a range of other multiplier-effects.

The suggestion that the economy's malaise might be largely due to slow government spending is also supported by a report released by the IMF this summer. In that report, the IMF urges "the authorities to reverse the shortfalls in government spending" and even suggests that the Georgian Government relax its public sector deficit targets in response to the more difficult growth circumstances.

FDI also seems to offer a more positive outlook than the headline figure, though the picture is complicated. FDI has grown 7 percent year-on-year since Q2 2012. But this number actually hides some interesting details.

Breakdown of GDP Growth (Q2 2012 to Q2 21013)

	Contribution to GDP	Growth Q2 2012 to Q2 2013
Construction of buildings and civil	3 %	10.6 %
Construction of roads and infrastructure	0.8 %	-50.9 %
Other construction	0.8 %	-27.8 %

Source: GeoStat GDP Breakdown by sector at constant prices (reviewed Oct. 2013)

The first thing that immediately stands out from this chart is that many of the large FDI sectors actually grew by quite a lot more than 7 percent. Most notably, FDI in energy grew by 12 percent, manufacturing grew by 75 percent and construction grew by 800 percent.

Of course, one should not get too excited by these figures. Growth of 800% should not be taken to suggest that the sector is exploding. FDI is often very erratic, and one big deal or one successful company can significantly confuse the general picture. But overall, the trend looks strong.

The declines that balance this out are clearly more connected to nervousness about investment than a more profound slow-down in any of these sectors. For example, slow agricultural investments are occurring in spite of clear GDP growth in the sector. This could, for example, reflect uncertainty over the impact of the various proposed agricultural "funds" or could suggest that cheap local credit has made FDI less attractive. Slow growth in finance-related FDI is also happening in spite of the banks posting dramatic increases in profits.

Finally, the strange negative FDI in hotels and restaurants, which by itself, pulls down growth by 5%, is almost certainly a reflection of uncertainty coupled with great success. FDI reflects incoming foreign investments and the profit made by foreign companies in Georgia which is not repatriated (as it is assumed it is locally invested). Therefore FDI is negative if Georgians are investing abroad or if foreign owned companies are repatriating profits.

The large negative FDI in hotels is at least partially the result of the fact that the hotels are currently full, and unusually profitable.

This may sound odd, but for the large negative FDI to be possible, the companies need to be producing a lot of profit, as without this profit, they would have nothing to send home. Therefore one can see these figures as both good and bad. It is a shame that the hotels do not want to invest their profits right now in Georgia but it is great news for the economy that they are doing so well.

None of this changes the fact that the economy has slowed considerably since the October election. However, it should offer three notes of cautious optimism for any businessperson or potential investor.

First, in spite of a dramatic change in the political environment, the challenges of political cohabitation and an inexperienced team in government, the economy is not doing too badly.

Second, the economy will do considerably better when the government starts spending more money on infrastructure. The fact that this expansion in spending is being encouraged by international financial institutions is also an indicator that government finances are not in particularly bad shape.

Finally, there is still dynamic activity going on even during these difficult times. The construction sector, outside of government contracts, seems to be growing again. Agriculture seems to be generally responding to the various efforts to stimulate it, though FDI is weak. Hotels and restaurants remain profitable. The energy sector, long promoted, is finally seeing strong investment. At the same time most of the rest of the economy is holding steady, in anticipation of a more predictable environment.

I wait with optimism for 2014.

Foreign Direct Investment by Sector

Sector	Amount (1000 USD)	Percent of overall FDI	Percent growth from Q2 2012
Energy	66,337	29 %	12 %
Manufacturing	59,103	25 %	75%
Transports and communications	45,979	20 %	-4 %
Construction	38,594	17 %	801 %
Financial sector	13,077	6 %	-16 %
Mining	9,735	4 %	FDI was negative in Q2 2012 so no percentage is possible
Consultancy	7,417	3 %	79 %
Real estate	4,605	2 %	-52 %
Agriculture	3,822	2 %	-27 %
Health and social work	1,769	1 %	-19 %
Other sectors	-5,475	-2 %	-114 %
Hotels and restaurants	-12,571	-5 %	-221 %
Overall	232,395	100 %	7 %

Source: GeoStat FDI by sector (reviewed Oct 2013)

SAVINGS CAMPAIGN
POSITIVE

NEW TERMS

UP TO **16%**

Build your savings with the most attractive and flexible terms available in Georgia.

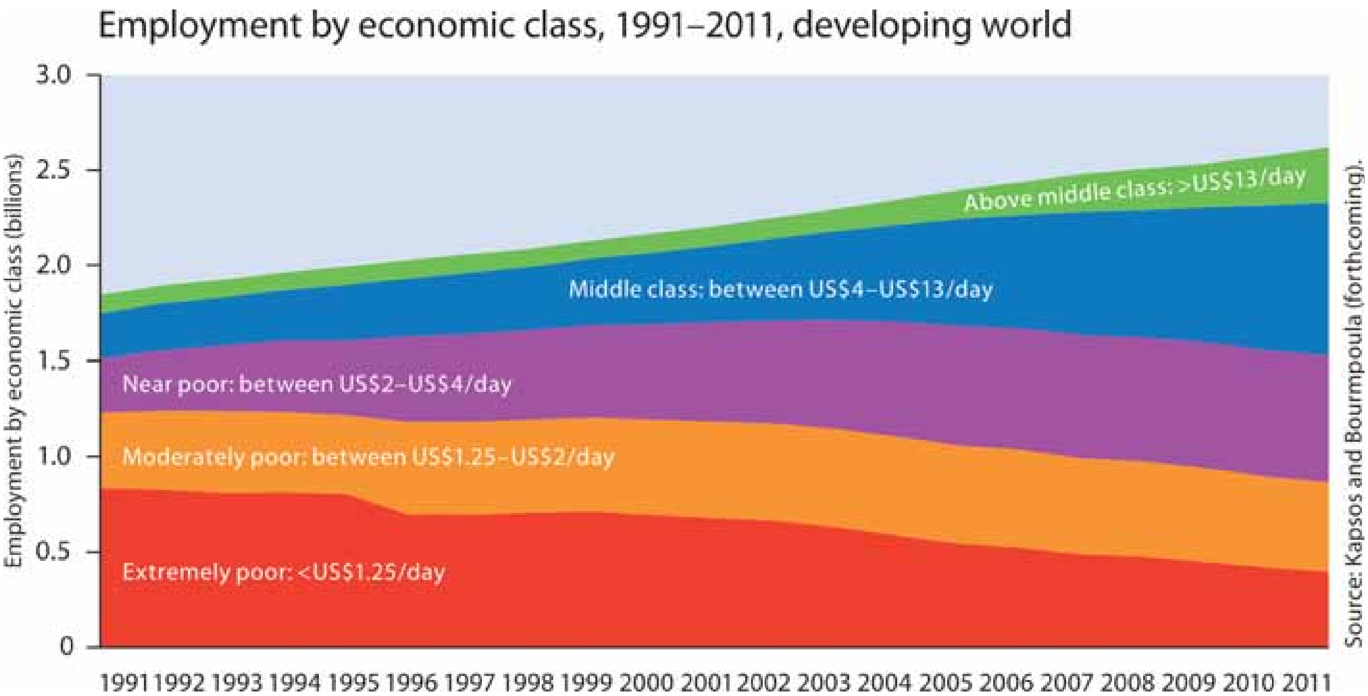
INTEREST RATE	Up to 16% per annum
SAVINGS AMOUNT	Minimum 500 unit
CURRENCY	USD, EUR, GEL
TERM	Minimum one month
INTEREST PAYMENTS	Monthly, quarterly, annual

- Flexible term, from one month to three years
- No hidden or additional commissions or fees
- Additional +1% interest rate if you choose to receive interest on an annual basis instead of a monthly basis

ALLIANCE GROUP HOLDING

M. Kostava Str. 47/57,
0179 Georgia, Tbilisi
Tel: +995 32 2 424 181
E-mail: info@agh.ge
Website: www.agh.ge

Unbundling Labor: A Snapshot of Georgia's Workforce



Georgia's high level of unemployment and troubling labor-skills mismatch is often in the spotlight. But who are the employed? How do women's salaries stack up to those of their male colleagues? Investor.ge's Maia Edilashvili looks at the numbers.

MAIA EDILASHVILI

One Step Forward, Two Steps Back

There is good news, bad news, and even worse news about the Georgian labor market. Good news: salaries are increasing, and a noticeable number of skilled professionals from the private sector have taken government jobs in an effort to bolster the level of expertise and experience in the public sector.

Average minimum monthly salaries in Georgia are up nearly 300 percent, from 204 lari in 2005 to 636 lari in 2011, the latest year for which data are available. The increase is even more noticeable when compared with salaries in 2000, when workers averaged just 72 lari per month.

But the bad news overshadows the good. Women earn less than men, and have a harder time finding a job in the country's difficult employment market.

In Georgian businesses, the average monthly salary for men is 793 lari, while women receive just 582 lari per month.That discrepancy exists across the board for Georgia's female workforce, according to the International Labour Organization's (ILO) 2012/2013 Global Wage Report.

Georgia ranks tenth in terms of gender pay gap. By way of comparison, in Belarus women earn more than their male counterparts. ILO's research into the labor market also underscored that the skills mismatch — both under-qualification and over-qualification —is still high, although it has improved since 2002.

In addition, the lack of "quality employment" has eroded opportunities in Georgia at a much faster pace than other emerging countries, ILO's Global Employment Trends 2013 report noted.

The report found that between 2000 and 2010, informal employment increased particularly sharply in Caucasian and Central Asian countries: Azerbaijan (+14 percentage points), Turkmenistan (+11 percentage points) and Georgia (+7 percentage points).

"Despite the continuous improvement in headline labor market indicators, the widespread and growing presence of informal employment indicates that the quality of employment has deteriorated," the report notes. In addition, the report highlighted that this trend in this region comes in "stark contrast with other emerging regions in the world where broadly informal employment has declined as countries managed to implement anti-poverty measures and successfully applied formalization strategies."

The Numbers

Nearly 60 percent of Georgia's employable two million people have jobs, according to Geostat, Georgia's official statistics body.

While officially unemployment is at 15 percent, nationwide surveys by the Caucasus Research Resource Center found that 31 percent of its 3,838 respondents are unemployed and working for work.

Lana Tsagareishvili, director at Mindstream, a Tbilisi-based company specializing in recruiting, headhunting, training and job fairs, says that the most active employers are sales and marketing specialists, as well as technicians — including everything from engineers to electricians.

Midstream's database has 8,000 registered candidates but the highest paid careers in Georgia are in management and IT: the monthly salary for IT specialists is 6,000 lari on average, while financial manager can earn as much as 9,000 lari. However, such offers are limited and mostly come from international employers, Tsagareishvili underlined.

Business Sector in Focus

According to GeoStat's second-quarter figures,the number of people employed by enterprises in Georgia is 503,000, 39 percent of whom are female. Large businesses employ 60 percent of all workers, medium-size enterprises employ 15 percent and small businesses employ the remainder.

Trade, automobile repairs, and repairs of home and personal items are the dominant job providers in the business sector, comprising 21 % of all employment. The processing industry provides-jobs to 17% of all employed people, health care and social care provides jobs to 11%, transport and communications – 11 %, and real estate transactions – 9.9%.

Wissol Group's Samson Pkhakadze and U.S. Ambassador Richard Norland

Georgian Entrepreneurs:

An Interview with Wissol Group's Samson Pkhakadze

Investor.ge is launching a new series of interviews exploring the biggest trends in Georgian business innovation and entrepreneurialism. In each issue, the best and brightest minds in Georgian business will discuss their ideas, market trends, and the obstacles that face Georgian entrepreneurs today. In the first conversation, Investor.ge's Maia Edilashvili spoke with Samson (Soso) Pkhakadze, the president of Wissol Group.

