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INVESTMENT NEWS

INVESTOR.GE PROVIDES A BRIEF UPDATE ON INVESTMENTS AND CHANGES IN GOVERNMENT POLICY THAT COULD IMPACT THE BUSINESS ENVIRONMENT. INFORMATION IN THIS ISSUE WAS TAKEN FROM AGENDA.GE AND OTHER SOURCES.

GOVERNMENT ANNOUNCES 2 BLN GEL STIMULUS PACKAGE AMID CORONAVIRUS OUTBREAK

The Georgian government announced a series of measures to mitigate damage to the economy during the coronavirus crisis. The measures have particularly emphasised support for the tourism and hospitality industries, which have been hit the hardest. Taxes for tourism companies will be suspended for four months, and will affect a total of 18,000 companies and almost 50,000 employees. The government also announced that it intends to double the volume of VAT returns this year, from a predicted 600 million GEL to 1.2 billion [around $375 million]. For six months, the state will bear the costs of the interest rate on loans for 2,000 hotels which have between 4 - 50 rooms. Banks have agreed to help tourism companies restructure their debts, and have announced they will accept postponed payment on loans taken out by private individuals for three months.

EU ALLOCATES 183 MILLION EUROS TO GEORGIA TO FIGHT CORONAVIRUS

The European Union announced on April 9 it will provide 183 million euros in a relief package to help Georgia deal with the coronavirus crisis. The funds come as part of the EU's commitment to redirect over 15 billion euros to help partner countries efforts in tackling the epidemic. EU Ambassador to Georgia said that "while Europe is in the midst of its own struggle to overcome the harsh consequences of the COVID-19 pandemic, it continues to stand by its partners... These funds will support economic and social recovery, and will be provided at the local level, and also strengthen state finances to help Georgia successfully get through this difficult economic period." The funding will be provided as non-reimbursable grants.

WORLD BANK PREDICTS CLOSE TO 0% ECONOMIC GROWTH IN GEORGIA IN 2020

The World Bank predicts the coronavirus pandemic will sharply slow GDP growth in Georgia to close to 0% over the course of the next year, noting this will be partly cushioned by a fiscal stimulus of around 2% of GDP. Several scenarios even suggest the economy will experience a recession in 2020, contracting by as much as -4.4%.

IFIS, INTERNATIONAL PARTNERS PLEDGE FINANCIAL SUPPORT FOR GEORGIA AMID PANDEMIC

International financial institutions such as the IMF, the World Bank, the EBRD, ADB and other partners such as the EU published an open letter on April 9 pledging a financial relief package for Georgia to provide economic assistance and help with recovery amid the coronavirus outbreak. The EBRD ▸▸

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itself has made an emergency 'Solidarity Package' of 1 billion euros available for 38 countries, including Georgia. EBRD Managing Director for Eastern Europe and the Caucasus Matteo Patrone commented "we are prepared to step up our efforts, together with the Georgian authorities, to support the economy." The support will include measures such as emergency liquidity, working capital and trade financing, in addition to aid for SMEs.

ANNUAL INFLATION REMAINS ABOVE TARGET RATE

Annual inflation stood at 6.4% in February, with food and non-alcoholic beverages as a whole (12.7%) and hospitality (8.7%) accounting for the highest rise in inflation. Fruit and grapes were up 25%, followed by milk, cheese and eggs (19.2%), meat (15%) and vegetables (11%). The target inflation rate set by the National Bank of Georgia for 2019-2021 is 3%.

HEFTIER FINES PROPOSED FOR IMPROPER GARBAGE DISPOSAL

A bill put forward in parliament proposes levying significantly heftier fines on companies and individuals that fail to properly deal with waste. Per the bill, setting fire to municipal waste, including leaves and other organic matter and domestic waste, in the open air or otherwise, will result in a fine of 500 GEL [$178]. The proposed fine for disposing of two kilograms of municipal waste from residential areas will be set at 200 GEL [$71] instead of the current 100 GEL [$35]. The fine for inappropriate disposal of batteries, light bulbs, electric devices, and sharp objects will quintuple, and will be set at 500 GEL.