Wissol Group's Samson Pkhakadze has made a career out of taking risks – and succeeding – in Georgia's challenging retail market.

Rolling out ambitious projects – like Georgia's first Wendy's franchises at a time when majority of businesses are delaying their most serious projects in anticipation of the October 27 election – is business as usual for Pkhakadze.

Georgian business, he noted, is about taking "bold steps."

"[E]ven if there is a period of slowdown, we would not allow ourselves to be passive," he said.

"Assuming responsibility for your own decisions is part of being in business and it's the same in every country. Yes, countries in economic transition have higher risks, but at the same time, higher risk means higher yield per one dollar invested. Then it's up to the business group how to implement and manage the project."

Taking calculated risks is a critical part of being an entrepreneur anywhere, but especially in Georgia – and in particular in the retail sector, which depends on a small, developing middle class.

When investors analyze the competitiveness of Georgia's business landscape, either locally or internationally, they frequently complain about the small size of Georgia, estimated at around four million. For Wissol, however, the biggest obstacle is the lack of strong middle class and the price of new products and services on the market.

According to official statistics, as of August 2013, the monthly subsistence minimum in Georgia for an average citizen is just 129 lari (approximately $78) and for an average family – 145 lari ($87), while most professions top out at 1,588 lari ($960) a month .

But with Georgia's untapped potential in various areas, including a convenient geographic allocation and transit potential, Pkhakadze sees an opportunity.

"Many countries of the same size as Georgia have a 30-times-bigger economy," he said.

"What matters more than the size of the population is how developed the economy is, and I think Georgia has good potential."

In order to achieve this potential, Pkhakadze thinks that "very good cooperation" should develop between the government and business and a higher level of political stability should be reached.

"The government, business and society - all these sides should reach a consensus that economic development is a prerequisite for the country's development and then each should do its own part," he said.

Though, this process, Pkhakadze believes, is going to take time.

"Not just hundreds of businessmen but the whole society should decide that improving purchasing power is our main goal and only that can lead to a higher employment rate," he said.

"The development of a strong middle class is paramount and for this to happen those who create jobs should be appreciated and supported."

Pkhakadze noted that Wissol Group still has "many things to do" and it plans on expanding its retail holdings – as well as investing capital in education.

"We have many things to do – to strengthen each of our businesses and develop them further. For this to happen, the country's economy should be supportive and the overall environment [should be] stable," he said.

"In future, we see ourselves in the retail business because, in our opinion, when you know something very well you should do it for your whole life."

Mapping the Middle Class

In Tbilisi, new retail shops and international franchises are pushing Georgian shoppers to change their habits.

RATI MORCHILADZE

Despite the downturn that has overshadowed the Georgian economy for the past two quarters, young Georgians have money to spend on clothes, food, and gadgets - and new retail shops are eager to help them do it. The fact that middle-class young people have average of 400 lari (based on interviews) to spend in a month on different things, indicates that situation is not yet alarming.

Funds from work, parents, and remittances are fueling the purchasing power of teenagers and young adults in Tbilisi, despite the country's relatively low wages and high unemployment levels. While the source of income for middle class youth various, there is growing evidence Georgians are increasingly turning to retail shops and online suppliers rather than the bazaars and outdoor markets.

Retail shopping is picking up traction in Tbilisi as, over the past decade, the country's gross domestic product grew 6.1 percent, from $920 per capita in 2003 to $3,500 in 2012. Retail trade is the second largest sector in the economy, employing 168,800, nearly 10 percent of the working population in 2011, the latest year for which data are available.

New retail shopping projects like Tbilisi Mall, Rustaveli 42, and EastPoint Mall (which plans to open in 2014) are hoping to cash in on the trend.

While Georgians used to depend on small boutique shops and traders from Turkey to bring clothing and other goods to the market, major brands, from Mango to Ermenegild Zegna, have recently opened shops in Tbilisi.

They are ushering in a new era of retail shopping for a generation of Georgians more accustomed to haggling over Turkish knock-offs in ramshackle bazaars (known locally as the bazroba) than leisurely perusing the pressed racks

in air conditioning.

Nini Gorgodze, the sales and marketing director at CBD Development, saidthe Georgian market is ready for a major, Western-style shopping mall.

Georgian CBD Development, together with the international investment group Cube Capital, are investing $60 million in East Point, a 65,000 square meter shopping mall scheduled to open in Tbilisi suburbs near the international airport in the autumn of 2014.

"We are very educated, normal people, we have good taste and we know it is much more comfortable to go in a good shopping mall and be there than to go to the bazaar where you are in the dust, in the rain, and in the sun," Gorgodze said.

But with median households earning just 473 lari ($284.70) a month – roughly the cost of a coat and pair of shoes at Mango – it is unclear how sustainable the retail market really is.

While there is no publicly available data on how Georgians use credit cards, or what they spend remittances on, 64.5 percent of household income goes for food and beverage compared to just 5.8 percent for clothing, according to a 2012 report on the retail sector by Jones Lang LaSalle and the Institute for Polling and Marketing (IPM), a local research and consulting company.

In an informal survey of middle class Tbilisians aged 15-26, 70 percent indicated they use both cash and credit cards to pay for entertainment, food, and consumer goods. Café managers at the restaurant-lined Abashidze Street in Vake also indicated that half of their customers pay with plastic.

But economists like Paul-Henri Forestier, the former director for the Caucasus, Moldova and Belarus at the European Bank for Reconstruction and Development, noted that the new shopping trends do not indicate there is more money being spent – just that the mentality about shopping has changed.

"What is interesting is the business model definitely became outdated faster than we thought," he said.

"[I]t is not just that there is another way of shopping. There is also probably a middle class, which has grown… [and] is very open to what is happening in the west, wanting to have that for themselves. [They are] a better informed shopper."

Additional reporting by Molly Corso. ■

Georgia Named One of Top Ten Countries For Doing Business

The annual Doing Business report, published by the World Bank and the International Finance Corporation, ranked Georgia ninth in the world for the ease of doing business, putting it ahead developed of economies like Germany and Australia.

The Sarphi Customs Terminal

The numbers are out and Georgia is number nine – three ranks higher than last year – in the annual Ease of Doing Business report. From Singapore to the Central African Republic, 185 countries were ranked according to their laws and regulations on everything from starting a business to enforcing contracts.

The survey, which focuses on eleven regulatory areas that affect business, measures how reforms implemented by governments have helped – or hurt – efforts to streamline bureaucratic obstacles for investors. The report's authors spoke to over a dozen officials, lawyers, consultants, economists, and policymakers to collect the data necessary to rank Georgia on Starting a Business; Dealing with Construction Permits; Getting Electricity; Registering Property; Getting Credit; Protecting Investors; Paying Taxes; Trading Across Borders; Enforcing Contracts; Resolving Insolvency.

The survey is not, however, a cheat sheet to every issue that concerns investors. For instance, the survey does not look at security, corruption, labor skills, or the strength of the financial system.

For Georgia, the Doing Business report has served as a benchmarking tool to measure efforts to create an attractive environment for investors.

Over the past nine years, Georgia's ranking has steadily rose, from one of the poorest countries for investors to one of the best. Here is a quick overview of where Georgia has improved over the past year.

Starting a Business – 7th out of 185.

One of Georgia's strongest areas, the government continues to tweak the processes and procedures necessary for ▸▸

starting a business. With just two days needed to start a business – less than the regional average and the average for developed European economies – Georgia remains one of the easiest places to open a business. There was no change in Georgia's ranking from 2012.

Dealing with Construction Permits – 3th out of 185

Receiving permission for construction in Georgia takes just 74 days and nine procedures, a fraction of the time necessary in Eastern Europe and Central Asia (19 days and 226 procedures). There was no change in Georgia's ranking from 2012.

Getting Electricity – 50th out of 185

Georgia jumped from number 88 to number 50 on its ability to bring electricity to projects faster and more cheaply than the regional average. For investors in Georgia, it takes just four procedures and 71 days to secure electricity, compared with seven procedures and 153 days in Eastern Europe and Central Asia, on average. Costs, however, are still much higher than the average in developed economies.

Registering Property – 1st out of 185

Georgia is the world's star for the ease of registering property: it is faster, easier, and cheaper to register property in Georgia than the average in Eastern Europe, Central Asia, or developed economies.

Due to reforms, it takes just one procedure, two days and 0.1 percent of the cost of property for registry.

Getting Credit – 4th out of 185

Georgia jumped five places due to efforts to improve the scope, access, and quality of credit information, moving up from number 9 last year to number 4 in 2013. More detailed information on how the category is measured can be found at the doingbusiness.org.

Protecting Investors – 19th out of 185

Georgia slipped two slots in protecting investors, one of only two categories where the country is backsliding, sliding from 17 in the ranks to 19 in 2013. The category measures several specific areas: transparency of transactions, liability for self-dealing, shareholders' ability to sue officers and directors for misconduct and Strength of Investor Protection Index.

Paying Taxes - 33rd out of 185

Georgia jumped up 12 places in the survey in 2013, thanks to the limited number of payments on an annual basis and the overall low total tax rate. It still requires more hours to pay taxes in Georgia than the regional average.

Trading Across Borders – 38th out of 185

Georgia's continued efforts to turn the country into a transit hub are bearing fruit, according to the survey. The limited number of documents needed, and time required, to export helped lift Georgia from number 47 in the world to number 38.

Enforcing Contracts – 30th out of 185

It is becoming easier to enforce contracts in Georgia, based on the number of days, cost and procedures to enforce communal contracts, pushing the country up nine slots in the ranks, from number 39 to number 30.

Resolving Insolvency – 81th out of 185

Georgia's biggest slip, however, was in resolving insolvency – or how the law's deal with bankruptcy. The country fell six places in the ranks, sliding from 75 to 81.

The Direction of Georgia's EU Policy:

What November's Eastern Partnership Summit Means for Georgia

Since July of 2010 Georgia has actively pursued closer ties with the European Union through the framework of the Eastern Partnership (EaP) and Eastern Neighborhood Policy. These programs have given the mechanisms for Georgia to simultaneously create change within its own borders while also fulfilling requirements set by the EU. The anticipated signing of Georgia's Association Agreement in November is the culmination of this intersection, and it may begin to set the path for Georgia's relations with the trade union in the years to come.

CORDELIA PONCZEK

Georgia is a country with forward momentum. It is also a country developing within two different spheres of policy—domestic and EU, the two intersecting like a Venn diagram. The overlapping qualities of each set Georgia apart from its peers in the Eastern Partnership, and EU leaders are taking note. Perhaps these qualities are the reason European Commissioner Stefan Fule said that the European Commission will stretch its legal boundaries to ensure a signature before its term expires on October 31, 2014.

Perhaps this is also the reason Georgian Prime Minister Bidzina Ivanishvili spent so much time at this year's Riga Conference hobnobbing over the topic with other EU heads of state like Estonian Prime Minister Andrus Ansip and Polish Foreign Minister Radosław Sikorski. Such statements and conversations mark an intersection of Georgian and EU policy and crystallize Georgia's growing status in both.

Georgia is primed to put its initials to the agreement during the November Eastern Partnership summit in Vilnius. Once signed, the Association Agreement will mark the continuation of Georgia's ascent to strengthen political and economic ties with the EU.

The Association Agreement represents access to programs and mechanisms that favor partner countries and help them build their own infrastructure—programs like the Deep and Comprehensive Free Trade Agreement (DCFTA)—that have huge potential for Georgia's budding market. In an interview with RFE/RL on September 9, 2013, Ivanishvili commented that he believes an EU-partnership is vital to Georgia specifically because it has programs that promote European values like human rights, a competitive market, and the absence of corruption.