REMITTANCES FROM ABROAD CONTINUE TO CLIMB IN JAN-FEB 2020

Remittances from abroad to Georgia continued to increase in January (+8%, $125 million) and February (+9.5%, $137 million). The largest suppliers of remittances in February 2020 remained Russia (21%), Italy (16%) and Greece (12%), followed by Israel (10.5%), the US (10%) and Turkey (5.5%). Remittances flowing out of Georgia continued to grow in February 2020, totaling $21.7 million, up almost 20% from the following year.

FITCH RATES GEORGIA AT BB WITH STABLE OUTLOOK

Fitch Ratings has left Georgia's sovereign credit rating at 'BB with a stable outlook' in its last review in February. Fitch notes that Georgia's sovereign credit rating is more stable than the median of the BB category countries with its high- quality governance, attractive investment, business environment and macroeconomic stability in the face of regional shocks. Georgia's account deficit hit a historical minimum in 2019 at 4.5% of its GDP, and Fitch forecasts that the trend will continue in 2020 down to 4.1%.

FDIS AMOUNT TO $1.26 BILLION IN 2019

FDIs in Georgia amounted to $1.26 billion in 2019, with the UK (19.5%), Turkey (18.7%) and Ireland (10.5%) making for the three largest investors in Georgia last year. The three largest economic sectors in the country – finance ($261 million), energy ($193 million) and hospitality ($157 million) – accounted for 48% of investments in Georgia in 2019.

FIRST LARGE-SCALE INVESTMENT FOR GEORGIAN PENSION AGENCY

The Georgian Pension Agency has made its first large-scale investment since its launch in January 2019, placing 560 million GEL ($200 million) in high-yield deposits, with annual interest rates of 14.9% for a five-year term, by which time the investment will have doubled. The accumulated pension system is mandatory for the employed under the age of 40.

NATIONAL BANK OF GEORGIA KEEPS REFINANCING RATE AT 9%

The Monetary Policy Committee of the National Bank of Georgia decided to keep the refinancing rate at 9% in mid-March to decrease the pressure of the exchange rate on inflation. An earlier forecast from the NBG had predicted that inflation would begin to decline in early March, and would move towards the target inflation rate of 3% by the end of 2020.

CENTRAL BANK EASES HOUSEHOLD LENDING REGULATIONS

The National Bank of Georgia approved changes to lending regulations for individuals that will come into force on April 15, 2020. The NBG said the purpose of the changes is to move from a "rule-based approach to a more principles-based approach." Read more about the banking regulations on page 48.

PASSENGER TRAFFIC DOWN 4% AT AIRPORTS IN JAN-FEB 2020

Passenger traffic decreased to close to 597,000 passengers in January-February 2020 – a 4% decrease compared to the same period of 2019, United Airports reported in early March. While Kutaisi (+51%) and Batumi (+33%) airports experienced a growth in passenger numbers, Tbilisi International Airport experienced a 19% decrease, largely due to coronavirus travel fears.

KUTAISI AIRPORT COMES IN 2ND IN EUROPE IN UPTICK OF PASSENGER TRAFFIC AMONGST SMALLER AIRPORTS

Kutaisi International Airport ranked second in Europe in 2019 in terms of experiencing the highest increase in passenger traffic amongst European airports with an annual passenger flow of less than 5 million, ACI Europe announced back in mid-February. Such airports which reported the highest increases in passenger flow in 2019 included Ohrid (Macedonia – 72%), Kutaisi (Georgia – 41%), Zadar (Croatia – 32%), Bucharest (Romania – 25%), Turku (Finland – 22%). In 2019, Kutaisi International Airport served just under 900,000 passengers.

2019 VISITOR ARRIVALS UP 7.8%

The total number of arrivals by international, non-resident travelers in Georgia increased by 7.8% in 2019 compared to the year before, reaching 9.4 million travelers, Geostat announced in mid-February. Of these visits, 5.1 million were tourist-type visits (as opposed to transit or transport), which is 6.8% more compared to 2018. Russia still made for about 20% with 1.2 million visitors entering the country, making for just a 1.6% increase compared to 2018. The top three reasons for visitors coming to Georgia were holiday, leisure and recreation (43.5%), visiting friends and relatives (19%) and transit to other countries (16%). Visitors spend the most amount of money on food and drink (27.5%), accommodation (23.7%) and shopping (21%).

GEORGIA RANKS 12TH IN WORLD, 6TH IN EUROPE IN ECONOMIC FREEDOM INDEX – 2020

Georgia ranked 12th in the Heritage Foundation's global 2020 Index of Economic Freedom, increasing its overall score by 1.2 points. Out of 45 countries in Europe, Georgia ranked 6th. The report notes that "the Georgian economy continues its spectacular, seven-year run up the ranks of the mostly free. GDP has also been expanding at a healthy rate for the past five years. Multi-year reforms to reduce corruption, cut regulation and simplify taxes have led to upward movement in all aspects of economic freedom."

INJURIES, DEATHS ON THE JOB SIGNIFICANTLY DOWN IN 2019

The number of injures at worksites in Georgia were down 16% in 2019, the Labour Conditions Inspection Department reports. Deaths were down by 25%. More than 1,500 inspections were carried out at construction worksites in 2019 – 9 times more than in 2019.

AVERAGE SALARIES CAME OUT TO 1,319 GE IN Q4 2019

Monthly earnings in Georgia were up by 117 GEL on average in Q4 2019 compared to the same period in 2018, and stood at 1,319 GEL [$426], the National Statistics Office of Georgia reported in March. Women [1,018 GEL / $338] earned significantly less than men [1,593 GEL / $529] on average in Q4.

GEORGIAN ECONOMY POSTS 5.1% GROWTH IN 2019

Georgia's real GDP amounted to 5.1% in 2019, Geostat reported in March. The largest contributors to GDP were: wholesale and retail trade, repair of motor vehicles (14.4%), real estate (11.5%), manufacturing (10.1%), construction (8.6%), agriculture (7.2%), public administration and defence (6.8%), transportation (6.5%) and financial and insurance activities (5.4%).

AmCham member companies respond to coronavirus

AmCham member companies have been swift to react to the challenges posed by the COVID-19 crisis in Georgia.

Financial donations to the anti-virus effort have been quick in the coming from companies such as M2, PMI, APM Terminals Poti, Silknet, Lomisi, Batumi International Container Terminal, GeoSteel LLC, Efes Brewery in Georgia (JSC Lomisi), Hydrolea LLC, Orient Logic, PMI, Maqro Construction, Caucasus Online, Efes, Georgian American University and the Georgian Industrial Group, who have given sums between 10,000 – 1 million GEL each to the StopCov Fund, which had already received 126 million GEL as of April 13.

Despite enormous strains on the tourism sector caused by the spread of the virus, some of the country's largest hotels have given or offered their premises to be used as quarantine spaces, including Adjara Group's Holiday Inn in Tbilisi, the Grand Gloria Hotel Batumi, the Marriott Hotel Moxy in Tbilisi, the Radisson Park Hotel in Tsinandali, Ibis Hotel and the Sheraton Grand Tbilisi Metechi Palace. The Ramada Encore Tbilisi has also offered its premises if needed. Coca Cola is supplying quarantine spaces with their products throughout the country.

These hotels, amongst others, have been doing their best to support their employees, keeping as many as possible on salary, providing reduced salary for furloughed staff in some instances, maintaining health insurance and more.

Member banks and financing institutions have been doing their part as well. TBC Bank intends to spend more than 5 million GEL to roll-out services that will facilitate distance education, assistance for the elderly and the dissemination of digital technologies. TBC Bank will also purchase 10,000 coronavirus rapid tests. Bank of Georgia has pledged to purchase essential medical supplies for the Ministry of Health, including 20,000 lab tests, 10 ventilators, 60,000 gloves and 50,000 masks. Liberty Bank has decided to prepay April pensions with 100 million GEL of its own resources to individuals older than 70 years of age, who will be able to access these funds via their social cards. Gazelle Finance has announced a three-month grace period for companies affected by the risks, and is offering technical assistance facilities to companies in need to cover their immediate cash flow deficits.

All of our member universities have now completed transition to online classes. The Georgian American University (GAU) is supporting three charities to support the socially vulnerable, and has delayed tuition payment until July 2020 for students facing financial hardship.

The Georgia Red Cross Society has a number of on-going efforts to mitigate the effects of the virus on the elderly and other vulnerable groups by providing them with food and hygiene products across the country. In addition to handling donations by companies, the GRCS has made it possible for individuals to do their part by purchasing and donating essential food items from a specific list of items in supermarkets.