"Europeans are the most successful and interesting people…People always strive for a better life," he said, adding that Georgia needs these programs not only to develop its foreign policy, but to bolster its domestic policy, as well.

Expectations are high, indeed, from Georgia, which began negotiations for its Association Agreement in July 2010. These negotiations included benchmarks set by the EU—a critical aspect in which the EU required measureable progress in Georgia's political and economic development. In response, Georgia adopted a series of normative policies, and for three years aggressively implemented reforms designed to show quantifiable advancement consistent with EU standards.

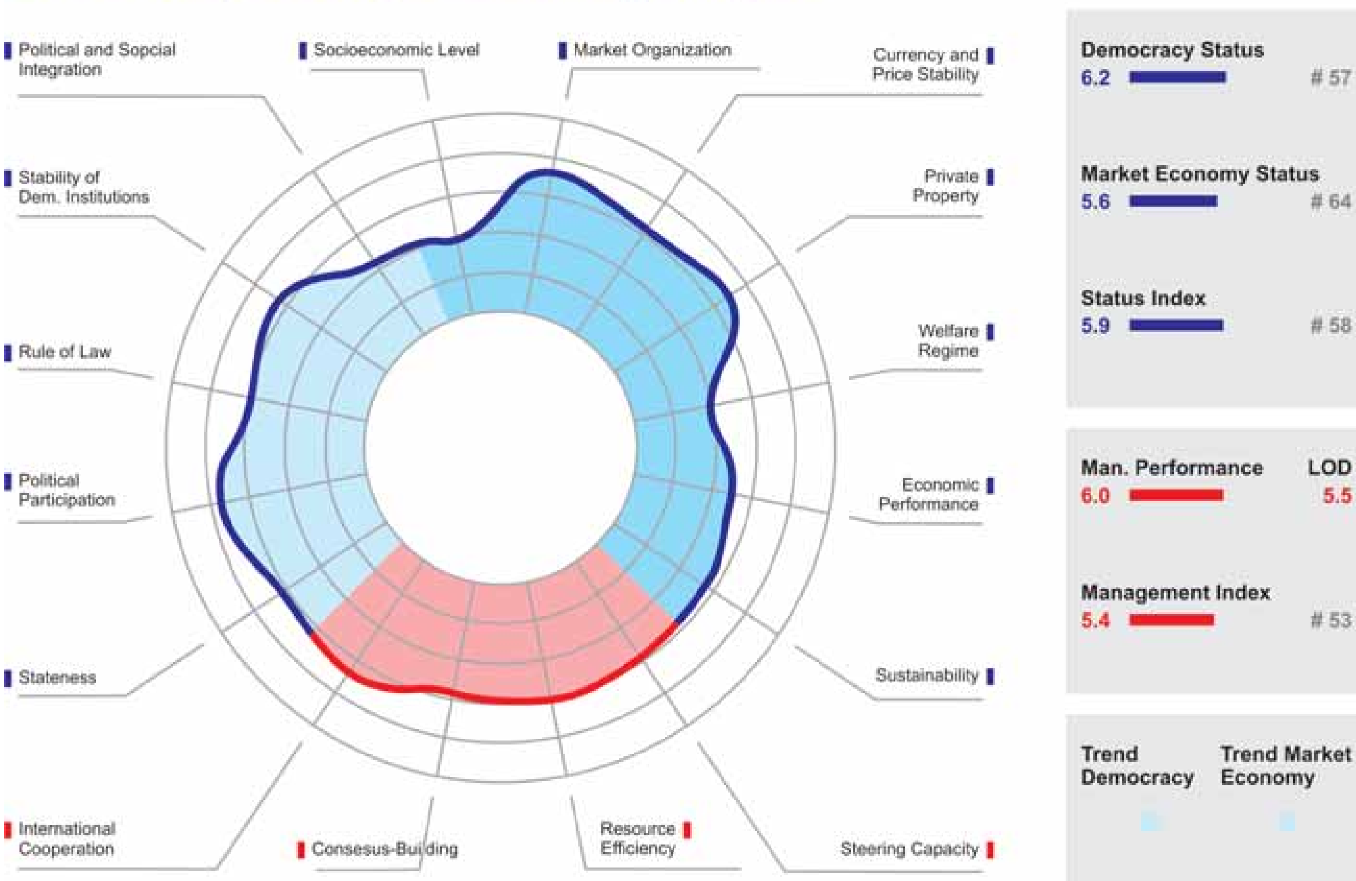
Be it the optimistic publicity or the momentum of long-awaited change, Georgia's metamorphosis has been largely successful. This intensive process has included, among other things, an overhaul of the country's judicial and police systems. These reforms publicly emphasized a zero-tolerance policy for corruption and accountability to the rule of law in Georgia.

The political restructuring started by Saakashvili and continued under Ivanishvili has put Georgia in the top strata of Transparency International and Freedom House ratings. In an analytical piece, Rafał Sadowski of the Center for Eastern Studies (OSW) in Warsaw, Poland, wrote that among EaP countries, Georgia is a positive political example of success after undergoing peaceful democratic change of government in its October 2012 Parliamentary elections.

Yet, for all its lauded achievements, Georgia sees a disconnect in expectations: What exactly will Georgia become to the EU once the Association Agreement is signed and ratified? Will it be simply a neighbor to Europe? Or, as Georgian Foreign Minister Maia Panjikidze wants to put it, a "European neighbor"? And if, as it has done, Georgia continues to adopt and implement policy reforms, what can Georgia expect in return from the EU for Georgia's continued dedication?

These broader questions can be mirrored in a smaller sampling of raised concerns. For example, there is general consensus that the political ties Georgia shares with the EU are not proportionally represented by the economic ties between the two countries. During his two-day visit to Tallinn in September, Prime Minister Ivanishvili remarked to Estonian Prime Minister Ansip that although political ▸▸

BTI 2012 | Georgia Country Report



Key Indicators

Population (mn.)	4.5	HDI	0.733	GDP p.c. ($)	5073
Pop. growth (% p.a.)	0.9	HDI rank of 187	75	Gini Index	41.3
Life expectancy (years)	73	UN Education Index	0.839	Poverty (%)	32.6
Urban population (%)	52.9	Gender inequality	0.418	Aid per capitiva ($)	213.1

relations between the EU and Georgia are strong, their economic cooperation could be better.

"Regrettably levels of economic cooperation are not at the same level with existing excellent political ties," said Ivanishvili to his Estonian counterpart on September 9.

This comment is reinforced by Sadowski of the OSW. "Interestingly, the EU's shares in the trade of Ukraine and Georgia, the two countries, which along with Moldova have made the greatest progress in political rapprochement and free-trade area negotiations with the Union, are smaller than its shares in the trade of the other EaP countries," he wrote in his July 2013 OSW Point of View Report, "Partnership in Times of Crisis: Challenges for the Eastern European Countries' Integration with Europe."

At €2.63 billion per annum, the EU may be Georgia's largest trading partner, but the country, ever mindful of the future, asks, where can we go from here? How can we make this better?

In my opinion, it seems that no matter what form policy takes, it is vital that Georgia and the EU become reliable partners, and so, as Georgia embarks to finalize the Association Agreement, there are two guidelines it should keep in mind.

First, in Georgia's relationship with the EU: Georgia should send a cohesive message to the EU about what it expects in return for its continued commitment to EU principles. Working out an approach with an ambiguous (and somewhat skittish) EU can be a challenge, especially for a country that is still constructing its narrative as an independent democracy and for a trade union that is recovering from a divisive worldwide recession. Georgian leaders must agree on the future trajectory of their country and stick to it. Comments like Prime Minister Ivanishvili's hint at consideration of the Russian-led Customs Union do not lend themselves to a unified policy. Such comments lend themselves to duplicity and doubt, especially when the two competing factions appear to be mutually exclusive.

Second, in Georgia's relationship to itself: While Georgian leaders should endeavor to continue meeting EU-guidelines for political and economic cooperation, they should not hurry to implement reforms that could either undermine stability by too swift a change, or dampen public opinion with unpopular for-show policies. Change does not come overnight, and if Georgian leaders want reforms and a mentality that will last, it will take time. Georgia has been extremely successful with implementing high-profile reform campaigns, and it needs to ensure that those go deeper than just currying public popularity. It is here that Georgia will enjoy the long-term benefits that EU-sponsored programs can offer. Rushing things might get a faster nod from the EU, but Georgian policies on EU paper offer a different reality than Georgian policies on Georgian ground.

The promise of a better tomorrow comes with the signature of Georgia's Association Agreement. There, too, is sensitive probing of expectations for what such an agreement could and should mean for Georgia's future. In September, Foreign Minister Panjikidze commented that because Georgia has fulfilled its end of EU reform policies, the country has merited a clear statement in Vilnius that the European perspective can be opened for countries like Georgia.

Panjikidze is not alone. There is general consensus among Georgian leaders that the EU should vocalize confirmation that Georgia will be rewarded for its perseverance, an extrinsic affirmation, in contrast to the intrinsic benefits democracy has afforded. Many EU member states have been quick to show Georgia support. At the Riga Conference, countries like Estonia, Latvia, Lithuania, and Georgia's long-time staunch ally—Poland—were first in line to offer words of support and promises that the EU will recognize Georgia's efforts. Most recently, this has meant the possibility of an earlier Association Agreement signature.

Assuming Georgia initials the Association Agreement in November 2013, the anticipated date of signature should be at the next summit—a full year later—in October 2014. Polish Foreign Minister Sikorski says Georgia may not have to wait that long. "There was a readiness within the EU to consider signing of the agreement earlier if Georgia fulfills the conditions." This, Sikorski says, is a motivating message for Ivanishvili to bring home to Georgians as encouragement to continue the sacrifices that Sikorski considers "necessary to modernize the Georgian economy and to make it fully compatible with the largest free market on earth."

He speaks, of course, of the EU.

Cordelia Ponczek is a graduate of Miami University in Ohio where she earned her B.A. in Political Science, specializing in post-Soviet development and energy geopolitics. She has spent a year in Georgia teaching and researching energy transit policy. ■

New Restrictions on Foreigner Ownership of Agricultural Land Negatively Impacting Investors

A new amendment that bans the sale of agricultural land to foreigners until 2014 is already costing Georgia valuable investment in the wine industry, as well as other sectors. While the government might offer a half measure – the possibility of long term leases – investors and business associations like the American Chamber of Commerce remain concerned the ban could create long lasting negative repercussions.

MOLLY CORSO

Foreign investors might be offered a temporary reprieve from a restrictive ban on acquiring agricultural land with a last minute decision by the government to allow long-term leasing of land. But will that be enough to convince investors the sector is safe?

The temporary ban, which is part of a parliament-led effort to tackle land reform, went into effect in July after months of speculation and a growing number of media reports highlighting conflicts between foreign land owners and their Georgian neighbors.

The amendment banned foreigners acquiring or inheriting agricultural land until the end of 2014. It also stops current foreign owners from expanding their holdings or selling their property to other foreigners.

Extremely restrictive for foreign investors, the amendments were a shock for businesses spanning from small private investors to major projects.

David Lee, the general director of Magticom and a private investor in Georgian agriculture, stressed that the law causes investors to pause and reconsider investing in property they already own.

Lee, who also co-chairs AmCham's Agribusiness Commitee, noted that the amendment has "very wide implications" for foreign investors in many sectors.

Jacques Fleury, the CEO of Georgian Wines & Spirits Company (GWS) and the director of Château Mukhrani, told Investor.ge that GWS has halted plans for a 10 million euro investment program in new vineyards until "this issue is solved."

"The recent amendment that suspends the possibility for foreigners or foreign entities to own agricultural lands in Georgia will have a very negative effect on foreign investments in the wine sector. In the last fifty years the development of the wine industry in Chile, Argentina and California has been driven by the acquisition and the development of new vineyards owned by foreign investors," he told Investor.ge.