The Caucasus Environmental NGO Network (CENN) is assisting ethnic minorities in the quarantine zone of Kvemo Kartli to obtain information about the COVID-19 pandemic in the region in Armenian and Azerbaijani, in addition to providing face masks and sanitizers there. CENN is also implementing rapid grants programs for communities, groups and organizations to respond to the COVID-19 crisis in Keda and Tsalka municipalities.

Yet other companies have created their own initiatives to deal with the damaged wrought by COVID-19. Adjara Group, in cooperation with other companies, has established the Ertianoba platform [Georgian for unity] - this project helps people in need such as the elderly or those with underlying medical conditions, by providing them with essential medical items and food stuffs through volunteers that register to lend a helping hand. Gulf Georgia supports Ertianoba volunteers by providing fuel for their transportation needs.

Gulf Georgia established a platform called Ekimebistvis ['For doctors'], through which it donates 5 tetri per liter of gas sold to support doctors and other medical workers. The fund had accumulated more than 121,000 GEL as of April 8.

SavvY has unveiled a new platform called supportbusiness.ge, where companies will be able to register their problems and challenges. The Georgian Retailers Association and British American Tobacco have provided face masks to doctors and journalists.

Meanwhile, the United States is providing $1.1 million in health funding to Georgia to help prepare laboratory systems, activate case-identification and event-based surveillance, support technical experts for response and preparedness, bolster risk communication and other activities.

This is by no means an exhaustive look at how AmCham member companies are doing their part in the fight against COVID-19. Over the coming weeks, AmCham will maintain a database of what our members are doing, which can be found on the AmCham website at: https://bit.ly/2wDgXe4.

AmCham member hotels providing quarantine spaces, critical support in fight against coronavirus

DESPITE CLOSED BORDERS AND SUSPENDED FLIGHTS, A NUMBER OF HOTELS IN GEORGIA ARE ALMOST AT FULL CAPACITY – BUT NOT WITH TRAVELERS.

Stepping up to the plate to contribute to efforts to handle the coronavirus outbreak in Georgia, several AmCham member hotels have offered up their premises to be used as quarantine spaces to temporarily isolate Georgian citizens returning home from abroad via government-orchestrated evacuations and others who have come into contact with infected individuals.

Some of these hotels include: the Adjara Group's Holiday Inn in Tbilisi, the Grand Gloria Hotel Ba-tumi, the Moxy in Tbilisi, the Radisson Park Hotel in Tsinandali, Ibis Hotel and the Sheraton Grand Tbilisi Metechi Palace.

AmCham Tourism Committee Head Cameron McNeillie says offering to help in this time of crisis was a natural step for hotels to take.

"This is a matter of giving back to the people of Georgia to the best of our ability right now. In fact, we look at it as a civil duty", McNeillie says.

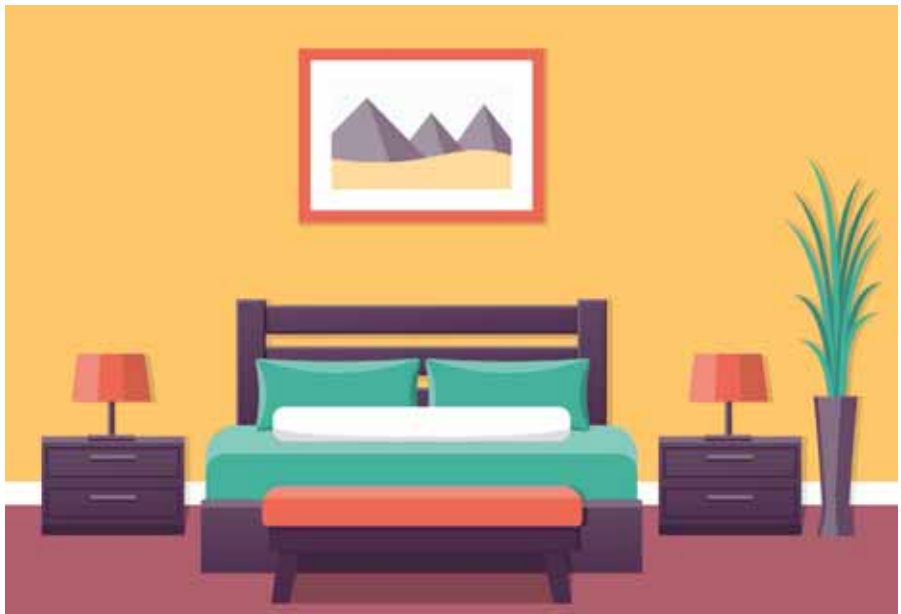
A number of hotels in Georgia have extended that responsibility to their employees as well, and remain committed to the well-being of their employees in facing the uncertainty of these next few months.