"In order to develop the international awareness of Georgian wines, it is most necessary to attract in Georgia some very famous names in the wine sector, same names who have invested in California and South America. I doubt that those companies will put a foot in Georgia if they cannot valorize their investment."

But Davit Onoprishvili, the head of the budget committee in the Georgian parliament and a member of the ruling Georgian Dream coalition, told Investor.ge the amendment is not trying to frighten off investors – or harm businesses. He noted there is a fundamental issue facing the government: the new administration claims it is unclear how much agricultural land is owned by foreigners today in Georgia.

While preliminary reports put the number at around two percent of the total agricultural land in the country, the perception that it is much higher has added urgency to the issue of land reform – and

creating a better cadaster system.

Long term leases, an idea supported by Onoprishvili and Prime Minister BidzinaIvanishvili, are being discussed as a possible measure to ease investors' concerns.

For some industries, like the wine industry, however, a long term lease falls short of the guarantees investors need to have before entering – or expanding – in a market, noted Fleury.

"In our industry the value of the business after years is essentially translated in a price per hectare of the property according to the Appellation zone it is located in, or the international value of the wine brand," he said.

"I doubt that a long term lease of 30 years as suggested by some members of the government will solve the issue. It may work for annual crops such as cereals or vegetables, but not for wine projects, which have long term perspectives."

Passed by the Georgian Dream-controlled parliament in June, the amendment seeks to circumvent a 2012 Constitutional Court decision that opened up direct ownership of agricultural land to foreigners. The changes ban foreigners from acquiring, selling to other foreigners, and inheriting agricultural land until the end of 2014. Previous to the ruling, foreigners could only own land in Georgia by establishing a company registered in Georgia.

Under the newly amended legislation, noted Ketti Kvartskhava, a partner at BLC Law Office in Tbilisi, investors from a range of businesses could run into problems.

"We are talking about the status of the land, rather than the purpose of the land," she said, adding that distinction has immediate implications. For instance, Kvartskhava noted that "a lot" of land around Tbilisi has agricultural status even if it is not used for agricultural purposes.

"The implication of this law goes way beyond the scope of pure agricultural land."

For Esben Emborg, a managing principal of SEAF's Georgia Regional Development Fund (GDRF), the amendments represent a threat for investments – and for the future development of the sector.

"For a fund like us [it is a problem]. We were encouraged to invest in agriculture, like everyone else who was encouraged to invest …," he said.

"It affects our investment because we cannot sell or divest or exit any of our investments unless it to a 100 percent Georgian business or person. And it is highly unlikely that is going to happen."

Emborg noted there is also a "psychological" impact of the amendment.

"The idea that you are not wanted is one thing but the idea is if they can do this, what will they do next?" he said.

But PavleMgeladze, a spokesperson for the Ministry of Agriculture, stressed the change is merely a temporary measure designed to give the government time to study the situation and create a modern land use policy.

Even if the government views the measure as short term, however, there is still a question of the amendment's constitutionality.

Mathias Huter, an analyst for Transparency International Georgia, has applied to the Constitutional Court to overturn the new amendment since it violates the 2012 decision, but the review process could take several years.

In the meantime, however, some investors are concerned the amendment will adversely impact a struggling part of the economy. Agriculture, once an engine for the Georgian economy, has dropped below 10% of the country's GDP even though 46.8% of the population still lives in rural communities.

AmCham, working through its AgriBusiness and Commercial Law and Tax Committees, is actively following the government's response to the amendment. In a detailed analysis of the amendment's possible repercussions for investors, the committees found that it could negatively impact foreign and local landowners by limiting the potential pool of purchasers. In addition, it makes direct investment into the agriculture sector "much more unlikely."

"Foreigners literally cannot buy equity in agriculture companies and they are unlikely to make green-field investment based on leases," the committees found, noting that the potential problems created for the finance and investment sectors seem to be particularly problematic.

"Banks and international financial institutions may not be able to use agricultural land as collateral for new loans and collateralon existing loans may have to be devalued. Investment funds, government funds, and even Prime Minister Ivanishvili himself, as a French citizen, will be restricted in their activities."

Georgia's Per-Diem and Reimbursement-Cost Framework A Strong Candidate for Reform


The current calculations for per diem business expenses are too low

ALEXANDER MELIN

Per diem allowances and the reimbursement of expenditures for business travel have suffered in Georgia from a lack of focused attention, affecting businesses and employees. Some eight years ago, the Order of the Georgian Finance Minister No. 220 established low rates for reimbursement of expenses for food, lodging, and incidentals on business trips (a separate order covered government employees' per diems). Since then there have been practically no adjustments of meal and incidental per diems—only adjustments to lodging costs, which are still lamentably low, and mostly changed in 2008—to bring them in line with international norms and the present realities of the Georgian business milieu.

"Per diem" refers to reimbursements company employees are entitled to for business travel-related expenditures on meals and incidentals; lodging is often considered a component as well. Why are per diems a standard business practice? First, as a matter of fairness, it is not right to force employees to pay for business expenses out of their own pockets. Second, without reimbursement there is less incentive for employees to undertake travel to seek out new business, create trade opportunities, receive training, go to trade fairs, and so forth; without reimbursement for business-travel expenses, business development would be stunted.

In the U.S. and in European Community (EC) external-aid-funded projects, per diem rates are updated regularly, typically yearly. In Georgia, this has not been the case, and per diems have not kept up with inflation and cost-of-living increases, and were often too low to being with. For example, any payment beyond 20 lari for an in-Georgia per diem is subject to taxation at 20 percent; it is simply unreasonable to think that a business traveler, who cannot cook at home, can eat normally on 20 lari per day. Numbeo.com puts the price of an inexpensive meal in Tbilisi at a median price of 13.31 lari; just three cheap meals alone would be about 40 lari. Keep in mind that this 20 lari limit has not been updated with regard to inflation or cost of living increases since 2005. Also, all post-Soviet countries besides Russia have identical rates, indicating that these rates are chosen somewhat arbitrarily.To give some sense of typical rates, the following chart compares Georgia's combined per diems and lodging reimbursement with the U.S. and EC projects in USD, based on the Georgian Finance Minister's Order, and the 2013 U.S. and EC schedules. ▸▸

The month selected under the U.S. schedule was September, and the lodging rate for Tbilisi was set at $136 for purposes of this graph, reflecting the 2012 lodging average, according to STR Global (as within Georgia lodging is substantiated on basis of receipts).

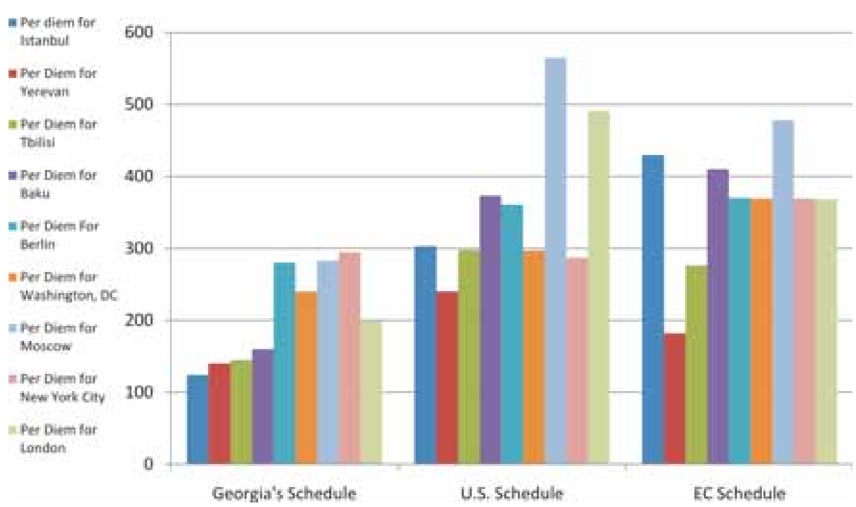
It is immediately obvious that Georgia's rates are out of sync with the EC and U.S. This is simply not fair to those doing business internationally, as they are stuck between the two unpalatable choices of not compensating employees sufficiently, or overcompensating with their per diems beyond the threshold limit and paying tax for what is a legitimate business expense.

The latter case may also have the knock-on effect of incentivizing shadow accounts or misappropriation of funds to pay per diems, creating a corruption issue. Indeed, the best practice is to make sure per diems are a close approximation of actual costs, not higher or lower.

In today's business environment Georgia's regulation operates beyond the necessary scope of reasonable limitations to prevent per-diem fraud in a way that penalizes companiesand wastes time in accounting.

The whole framework is in need of reform. Making per diems correspond with actual prevailing cost conditions in respective locales, keeping them updated annually based on actual data, and extending them to NGOs' volunteers and interns would be a great start. If the Georgian government is concerned about the burden of data gathering, one possible solution is to create a revised list and index it to inflation in each respective country so that it may be updated more or less automatically each year, or, alternatively, adopt rates that are based on an average of U.S. and EC rates, or some other basket of other countries' rates, such as adopted by other countries within the EU.

By making per diems accurate and fair, business will thrive, tax enforcement headaches will be minimized, and accountants will be thankful. ■



Protection of Information Assets: A Work in Progress

A few years ago the Georgian government embarked on major e-governance projects to ease and streamline delivery of public services for citizens, non-residents and organizations.E-governance is also an efficient and effective communication channel among government agencies. For this purpose the Data Exchange Agency (DEA) was formed as the designated government body for supporting e-governance initiatives, both technically and legally. One of the main aspects of DEA's operations is the development of information security policies and procedures, especially for the public entities whose business continuity is deemed to be critical for country's economic and defense security.

NELSON PETROSYAN

Government's Efforts in E-governance

In post-Soviet countries, Georgia has been the pioneer in many aspects of the move toward better public service through e-governance. For quite some time now, information and communications technologies have been increasingly integrated into the operations and business processes. And in the search for better governance, the business of "public governance" had to embrace this opportunity, like it is done in the business sectors. Clearly, in industries like banking and telecoms, information technologies are the game changers.

Information Security for the Financial Sector

In the financial sector it is an imperative, and, in many cases, mandatory requirement, to ensure secure handling of information. It is worth mentioning that in the last two to three years enormous effort has been made to meet information security requirements, especially in the banking sector.

Besides that, new technology and modern approaches to corporate governance contribute to credibility among the society at large, foreign investors and international financial institutions. More often requirements for information security are being met in different international standards in the areas of audit, financial statements and internal control systems (Sarbanes-Oxley, COSO, COBIT, IPPF).

Market Perception of "Protection of Information" and "Information Security" Concepts

The most obvious information security role and need are seen in the financial services sector. The regulators, central and national banks, establish information security risk management requirements for the banking sector, including the commercial banks. These requirements are commonly adapted versions of ISO 27002:2005 set of security controls. Being the international standard for information security management systems, it is expected that in the next few years ISO 27001:2005 will become a mandatory requirement for the banking sectors in many post-Soviet jurisdictions.

Demand for Information Security

The Government of Georgia has made a foundational step in regards to cyber security, by setting up respective regulation. This regulation puts cyber security on the same page in terms of importance with land, naval and air protection. Moreover, the March 2013 decree by President relates to the sphere of applicability of these rules and makes it clear which entities and structural units are considered as the most critical for sustainable operability. Since ISO 27001:2005 does not distinguish implementation between public and private companies, the methodology and processes are the same. Obviously, each legal entity has its own specifics and this should be taken into account during standard implementation. However, implementation of ISO 27001:2005 for state agencies constitutes also the adherence to country's cyber and information security. Specifically, the Data Exchange Agency (DEA), the key agency responsible for nation-wide cyber security, has already issued a number of legislative acts in that regard.