Different approaches have been employed in making sure that member hotels' staff remain provided for, including: continuing to pay full salaries up through a certain month and then shifting to a modified salary throughout the year, decreasing salaries by 20–50%, retaining health benefits for staff and asking staff to take non-paid holiday.

However, despite pay cut measures, AmCham member hotels note they will face difficulty if they continue to pay salaries for more than three months in a row.

Hotels that have not shuttered for the duration of the coronavirus epidemic are now playing host to individuals in quarantine and have had to adapt quickly. AmCham Tourism Committee Head McNeillie says that efficient planning has made this possible: "Serving three meals a day and en-suring the comfort of guests in this environment is of course a challenge, but logistically the change in operations has been smooth."

Government support has been around 50 GEL per quarantinee per day, which is meant to cover three meals a day as well. Hotels note that this sum largely falls short of operation costs, howev-er, and that in most cases they subsidize the stay of their guests, but McNeillie says this "does not affect our commitment to doing what we can in this time of crisis."



Another issue faced by hotels is that support in terms of the provision of appropriate safety equipment and apparel for staff such as masks, sanitizer and gloves, has been slow in the coming, and that at times hotel staff personnel have to interact with patients instead of doctors.

Looking ahead, AmCham member hotels note that 2020 will continue to be difficult year, even after the spread of the coronavirus peaks in the country, as there will be lingering uncertainty as to the epidemiological situation on the ground in foreign countries.

In Georgia's case, this will be especially pertinent when it comes to Russia and the idea of re-welcoming Russian tourists, where transparency in the issue seems to be lacking. Russian tourists accounted for 20% of Georgia's inbound tourists in 2018 before the introduction of the flight ban in July 2019.

Hotels that cater to domestic tourism, largely those in the countryside, feel that demand will remain low likely for the rest of the year, as lost jobs and layoffs will act as a further disincentive to travel once movement bans are eased, public transport resumes and the public feels confident enough to venture outdoors again.

But there is light at the end of the tunnel, McNeillie notes:

"There are varying rates of success in dealing with the coronavirus across the world, and tourism might re-cover sooner in Georgia than elsewhere given the country has, overall, done an excellent job in containing the outbreak. If this trend continues, this could have an impact on people's decision on where to travel 12-24 months down the line, as tourism trends may be redirected towards regions and countries that have dealt effectively with the pandemic", McNeillie says.

Until then, riding out the crisis' unforeseeable duration is the priority. AmCham member hotels have proposed four ways in which the Georgian government can act to help soften the blow of the crisis by: waiving property and other taxes for several months; covering the payment of staff salaries; postponing utility payment, and; providing appropriate medical equipment for hotels which have been converted into quarantine spaces.

FOLLOW THE TIGER:

to survive Covid-19, Georgia should look to the East

BY BIDZINA LEBANIDZE, GEORGIAN INSTITUTE OF POLITICS

This op-ed re-printed below by Dr. Bidzina Lebanidze, a senior analyst at the Georgian Institute of Politics (GIP), argues that to continue its success in handling the coronavirus crisis, Georgia should learn from the experiences of East Asian countries, introduce the use of tech to stem the spread of the virus and encourage a range of new hygienic practices.

Georgia has been moderately successful in holding Covid-19 at bay and keeping case numbers low in the first 30 days since the outbreak. In order to remain resilient against Covid-19 and keep the infection curve flat, the country will need to emulate the experience of Asian states, not European. It can remain a free and open society in the process, yet this endeavor will also require some substantial sacrifices. Georgia is among the few countries in the EU's neighborhood that consistently looks to its European peers for policy guidance in its economic and political development. However, the EU and its member states have miserably mismanaged the initial phase of the outbreak of Covid-19.