Expected Changes and Scarcity of Professionals

ISO 27001:2005 is a component of internal control systems. It defines basic principles of information security, information systems security and control environment, which includes 144 controls for implementing information security management systems. Implementation of the ISO 27001:2005 standard allows banks to secure protection of one of their most important assets — the information asset — based on internationally acceptable standards. As with any system, an information security management system also requires an information security specialist for implementation and further maintenance. There are very few such professionals, and certainly not enough to meet the current demand.

The answer is in training and certification of professionals, as the common education institutions do not yet prepare such specialists.

Professional Education and Certification Board (www.pecb.org) has a partnership agreement for Georgia authorizing it to carry out certification training and conduct certification exams for ISO 27001:2005 Lead Auditor, ISO 27001:2005 Lead Implementer, and other professional certifications.

Nelson Petrosyan is the Managing Partner of Grant Thornton in Georgia. He has over 14 years experience in management consulting, corporate governance and business risks, financial audits and management. For more information, please visit www.granttornton.ge.

The Tax Dispute Resolution System In Georgia

The tax dispute resolution system is crucial to business confidence and has gone through several waves of reforms. Throughout this period, businesses have never stopped discussing the independence of the system, the degree of trust it holds and the need for further reform. In this article, Rusudan Kemularia, General Counsel at Millennium Challenge - Georgia, former Deputy Minister of Finance (2010-12) and a member of Amcham's Commercial Law and Tax Committee project, discusses the changes currently under consideration and their possible impact on the reliability of the tax environment in Georgia.

RUSUDAN KEMULARIA

Continuing Challenges with the Tax System

There is little doubt that improvements in the tax code and the management of the tax system in Georgia have been considerable in recent years: electronic declaration of taxes was introduced in 2007 and the tax code has undergone several major reforms (most recently in 2010). In addition, an alternative tax audit mechanism is available for most taxpayers and an improved website exists to help clarify the interpretation of the code.

However, ambiguities over the interpretation of the tax code and concerns over its consistent application have been a persistent problem facing businesses in Georgia and have, at one time and another, been highlighted by the likes of the US Government and the EU as causes of concern.

Grant Thornton's Nelson Petrosyan noted that clearer tax rules and less ambiguity is needed.

"We need to continue efforts to minimize instances where tax legislation allows for multiple interpretations. To illustrate with the example of football – the rules of the game have to be clear for all – players (taxpayers), coaches (investors), referees (government), and not less importantly, the spectators (society)," he said in an email interview.

"When referees' judgment calls are based on rules of the game that are clear to all, then you would expect fewer objections from players and the coaching bench, and far less disapproving whistles from the spectators' crowd."

Ironically, some areas of tax reform may have made the situation worse, as changes to the tax code were often brought in quickly, and with little consideration for conflicts that they may generate. For example, a previous analysis conducted by the Commercial Law and Tax Committee, found that in 2011 there had been 285 separate amendments to the tax code, made on 15 separate dates.

Dispute Resolution

The dispute resolution process is one of the mechanisms intended to protect taxpayers against problematic interpretation of the code. This process allows two independent appeal mechanisms to review decisions taken by the Revenue Service and provide an opportunity for taxpayers to argue their position.

The tax appeal system within the Ministry of Finance has two stages. First, following an initial decision of the Revenue Service, an individual can submit an appeal with the Revenue Service. Second, if the individual still disagrees with the decision, he or she can make an appeal to the Tax Dispute Resolution Council under the Ministry of Finance.

An alternative to the dispute resolution process in the Revenue Service or the Ministry of Finance is to take the dispute into the courts for resolution. However, in Georgia this has rarely been the preferred option, as the courts were not considered to be technically competent to independently arbitrate disputes and so would tend to defer to the Revenue Service for their interpretation of the code.

Nonetheless, while the dispute resolution mechanism of the Revenue Service has been widely used, there continue to be concerns about its operation. Under an EU-funded project PwC is currently finalizing a report on how to reform changes to the dispute resolution process, and the Minister of Finance Nodar Khaduri has said that the Ministry will carefully consider the recommendations from this report and how to implement them.

However, before the report comes out, one can already highlight the issues under consideration, particularly the challenges of improving the predictability of interpretation, adjudicative independence and professional competence.

Improving the Predictability of Interpretation of the Tax Code

Lack of predictability of interpretation of the tax code has been a consistent problem of Georgia's tax system for years. It is not only a problem for business planning but has also left the concern that the tax code might be selectively applied.

One problem that makes predictability and consistency of interpretation difficult is the lack of published guidance on the tax code, and particularly the lack of published guidance that is binding on future interpretation. In an attempt to help this situation, the former government launched the website www.matsne.ge. This website is gradually publishing guidance on the tax code, but is still in its early stages. An alternative mechanism for gaining confidence in interpretation is to apply to the Ministry of Finance for an Advance Tax Ruling. This is a useful instrument, but is expensive, and generally only suitable for larger companies.

One means of helping to improve the predictability of dispute resolution decisions, currently under consideration, is that the Dispute Resolution Council could publish its decisions and make its interpretations binding on future decisions. Over time, this would then provide a body of guidance on how to interpret the tax code and on predicting likely decisions of the Council.

Independence

The second major problem of the dispute resolution council is independence. At the current time, the individuals involved in the appeal process are also responsible for the initial decision. In the case of the first tier of dispute resolution, this conflict is most clear, as the disputes are decided by members of the Revenue Service, and there is a sense that they are likely to defer to the decisions of the original Revenue Service auditors.

Conflict is less clear in the case of the Dispute Resolution Council, as the members come from the Ministry of Finance and not the Revenue Service. However, indirect conflicts may exist as the members of the Council are still, for the most part, employees of the Ministry of Finance. This is problematic as the Ministry of Finance has revenue-raising as one of its key responsibilities and this may create a pro-government bias in its decision making.

The inherent issues of independence have led some to suggest that dispute resolution should not take place in the Ministry of Finance at all, but should take place in some kind of separate "tax courts." However, this option is not currently being considered by the new government and, anyway, may conflict with the Georgian constitution.

Improving Professionalism of Dispute Resolution

The final problem facing the dispute resolution process is how to deal with the work level and professional focus of those involved. The dispute resolution process, at both levels, involves individuals who also have other responsibilities. This is a problem because there is no clearly defined group of people to collectively train and develop dispute resolution and review skills. It is also a problem because the scale of the work makes it difficult for those involved in dispute resolution to give it their full attention. This is made worse by the increasing use of this system. In 2011, the Revenue Service received 7,900 tax appeal claims. In 2012, this figure almost doubled to 14 890.

One of the potential solutions to the problems of independence, professionalism and workload would be to separate those involved in dispute resolution from the day-to-day operation of the Revenue Service and Ministry of Finance.

At the same time, by making this group exclusively responsible for dispute resolution, this may make it easier for the group's members to develop their training and internal processes and make it easier for them to manage the increased workload.

Discussions over this issue are ongoing and the Ministry has expressed an eagerness to engage with stakeholders on the best possible reform.

To that end, AmCham will be facilitating discussions between the Revenue Service and any members who are interested in participating. Any individuals who would like to provide input or feedback should contact Rusudan at rkemularia@yahoo.com.

This report is made possible by the generous support of the American people through the United States Agency for International Development (USAID), EWMI and EPF, within the Judicial Independence and Legal Empowerment Project. The contents are the responsibility of AmCham and do not necessarily reflect the views of USAID, the United States Government, EWMI or EPF.

Restitution And Justice: The Process Of Addressing Property Rights

Thousands of people have accused the former government of Georgia of forcing them to "gift" their assets to the state. Prior to the parliamentary election, the Georgian Dream Coalition vowed to remedy these alleged property rights abuses. However, current Georgian law does not allow for easy remedy of these disputes in the courts, none of the proposed legislation seems likely to fix the problem and most of the claims, currently with the prosecutor's office, are frozen.

EVA ANDERSON, IRAKLI SOKOLOVSKI,
AMCHAM'S CLT COMMITTEE

There is no clear solution to this problem. Any resolution creates huge challenges for the national budget as compensation claims could be onerous, but to ignore the claims will create political problems and may undermine trust in the rule of law. To facilitate the process of public debate on this issue, the AmCham Commercial Law and Tax Committee Project is analyzing the legal situation facing individuals seeking restitution and the challenges facing the government in trying to deal with this thorny political issue.

Following the electoral victory of the Georgian Dream coalition in the parliamentary elections of 2012, Archil Kbilashvili, the newly appointed Chief Prosecutor, addressed the public on national television, and stated that "if you have a complaint, if your rights have been infringed by the UNM government, apply to me." According to the Prosecutor's Office, following this statement they received 20,000 complaints in three months, including 9,350 claims seeking the return of property or assets.

Generally claimants allege that they were forced to transfer assets to the state. Most often property was allegedly transferred as a result of a plea bargain arrangement, dictated by the prosecutor, in return for a lesser criminal sentence or dismissal of the charge. Other forms of state pressure were also allegedly used.

There are two main reasons why these cases cannot be easily remedied under current legislation. First, many of the cases operate under a statute of limitations, and too much time may have passed to look for restitution in the courts. For example, those whose property titles were deprived by virtue of a civil agreement (as opposed to a plea bargain arrangement) may seek to argue that these contracts should be declared void by the court because they resulted from duress by state officials. However, the Georgian civil code sets a strict one-year limit on the time period it allows claimants to bring their claims in the courts, and this excludes the vast majority of claimants.

Another hurdle under the current law is that if a claimant tries to claim that his or her property was misappropriated due to an illegal criminal prosecution, he or she needs to overturn the original verdict of that prosecution in order for compensation to be possible. However, a general principle of legal due process (res judicata) requires that the final verdict of a court is rarely open to legal reconsideration. To do so, in a Georgian context, it is usually necessary to bring forward new evidence. This new evidence is usually lacking. In the light of these existing legal constraints, many claimants have been searching for alternative legal methods to gain restitution of property. In the analysis that the Commercial Law and Tax Committee team conducted for this article, we identified four main avenues through which claimants are currently seeking restitution of their assets.

The majority of claims are simply being sent to the Prosecutor's Office in the hope that the prosecutor will investigate, unilaterally reopen the cases and provide mechanisms for overturning "res judicata." However, most of these cases are frozen as the prosecutors office waits for a political decision regarding how to proceed. In addition, the restitution of title, which could potentially be obtained from these actions, entails a lengthy and expensive legal process and multiple layers of court proceedings.

A second avenue for gaining restitution, particularly in cases claiming duress, is to seek an interpretation of the law views the durass as a continuing wrong, thereby circumventing the statute of limitations and allowing cases to be considered for longer.

For example, the Georgian Young Lawyers' Association (GYLA), are representing the former shareholders of JSC Tbilaviamsheni (TAM), a major Georgian aerospace development and manufacturing company. The shareholders claim that they were forced to gift their shares to the state, under conditions of duress, in June 2010. Under a standard interpretation of the statute of limitations one might expect that they could not pursue a claim as more than one year has passed since the original duress. However, GYLA will assert that duress exerted against former TAM shareholders only ceased in October 2012 with the changes in the Government of Georgia.

This case is particularly important because, if the shareholders represented by GYLA win, then they would set a legal precedent for a broader interpretation of duress which many other claimants could also use. Third, many claimants are waiting for changes in the law to provide them with a mechanism for redress. Two different legislative drafts are under consideration. One proposal on restitution was put forward by Paata Kiknavelidze, a majoritarian MP from the Georgian Dream coalition, and come before the Parliament this fall. This law would provide restitution or compensation in any situation where the claimant could show that he or she had transferred the asset to the government free of charge. This law, however, faces gloomy prospects of successful adoption. Government representatives, including Alexander Baramidze, a Deputy Minister of Justice, and Dimitri Kumsishvili, a Deputy Minister of Economy and Sustainable Development ,say the draft is too wide, unclear and unworkable and its current form would be very dangerous to the interests of justice. Lawyers for Transparency International (TI) Georgia, Eka Bokuchava and Gia Gvilava, have also pointed out that the draft does not take into account the complexities of the existing situation and so will actually create more cases than it resolves.

A different mechanism for correction of alleged former-government wrongdoing is the draft law on aTemporary State Commission on Miscarriages of Justice proposed by the Ministry of Justice of Georgia, with assistance from the Council of Europe. This has received the backing of the ruling coalition. Some government officials view this law as pivotal in curing the miscarriages of justice. They assert that the proposal entails effective remedy for those seeking restitution redress. But, in its current form, this draft applies exclusively to criminal cases, and will not provide restitution for pending civil and administrative claims. Fourth, if no effective restitution mechanism is forthcoming then this may also force many claimants to seek a remedy from the European Court of Human Rights (ECtHR). This could be damaging to the reputation of the country, particularly at a time when Georgia is highlighting a renewed interest in judicial and legal reform. If there are sufficient cases it could even risk Georgia's suspension from the Council of Europe. Underpinning all of these issues is a set of problems faced by the state. While the Georgian Dream coalition has committed in its election manifesto to the concept of restitution, it faces a range of practical hurdles. Properly investigating all of these cases would place a huge burden on the Prosecutor's Office, which, according to Archil Kbilashvili, simply lacks the manpower to do this work. In addition, an independent criminal investigation of these claims will be difficult, as Kbilashvili admits that nearly all prosecutors are themselves implicated in the alleged misappropriation of assets.

Another problem is what to do if the property was subsequently sold or transferred to a third party. The ownership entitlement of the new owner, if acquired in good faith, may prevail over the title of the original owner and the original owner would be forced to seek damages from the state. This also highlights the fact that the biggest problem with any restitution remedy is the cost to the state of making restitutions and paying compensation. The Ministry of the Economy has estimated that the claims could total $3 to $4 billion. If direct restitution is no longer possible, then the government would be forced to pay compensation. This could be a huge burden on the state.

Even if direct restitution is possible then it would interfere with the current use of the asset. This could also be disruptive to the government and the economy. Balancing the needs of justice, practicality and the economy will be difficult. To ignore these claims risks political retribution at the ballot box, could create negative decisions of the European Court of Human Rights, and perhaps more importantly, could ensure continued distrust and dissatisfaction with due process and the rule of law in the country. Conversely, full investigation of the cases could be financially crippling to the state, could undermine trust in government property transactions and could mire the government in disputes of historic proportions. But, whichever direction it chooses to take, how the new administration resolves this issue will be one of the key standards by which it will be judged.

This report is made possible by the generous support of the American people through the United States Agency for International Development (USAID), EWMI and EPF, within the Judicial Independence and Legal Empowerment Project. The contents are the responsibility of AmCham and do not necessarily reflect the views of USAID, the United States Government, EWMI or EPF.

Representational Expenses in Georgia

Paying for potential clients and customers to visit facilities or countries in which they are considering investing, dining with them, and putting on other promotional activities are a natural and important part of many businesses in many different sectors of the economy.

ALEXANDER MELIN

Article 8 of the Georgian Tax Code provides a definition of representational expenses using an enumerated list. Article 106 exempts certain expenditures from deduction; two that are worth mentioning are entertainment costs and costs not related to economic activity.

The problem with these provisions is threefold: legitimate representational expenses can occasionally include items beyond the enumerated list (e.g. dining), "entertainment" is not defined, and costs not related to economic activity are disallowed from deductibility.

Why are these of concern? First, using a rigid black-letter definition for representational expenses may exclude legitimate representational expenses not covered by the enumerated list. Second, entertainment is also expressly allowed to be deducted under the laws of many countries, but even more troublesome isthat because entertainment remains undefined, it is difficult for companies to gauge compliance with the law. This is especially important since entertainment expenditures (like representational expenses) are generally subject to VAT under Article 173 of the Georgian Tax Code. The third concern is of particular import to NGOs and non-profits. According to Tamar Gvaramadze at The Georgian Young Lawyers' Association, NGOs cannot deduct representational costs like a business because they are not "costs related to economic activity." Allowing them to deduct their representational costs would allow them to better fulfill their missions and be socially equitable.

Not all representational expenses that qualify for deduction can necessarily be deducted, and this is another area of possible improvement. Georgia employs a bright-line rule: Article 116 of the Georgian Tax Code caps tax-deductibility of representational expenses at 1 percent of turnover in a tax year.

Such a rule provides a somewhat arbitrary figure and appears to be an imitation of similar "hard-cap" laws elsewhere in the countries of the former Soviet Union like Russia, Kazakhstan and Armenia. Belarus and Ukraine, on the other hand, have amended their rules in recent years to allow absolute deductibility of representational expenses subject to strict substantiation requirements. However, in practice such requirements are exclusionary and the latter two rank poorly in Ease of Paying Taxes category of the World Bank (WB) Ease of Doing Business Rankings, suggesting that this is a dubious model.

One interesting variant is in the Philippines, where manufacturers of goods are accorded a one percent deduction as a function of turnover, producers of services are accorded two percent, and those companies that are engaged in both sectors use a proportional sliding scale. Yet, although countries employ a multitude of nuanced schemes, probably most common internationally is permitting a deduction of a set percentage of all representational expenses, e.g. at 50 percent or 75 percent. This assures equity across business sectors and discourages unnecessary representational expense spending – especially at the end of tax year – because there will be at least some tax burden associated with such expenditures.

Substantiating representational expenses also is difficult in Georgia; Article 105 of the Georgian Tax Code states that all expenses must be documented, but it is Article 72 that tells taxpayers what constitutes a sufficient document: a hard copy is required, and must identify the parties, i.e. be directly invoiced. Better would be to expressly allow electronic documentation – the way of the future – and to allow deduction of invoices to employees where there is corroborating evidence that the invoice is actually a company, not employee, expense.

In conclusion, Georgia's framework could be improved byproviding for a more principle-based rather than black-letter determination about whether certain expenses are representational (or entertainment) and substantiated by usingwell defined criteria; by extending the deduction to non-profit entities; by expressly allowing electronic documentation; and, finally, by critically reevaluating the fairness of the current one-percent-cap-as-a-function-of turnover-scheme. Georgia improved this year in its Ease of Paying Taxes category of the WB's Ease of Doing Business Survey – but there is always room for improvement.

Singer Georgia: A Touch of the West in the Russian Empire

Singer Sewing Machines, a rags-to-riches American success story, has deep roots in the South Caucasus where it was one of the largest Western foreign direct investments of its time.

EMIL AVDALIANI

Thousands of Machines, Millions of Rubles

Credited with ending women's servitude to sewing around the world, the Singer Sewing Machine also introduced production, sales, and marketing in the Russian Empire on a scale previously unknown in the region.

Singer Sewing Company was founded in the United States by Isaac MerrittSinger (1811-1875) who exhibited his first creation in 1851. In the 1880s the company spread its offices all over the continental Europe.

The sewing machine giant opened its first store in the empire in 1897 at a high point of Russian-American trade. Two years later the first Singer manufacturing plant opened near Moscow and, as it expanded, plants were opened in Tbilisi and Baku.

Singer was one of the largest foreign enterprises on Georgian soil: no other company had such a large number of workers — or agents, as they were known in the Russian Empire. According to statistics compiled just before the start of World War I, at the height of production, there were 30,328 Singer employees stretching the length of the empire – 800 of whom were in the South Caucasus, 388 of those in Georgia.

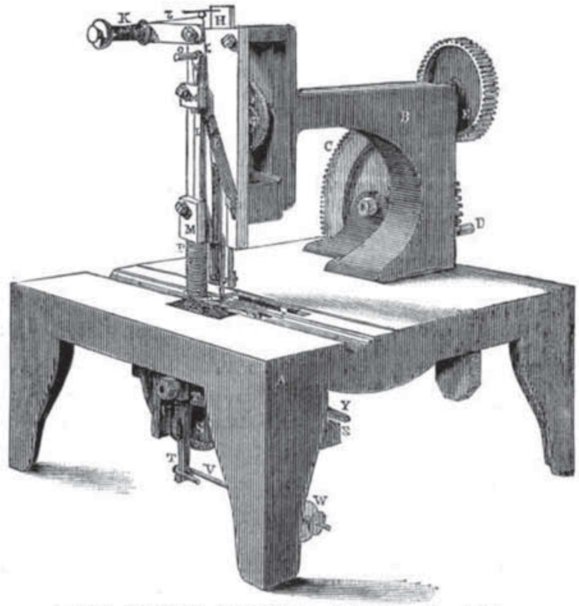
The Singer sewing machine was quick to catch on in Georgia, where people were eager to save time – and flaunt the fact they could afford the 75-83 ruble price tag — ordinary salary was just 3-4 rubles per month.

In 1905, the first year statistics were available, 8,344 sewing machines were sold — 586,317 rubles worth of sales — in the South Caucasus. By 1912, sales had nearly doubled in the region to 15,675 sewing machines, worth 1.38 million rubles.

The popularity of Singer sewing machines withstood even political instability – the uptick in demand was unabated despite political unrest that even threatened Singer management in Georgia.

Beginning in 1906, revolutionary views spread among the Singer workers in Tiflis (Tbilisi). Several German directors were forced to flee; one chief executive was murdered on December 12, 1906.

His successor managed to alleviate the situation. Nevertheless, the central Singer office in Hamburg decided to put the Tiflis department under its direct control. This continued right to the October Revolution of 1917 when Singer was forced out by the Bolsheviks.



THE SINGER MACHINE, AUGUST 12, 1851.
Earliest model filed in Patent Office. Reproduced from the SCIENTIFIC AMERICAN of November 1, 1851.

MY CITY, TBILISI:
Reviving the Georgian Stage

For the past year, Investor.ge has brought you a series of six guides about Tbilisi, from what to do with children to a tour of the city's 1930s architecture. For the next six issues, Investor.ge will speak with locals about different neighborhoods and events in the city in a six-part series to bring Tbilisi's grand history, graceful streets, and great cultural life alive for all readers, whether local, expat, or visitor. Investor.ge welcomes readers' input; if you have any ideas or suggestions for the series, please contact the editor: m.corso@amcham.ge

Once the star of the region, Georgian theater struggled for survival after the collapse of the Soviet Union: it lost some of its biggest talent as actors, actresses, directors and others left for opportunities abroad.

But today, the Georgian theater world is enjoying a comeback, with young actors and experienced directors receiving accolades in international festivals and with audiences at home.

Georgian theater is thought to date back to at least the middle ages; remnants of a stage were found at the Uplitskhe ruins near Gori. But the roots of modern Georgian theater are clearer, noted director GiorgiSalitashvili.

Salitashvili, a prize winning director and lecturer at the ShotaRustaveliTheatre& Film State University in Tbilisi, noted that modern Georgian theater can be traced back to the days of the Russian Empire, when Georgia – as a part of the empire – was in danger of losing its language and culture.

"In the middle of the 19th century, the Georgian language was not the state language. And everywhere, even in churches for instance, the mass was in Russian – all newspapers, everything was in Russian language. At that time a Georgian playwright decided to make theater to save the Georgian language," he said.

"The most important meaning of Georgian theaters and the beginning of professional theater was to save the Georgian language."

That playwright, GiorgiEristavi, was killed by the Tsar's government not long after he helped produce a Georgian language production in 1851, at what is now the First School on Rustavali Avenue, Salitashvili said.

Eristavi's idea, however, took root. Other Georgian intellectuals like IlyaChavchavadze also saw the potential of the stage to help Georgians preserve their language, history and culture.