Surprisingly enough, Georgia, with much less resources did a much better job in containing the virus in the first 30 days than the majority of EU member states. Whereas the Georgian government has managed to keep the virus within the first two phases of epidemic management (prevention and control), much of the EU sleepwalked into the third phase marked by exponential growth of infections, and is now finding it hard to contain the ▸▸

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spread of the virus.

Yet despite initial success, Georgia may soon face two major challenges.

First, the attempts by the government to suppress cases of local transmission and to isolate new hotspots show that the risk of exponential growth is still imminent and can occur at any time.

Second, the current lockdown is not sustainable for a long period of time as it would do irreparable harm to Georgia's fragile economy and may even result in social or political unrest. Hence, to avoid the Covid-19 nightmare, Georgia should look to countries who have so far managed to accomplish both tasks – avoid full lockdown and contain the virus: East Asian democratic states.

GEORGIA'S ASIAN PLAYBOOK

Fortunately for Georgia, the handling of Covid-19 by the Georgian government in the first 30 days since its arrival in the Black Sea country has been in many ways a replica of East Asian crisis management. East Asian countries managed to contain the spread of Covid-19 below the vulnerable threshold by relying on a combination of preparedness, technology, and transparency. Georgia did lack technology but has shown unexpected resilience in terms of the quick mobilization of state resources, medical preparedness and aggressive contact tracing. The chart below shows that in terms of early preparedness, Georgia not only did a better job than many EU countries but it also outperformed the "Asian tigers" who are well-known for their management of epidemics.

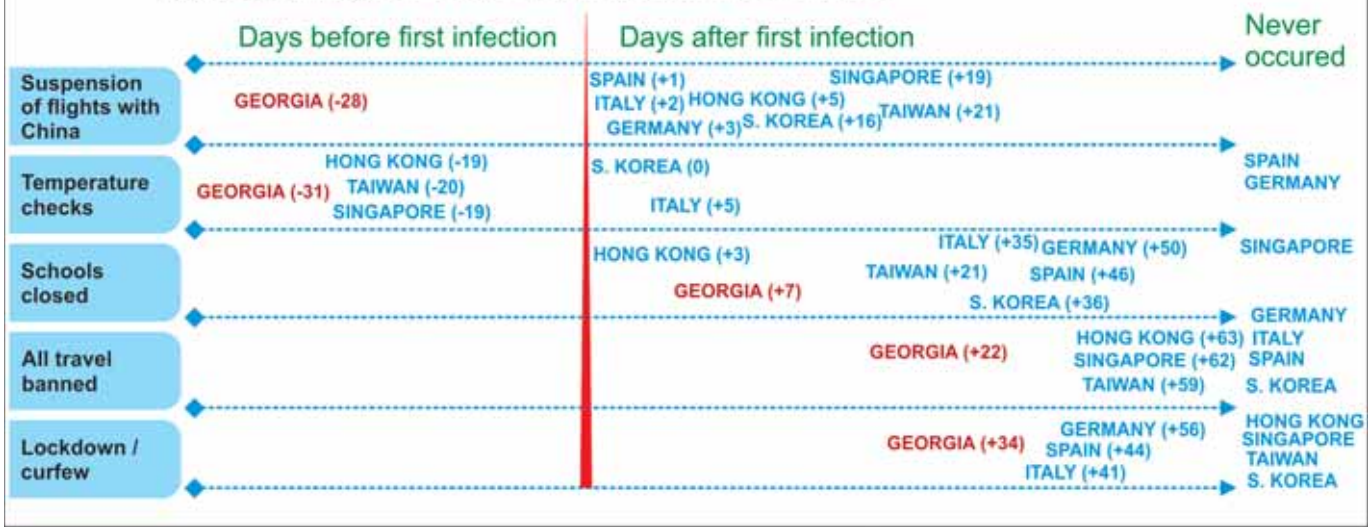
By introducing somewhat draconian measures much earlier than its European peers, Georgia successfully prevented a large outbreak in the first few weeks and saved its vulnerable healthcare system from congestion. Georgia's management of the Covid-19 epidemic also stands out in other interesting aspects. For instance, like some Asian states, Georgia seemingly did not follow the WHO guidelines which often issued controversial recommendations such as not to limit international traffic or assumptions about face masks not being effective. For instance, Georgia changed the WHO guidelines in its national protocol by removing high fever from the list of suspicious symptoms which made it possible to detect three times more infection cases in the first month since the first detected case.

CAN BIG DATA CONTAIN THE VIRUS?

Despite initial success, Georgia is bracing for a rough road ahead. The country just registered its 100th infection case and the lockdown of economic life has already resulted in the devaluation of the Georgian currency. Hence, like the rest of the world, Georgia faces the dilemma of how to preserve its economy and ensure the healthiness of its population. Should the virus fade away within a few weeks or a couple of months, additional measures will likely not be needed and Georgia can outlive the virus in lockdown mode. But should it last for months, the government will be forced to gradually reopen economic activities and public life. In this case, Georgia will need more enforcement mechanisms to ensure the compliance of citizens especially for a time when the state of emergency is first lifted.

In this case, again, the European and Asian approaches could not be more different.

Figure 1: Timing of measures taken by selected countries



The European approach puts too much faith in the rational and enlightened citizen who bears responsibility for both themselves and the whole of society. In doing so, the state seems to be unwilling to make use of its central function: using the right of the monopoly on legitimate violence in case of need.

Yet even in the EU countries the irresponsible behavior of citizens and their lack of compliance with lockdown rules has often been a problem that significantly contributed to the emergence of the Covid-19 hotspots in Italy, Spain and elsewhere.

In relatively young states like Georgia, citizen compliance may be a bigger problem. The latest expert poll conducted by a Georgian think tank indicated the non-compliance of citizens as a major challenge for Georgia's fight against Covid-19. Hence, the European solution of relying mostly on individual responsibility should be balanced with stricter central enforcement mechanisms. East Asian states provide some insightful evidence how the state can ensure the compliance of citizens and track the virus outbreak by using big data and modern AI technologies.

In particular, there are four countries/territories which stand out in this regard: Singapore, Hong Kong, Taiwan and South Korea. Singapore's resilience against Covid-19 consists of a mix of surveillance technology as well as "transparency, comprehensive testing, and quick quarantining and isolation of suspected cases." Singapore's surveillance toolbox to control Covid-19 includes mobile phone app TraceTogether, which tracks users' proximity to other people and alerts "those who come in contact with someone who has tested positive or is at high risk of carrying the coronavirus."

Taiwan too has centralized management of AI technologies and big data techniques to identify residents who were at greatest risk through their travel and medical history. Mobile phone records are used "to track the social contacts of those infected with the coronavirus." Currently, mobile phones are digitally tracked via a so-called "electronic fence" to enforce the quarantine of some 6,000 residents of Taiwan.

South Korea too uses satellite-based phone tracking to trace infection chains. Coupled with early aggressive testing of suspected clusters and the enforcement of social distancing, South Korea has managed to contain one of the biggest early outbreaks of the virus outside China and to stabilize the curve.

Finally, Hong Kong has one of the most comprehensive yet controversial disease tracing systems. The government webpage dedicated to Covid-19 publishes very detailed data on each known positive case, including their address (!), to help other residents identify possible local transmission chains.

As one can observe, using AI and big data is an important part of the resilience of the East Asian states against Covid-19. It helped Asian countries to avoid long-term and economically painful lockdowns. Countries like Georgia could take notice. Still, using private data for surveillance purposes is a very contentious issue especially for aspiring democracies such as Georgia – especially since Georgian governments have a track record of using private data for political blackmail. Therefore, if introduced, it should be ensured that surveillance is limited to the tracking of Covid-19 epidemics and that its use be free from political risks.

BE SMART: LEARN ASIAN HABITS

Finally, no surveillance mechanism can ensure the containment of an epidemic without individual vigilance and social adaptation to new dangers. The Asian social norms of contactless greetings and social distancing are considered to be the major factor behind East Asian resilience against disease outbreaks. Georgia belongs to the Mediterranean culture, with hugging and kissing as usual greeting habits and generally a very rich social life. Yet to cope with Covid-19 and be better prepared for future pandemics Georgia should embrace more Asian cultural habits.