"It is very important that theater for Georgians was instrument and a weapon to fight against the Empire, to save your own national face and ideas, of course," Salitashvili stressed.

Just three years after Georgia declared its independence in 1917, the new government created the theater institute, where legendary Georgian directors like KoteMarjanishvili and SandroAkhmeteli helped influence the Georgian school of acting and stage. The traditions crafted by Marjanishvili, Akhmeteli and their students created a basis that produced some of the most famous actors and directors – in film and theater- in the Soviet Union. Salitashvili noted that the Georgian method for acting takes the best of the legendary Russian school and improves on it by adding Georgians' ability to evoke strong and sincere emotions.

Today, theater critics from around the world are beginning to appreciate the skills and craftsmanship of Georgian actors and directors on an international scale. Last year, Salitashvili's staged version of "Our Town" was honored as one of the best shows in the London National Student Drama Festival.

Salitashvili said that more contacts with foreign universities and festivals will help the university and Georgian theater continue its comeback. For the audience, he said, watching a Georgian play is a bit like peeking into a window the nation's culture.

"I think that first of all theater is the type of art where you can see the face of the nation, you can see there the emotion of this nation, and the artistry of this nation – the painting and the musical tradition together," he said.

"[Despite the wars and conflict]we did not lose the spirit of art. War has been our history, really it has been. But we were [creating] all the time…"

CONTENT

AmCham Members on Senior Executive Panel at ISPI EMEA Conference

AmCham Vice-President Michael Cowgill of Georgian American University, AmCham Chairman Emeritus David Lee of Magti and AmCham member Farooq Siddiqui of Rustavi Metallurgical Plant participated in the senior executive panel discussion on performance improvement at the ISPI EMEA 2013 conference on September 28 in Tbilisi. Respected senior executives representing academia, telecommunications and heavy industry shared their thoughts and insights with conference participants on the challenges and rewards of managing and improving performance culture in the real world of their business experience within emerging markets.

The conference participants had the opportunity to hear from and interact with the panel of senior executives in a special two-hour session.

The ISPI EMEA conference was organized by the International Society for Performance Improvement (ISPI), Chemonics/USAID in partnership with AmCham Georgia and aimed to help companies improve individual and organizational productivity and total performance results in the workplace.

Meeting with US State and Treasury Department Representatives on US Sanctions

At a private lunch meeting on Thursday, September 18, A mCham representatives from the banking, audit and legal sectors met with high level delegates from the U.S. to learn about Iranian sanctions and how to best comply on both direct and indirect sanctions.

The delegation was led by David Mortlock, U.S. State Department Deputy Sanctions Coordinator, and a delegation of four from the Treasury and State Departments. The goal of the delegation visit to Georgia is to engage governments and companies to help raise awareness on sanctions and compliance.

NDI's Luis Navarro Presents Latest Political, Economic Survey Data

National Democratic Institute's Country Director Luis Navarro outlined the latest trends in politics and the Georgian economy in a special, pre-election presentation for AmCham members at the Georgian American University on September 27.

During the hour-long presentation and extensive questions period, Mr. Navarro provided a candid assessment of Georgian voters' preferences heading into the campaign for the October presidential election.

The survey, based on 3,838 respondents around the country, is part of NDI's regular polling program. Based on the changes in how voters' are accessing the government and economic performance, Georgians are still largely supportive of the Georgian Dream coalition government, although they remain skeptical about Prime Minister Bidzina Ivanishvili's plans to leave office early.

Presidential candidate Giorgi Margvelashvili remains a solid favorite for the electorate, although both David Bakradze, the United National Movement candidate, and Nino Burjanadze, have seen an uptick in support over the past several months.

GNIA: Investment Up in 2Q, Outlook Strong for FDI Post-Election

Giorgi Pertaia, the head of the Georgian National Investment Agency, told AmCham members that there is growing interest in Georgia from foreign investors and investment figures are inching up after a slow start this year.

Pertaia was speaking at the September roundtable event on September 11 at the Sheraton Metechi Palace hotel. The meeting, a regular event for AmCham members, was opened by US Ambassador Richard Norland, who provided a frank, off-the-record assessment of current political and economic events in the country.

Following the ambassador, Pertaia outlined major pluses – and minuses – that investors watch when they are considering coming to Georgia.

While investors are put off by political tension between the opposition and the new ruling coalition, there is a sense of renewed interest in the country since Prime Minister Bidzina Ivanishvili has successfully reengaged Moscow and opened the market for Georgian wine. Russian investors are increasingly interested in coming to Georgia, Pertaia noted.

Ivanishvili's new investment fund – and the government's restructured sovereign wealth fund – are gearing up to start, a development that should also attract investment, he said.

The investment fund, which has $6 billion to spend over the next five years, is seeking "bankable" projects that it can build up and exit from. The sovereign wealth fund, formally the Partnership Fund, will invest in less bankable projects that are a priority for the government.

Pertaia also noted that GNIA is working with the government to restart international advertisement for Georgia in focused markets to educate potential investors and tourists about the country.

Other announcements included introducing the new head of the USAID EPI project, Nika Chachkhiani, and a special invitation for the "Improving Performance in Emerging Markets" conference from September 26-28.

CLT Committee Highlights Potential Economic Implications from Several Draft Laws

The AmCham Commercial Law and Tax (CLT) Committee met on Thursday, September 26 to discuss the moratorium on foreign ownership of agricultural land. AmCham continues to lobby its members' interests on this issue. To date the committee has met with the Ministers of Economy and Finance, and with the Speaker of Parliament.

AmCham is concerned about several unintended consequences to IFIs and banks, and is highly concerned about the effect on FDI.

Also discussed was the draft law on Safeguard Measures in Trade. The committee members also reviewed possible changes in Alternative Tax Audit system and relayed the information from the Minister of Finance on the recent AmCham meeting on this issue.

The CLT committee meeting was followed by the Competition Law Working Group meeting where some outstanding points in the final draft of the law on free trade and competition were summarized. AmCham and TI are in the final stages of agreement before submission of joint comments to the Ministry of Economy.

Rule of Law Project To Track Property Dispute Cases

AmCham's Commercial Law and Tax Committee discussed the Rule of Law project's ongoing study of property dispute cases, as well as the debate surrounding the foreign ownership of agricultural land issue, during the monthly committee meeting at the AmCham office on August 23. The committee also heard a presentation by Alexander Melin on travel expense deductibility in Georgia and recommendations on deductibility of representative expenses.

AmCham Meets Banks, IFIs and Other Agribusinesses to Discuss New Agriculture Ownership Law

The Agribusiness and CLT Committees met jointly on September 26 to discuss implications of new rules on agricultural land ownership. The meeting was attended by representatives of Georgian banks and international financial institutions who shared their opinions on the moratorium imposed by recent amendments. The attendees discussed concerns about the unanticipated outcomes the law presented and debated its possible negative impact on foreign investments. AmCham continues working on this issue at the highest levels of government.

Agriculture Committee Meets to Discuss Implications of New Rules on Agricultural Land Ownership

The AmCham Agriculture Committee met on September 6 to discuss recently passed amendments that restrict foreign ownership of Georgian agriculture land.

The meeting, led by Committee Co-Chair David Lee, included a frank discussion of how the new amendments could affect foreign direct investment in the agriculture sector, as well as banking, hydro projects and businesses in other economic spheres.

The committee decided to present its findings to the AmCham board during the September 10 board meeting and determine the Chamber's position on the issue.

AmCham Company Members as of October 2013

PATRON MEMBERS

BP Exploration Georgia
38 Saburtalo St.
Tel: 2593400; Fax: 2593488
www.bp.com

Exxon Azerbaijan Ltd
Landmark Suite 300, 95 Nizami St., Baku, AZ1010 Azerbaijan
Tel: (994-12) 4982460; Fax: (994-12) 4982472
www.exxonmobil.com

PricewaterhouseCoopers
7 Bambis Rigi St., 0105
Tel: 2508050; Fax: 2508060
www.pwc.com/ge

UGT
17a Chavchavadze Ave., 7th floor
Tel: 2220211; Fax: 2220206
www.ugt.ge

CORPORATE A MEMBERS

Alliance Group Holding, JSC
47/57 M. Kostava St., 0179
Tel: 2424181; Fax: 2998112
www.agh.ge

Avon Cosmetics Georgia LLC
117 Tsereteli Ave.
Tel: 2226805; Fax: 2226806
www.avon.com

F H Bertling Georgia Ltd.
10 Shevchenko St.
Tel: 2252287
www.bertling.com

Betsy's Hotel / Prosperos Books
32/34 Makashvili St. / 34 Rustaveli Ave.
Tel: 2987624, Fax: 2923592
www.betsyshotel.com

Booz Allen Hamilton, Inc.
4 Freedom Sq.
Tel: 2481348; Fax: 2481349
www.boozallen.com

British American Tobacco
71 Vazha Pshavela Ave.
Tel: 2157500/01/02; Fax: 2157503
www.bat.com

Catoni & Co. Georgia
3 Lesia Ukrainka St. Apt.7
Tel: 2989230; Fax: 2922264
www.hapag-lloyd.com

Caucasia Trading
Apt 11, Bld 7, 16 Krtsanisi St.
Tel: 14433050083; Fax: 14433788388
www.caucasiatrading.com

Caucasus University
77 Kostava St., Bld.6, 4th fl.
Tel: 2377777; Fax: 2313226
www.cu.edu.ge

CGS Group
4 Freedom Sq.
Tel: 2433410
www.cgsgroup.ge

CH2M Hill
5th Floor, GMT Plaza, Freedom Square
Tel: 2474040; Fax: 2470210
www.ch2m.com

Chartis Europe S.A. Georgia Branch
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

Dechert Georgia LLC
7th floor, Pixel building, 34 Chavchavadze avenue
Tel: 2334719
www.dechert.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

Economic Prosperity Initiative (EPI)
6 Samghebro St.
Tel: 2438924
www.epigeorgia.com

EY
44 Kote Abkhazi St.
Tel: 2439375; Fax: 2439376
www.ge.ey.com

FINCA Georgia
71 Vazha-Pshavela Ave. 3rd fl.
Tel: 2207410
www.finca.ge

Frontera Resources Georgia
12 Paliashvili St.
Tel: 2252412
www.fronteraresources.com

Georgian American Alloys, Inc.
200 S Biscayne Blvd Suite 5500, Miami FL 33131 USA
Tel: (1)3053757560
www.gaalloys.com

Georgian American University
8 Aleksidze St.
Tel: 2206520; Fax: 2206519
www.gau.ge

Georgian Audit & Consulting Company
Axis Business Pl, 2 Gamrekeli St.
Tel: 2904522; Fax: 2904523
www.gacc.com.ge

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

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

Grant Thornton LLC
3 Mamardashvili St.
Tel: 2604406
www.grantthornton.ge

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

Gryphon - FK
8603 Westwood Dr. Suite 310 Vienna, Va 22182, USA
Tel: 1 703 992 8664
www.gryphonairlines.com

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

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

KPMG CIS Ltd. Tbilisi Branch
3rd Floor, Besiki Business Center, 4 Besiki St., 0108
Tel: 2935713; Fax: 2982276
www.kpmg.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

Microsoft Georgia LLC
34 Chavchavadze Ave.
Tel: 2970123
www.microsoft.com

MSD (Schering Plough Central East AG)
Office 1/3, 3rd Floor, 1 Tabidze St.
Tel: 2953388
www.merck.com

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

Pfizer Luxembourg SARL Representation Office in Georgia
58 I. Abashidze St.
Tel: 2252986
www.pfizer.com

Philip Morris
1 Tabidze St.
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

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
3, Rapiel Eristavi Street, IV Floor
Tel: 2959019; Fax: 2420215
www.tbsc.ge

CORPORATE B MEMBERS

Assecco Georgia
7 Bambis Rigi St.
Tel: 2720901
www.assecco.ge

Aliance Georgia Ltd
33 Samurzakano St.
Tel: 2243773
www.groupaliance.com

GZ American Academy in Tbilisi
Lisi Lake surrounding territory
Tel: 2227441; Fax: 2227889
www.aat.ge

APM Terminals
52 D. Aghmashenebeli St., Poti
Tel: 493-20660; Fax: 493-20688
www.apmterminals.com

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 Constanta
139 Tsereteli Ave.
Tel: 2401401
www.bankconstanta.ge

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
Pixel Center 8th floor
Tel: 2545845; Fax: 2399204
www.bdo.ge

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

BLB (Business Legal Bureau)
1 Shevchenko St, Apt.1
Tel: 2995797
www.blb.ge

BLC Law Office
4 Gudiashvili Sq.
Tel: 2922491; Fax: 2934526
www.blc.ge

Capto Group
67 Aghmashenebeli Ave.
Tel: 2558899
www.rsmcapto.ge

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

Caucasus Online LLC
71 Vazha-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

City & Co.
4 Besiki St.
Tel: 2920921

Crystal, MFO JSC
72 Tamar Mepe St. Kutaisi, 4600
Tel: 431253343
www.crystal.ge

David Tvildiani Medical Univesity
2/6 Ljubljana St.
Tel: 2516898, Fax: 2527196
www.aieti.edu.ge

Dexus
150 David Agmashenebeli Ave.
Tel: 2207887
www.dexus.ge

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

GeoCapital Microfinance Organization Ltd.
5 Tsereteli St, Kutaisi
Tel: 431 267070
www.geocapital.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 Resources Company
3-5 Kazbegi St.
Tel: 2936676
www.georgianresources.com

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

Goodwill (G-Mart)
1 Parnavaz Mepe Ave. 0131
Tel: 2243673; Fax: 2243673
www.goodwill.ge

Gvinadze & Partners LLC
44 Kote Abkhazi St, Tbilisi 0105
Tel: 2438970, Fax: 2438971
www.gvinadzeandpartners.ge

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

Hualing International Special Economic Zone
25 Apt. 34/36 Kobuleti St.
Tel: 591005900
www.hualing.cn

Imedi TV
51 Ljubljana St.
Tel: 2464646
www.imedi.ge

Imperial Tobacco International Limited Representative Office in Georgia
12 Dariali Turn, 0162
Tel: 2232438
www.imperial-tobacco.com

JTI Caucasus
VII Floor, Pixel Business Center,
34 Chavchavadze Ave.
Tel: 2604111
www.jti.com

Kordzahia, Jgenti Law Firm
10 Petriashvili St.
Tel: 2921878
www.kjlaw.ge

KSB Bank
3 Ketevan Tsamebuli Ave.
Tel: 2550000, Fax: 2507707
www.ksb.ge

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

Luca Polare
54 Oniashvili St.
Tel: 2990399
www.lucapolare.com

Marilisi Jewelry House
8 Lebanidze St.
Tel: 577797919
www.marilisi.com

Mgaloblishvili Kipiani Dzidziguri (MKD)
71 Vazha-Pshavela Ave.,
Office 24
Tel: 2553880/81; Fax: 2973884
www.mkd.ge

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

New School - Int-l House
35 Tskneti Highway, Bagebi
Tel: 2231728
www.newschoolgeorgia.com

Nodia, Urumashvili & Parnters
Office #28, IV Block,
71 Vazha-Pshavela Ave.
Tel: 2207407
www.nplaw.ge

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

Overall Management Group (OMG) Inc.
29 Marjanishvili St.
Tel: 2436052; Fax: 2436052

Paine Stevens LLC
1 Ivane Javakhishvili Sqr.
Tel: 2903211, Fax: 2903291
www.painestevens.com

Policy and Management Consulting Group (PMCG)
57 Uznadze St., 4th Floor
Tel: 2921171
www..pmcg.ge

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

Rakeen Development LLC
20 Telavi St. 5th Floor
Tel: 2933393; Fax: 2933993
www.rakeen.ge

Rustavi Azot Ltd.
2 Mshvidoba St. Rustavi-3702
Tel: 995341270900
www.azot.ge

Rustavi Steel LLC
12 Y. Gagarin St., 3700 Rustavi
Tel/Fax: 260 66 99
www.rmp.ge

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

Simple as That LLC
3rd Floor, 36a Lado Asatiani St.
Tel: 2945568
www.simple-georgia.com

SRG Investments LLC
49a Chavchavadze Ave, 3rd floor
Tel: 2253581
www.silkroad.ge

Statoil
GMT Plaza, 4 Freedom Sq.
Tel: 2471002
www.statoil.com

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

Theco Ltd.
16 Chikovani St.
Tel: 592107515
www.tbilisia.ru

Thermarsenal Ltd.
101, Tsereteli Ave.
Tel: 2473112
www.arsenal.ge

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

Agricultural University of Georgia
13 km. David Aghmashenebeli Alley,
0159
Tel: 2594901
www.agruni.edu.ge

American Friends of Georgia
77 Nutsubidze St.
Tel: 2397174; Fax: 2388495
www.afgeorgia.org

CARE International in the Caucasus
37 Tsagareli St., 0162
Tel: 2291941
www.care-caucasus.org.ge

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

Eurasia Partnership Foundation
3 Kavsadze Str.
Tel: 2253942; Fax 2252763 (ext. 112)
www.epfound.org

Free University of Tbilisi
Bedia St., 1st Micro District
Nutsubidze Plateau, 0183
Tel: 2200901
www.freeuni.edu.ge

Georgian Wine Association
5 Marjanishvili St.
Tel: 2505456

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

Salvation Army
16 Ikalto St.
Tel: 2333786; Fax: 2330227
www.salvationarmy.org

Transparency International Georgia
26 Rustaveli Ave. 0108
Tel: 2932129
www.transparency.ge

AMCHAM CELEBRATES

Back to Business Cocktail Happy Hour

On September 13, AmCham hosted its annual Back To Business happy hour reception at the Funicular Restaurant.

The guests were welcomed by AmCham President Sarah Williamson, who introduced the U.S. Embassy's new economic team, KG Moore, the Deputy Chief of Political and Economic Affairs and Senior Economic/Commercial Officer, and Anson P. McLellan, the embassy's new economic officer. Ms. Williamson also briefly outlined the Chamber's plans for the rest of the year.

The reception, which featured the Funicular's signature cocktails and canapes, was attended by many AmCham member companies, as well as members of the board.

AMCHAM CELEBRATES

AMCHAM CELEBRATES

Sheraton Metechi Palace Hosts Oktoberfest

From September 28 to October 3, Sheraton Metechi Palace Hotel hosted a traditional Oktoberfest, treating guests to live music, Bavarian cuisine and beer.

COATs Hosts Annual Charity Event

C.O.A.T.S (Clothing Others Against The Snow) was held on Saturday, September 28th, in the Radisson Blulveria Hotel. Founded by Michele Dunn in 2010, each year, local schools and corporations have donated everything from warm winter coats to scarves, socks, and shoes. This year 281 children ages 6-18 years – and more than 300 children in need will be delivered a bit of winter warmth before the snow arrives.

AMCHAM CELEBRATES

Asseco Sponsors Polish - Georgian Outdoor Movie Theatre
Ambassador AndrzejCieszkowski and Tbilisi Mayor Gigi Ugulava opened the first show in Tbilisi on September 24.

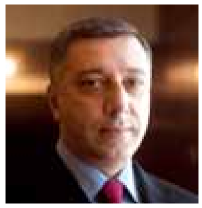
The Tbilisi Premiere of In the Bloom
The director, producer and stars from In the Bloom, joint Georgian-German-French film, hit the red carpet in Tbilisi on September 19 at AmiraniMovie Theater.

AFG Opens Nikozi Education and Art Center in the Conflict Zone

Board Of Directors 2013

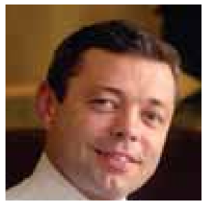
Sarah Williamson, PRESIDENT
In Tbilisi since June 1998, Sarah Williamson is the co-owner and Vice President of United Global Technologies (UGT), the largest IT company in Georgia.

R. Michael Cowgill,
First Vice-President
In his 15th year in Georgia, Michael Cowgill is the President and co-founder of Georgian American University (GAU) in Tbilisi, Georgia, with schools of business, law & social sciences, natural sciences & engineering and liberal arts & humanities. He also continues to develop international energy projects which he has done for the past 38 years in over 40 countries.

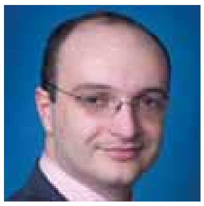


Irakli Baidashvili,
Vice-President & Treasurer
Irakli Baidashvili is the Senior Vice President of GMT Group. The company is one of the largest US direct investments in Georgia, the owner of two Marriott hotels, production facility SANTE and several major real estate sites in Tbilisi .

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



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.



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

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.

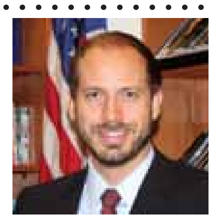
Steve Johnson, Director
Steve Johnson is the proprietor of Prospero's Books and the General Manager of The Hotel Betsy. Prospero's Books and Caliban's Coffee House is the leading English language bookstore in Georgia.

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.

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

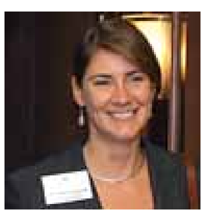
Robin McCone, Director
Robin McCone is a NZ lawyer. He leads PwC's tax and legal practice in Georgia and Armenia. He has been with PwC mainly based in CEE countries for over 16 years. Prior to moving to Tbilisi he spent two years in New York as the leader of the CEE Desk. He looks forward to utilising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

David Lee, Chairman Emeritus
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.



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.



Amy Denman, Exec. Director
Amy Denman came to Georgia in 1996 from Chicago where she worked in the Marketing Department in the secondary education division of publishing company Houghton Mifflin. After working for the IFRC for a year, she became the coordinator then the founding Executive Director of the Chamber.

ENERGY AND BEYOND

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

We act on behalf of electric power generators, distributors and financiers in the development of greenfield hydropower projects, the privatization of existing projects, the sale of power plants, power purchase and transmission agreements, and the financing of all of these activities. We act for major oil and gas companies in the negotiation and implementation of host government agreements and associated special tax regimes for large midstream arrangements. This includes the provision of legal and tax advice on the planning, construction and operation of oil and gas transit pipelines through Georgia. Our upstream work is equally extensive, including the design, negotiation and implementation on behalf of foreign oil companies of most of Georgia's production sharing agreements, including the first Black Sea off-shore concession.

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

Our lawyers have been at the forefront of the development of the Georgian energy sector since the early 1990s, and we are still working to build Georgia's energy future today.

Key service offerings include:

- Energy project structuring, including project development and concessions
- Energy project financing and security structures
- Joint ventures in energy-related projects
- Comprehensive energy-related due diligence
- Production sharing agreements
- Oil and gas industry commercial agreements and transactions
- Litigation and arbitration of energy-related disputes
- Strategic advice on planning, development and permitting issues, as well as the legislative, political and regulatory environment
- Acquisitions and disposals of energy-related assets and companies

Ted Jonas, Office Managing Partner, ted.jonas@dlapiper.com | **Otar Kipshidze**, Partner, otar.kipshidze@dlapiper.com

DLA Piper Georgia LP, 10, Melikishvili Street, Tbilisi 0179, Georgia
T +(995)32 2509 300 | **F** +(995)32 2509 301

www.dlapiper.com

DLA PIPER