It's worth noting that East Asian states have collected invaluable experience from previous disease outbreaks such as MERS and SARS. In a way, they could be better role models for inexperienced countries such as Georgia than the WHO and some Western actors, not just in their clever use of AI technologies but in all areas of fighting disease outbreaks. Taiwan's approach to surgical face masks and other medical equipment is illustrative in this regard. Whereas the WHO and the governments of Western countries dismissed face masks as unnecessary for the general population, Taiwan stepped up their production to 10 million daily production units and even introduced a face mask rationing system to ensure its population was constantly supplied and there was no shortage. Meanwhile everyone agrees that wearing face masks can protect from Covid-19 and can be a measure which can help prevent the re-emergence of the disease in the post-lockdown period.

Dr. Bidzina Lebanidze is a senior analyst at Georgian Institute of Politics (GIP). He is Postdoctoral fellow at the Institute of Slavic Studies and Caucasus Studies at the Friedrich Schiller University Jena.

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Coronavirus

(COVID-19)

and its legal impact on businesses

The coronavirus crisis and the anticipated associated risks to local businesses require an evaluation of the legal tools that can be used and the action plans that can be implemented to address the situation.

The foregoing document intends to outline practical approach and recommendations for preventing and/or mitigating relevant contractual and/or economic risks by local businesses and employers.

Contractual relations

Force-majeure is a well established civil law concept in the Georgian legislation.

However, while COVID-19 may be classified as a force majeure event, there are important legal preconditions and exceptions to such a classification.

In the context of private contracts, the WHO guidance of 30 January 2020 (date when WHO defined COVID-19 as an epidemic) and subsequent declaration of the state of emergency by the President of Georgia on 21 March 2020 are likely to help Georgian courts define the occurrence of COVID-19 as a force majeure.

However, in order for a party to be ruled exempt from contractual duties, the following circumstances/preconditions must be met in relation to the event, which in turn must:

- be extraordinary in nature
- be beyond the parties' control
- be non-foreseeable at the moment of the conclusi-on of the agreement
- materially impact, or render impossible, the performance of the contract (at the time and in the manner required)

Established court practice indicates that courts employ a detailed analysis of the contractual relationship to assess the characterization of the event and its impact on due performance of the obligations.

Also, only contractual obligations affected by the Force Majeure will be exempted (partial impossibility), therefore a total impossibility is not automatic.

Furthermore, the temporary or permanent nature of the impossibility/event shall also be considered for assessing its impact on non-performance and hence, qualifying the event as a force-majeure.

Actions to avoid default

- Review the contract's hardship/force majeure clauses to identify the scope of their application
- Assess whether COVID-19 qualifies as a force majeure for the purposes of the contract
- Assess whether there is partial impossibility or total impossibility of performance
- Comply with any notice provisions/issue notices, or other preconditions (e.g. taking steps to mitigate its losses), specified by the force majeure/hardship clause
- Implement the termination/renegotiation strategy according to a variety of possible situations

Please consider that the legal assessment of contracts concluded after 30 January 2020 (i.e. announcement of epidemic) shall also be very important, to identify compliance with the foreseeability criteria of a force majeure event.

On 21 March 2020, the President of Georgia declared the state of emergency effective immediately on the entire territory of Georgia until 21 April 2020. On 23 March 2020, the Government of Georgia issued Decree N181 which sets out more detailed instructions on the rights and liberties to be limited during the state of emergency. This may additionally impact the performance of contractual obligations by the parties and simplify exemption under force majeure

EMPLOYMENT RELATIONS

Remedies under the Labor legislation

One of the major challenges of the COVID-19 outbreak for local employers is the treatment of employees under these extraordinary circumstances.

Some of the issues that need to be assessed the most carefully include whether an employer can terminate an employment agreement during the COVID-19 outbreak and how to pay remuneration to employees who are under self-quarantine or who are unable to return to work due to quarantine measures imposed by the state.

Given the extraordinary nature of the current circumstances, we came up with several scenarios below to examine the corresponding rights and obligations of employers and provide solutions available pursuant to the Labor Code of Georgia.

Scenario #1

Employees who are currently receiving medical treatment or who are under quarantine or medical observation AND meet any of the following criteria:

- are confirmed to be infected with COVID-19
- are suspected of being infected with COVID-19, or
- have been in close contact with people confirmed or suspected of contracting COVID-19.

Employment is considered to be suspended on the basis of "temporary incapacity to work".

The Employee cannot be required to work in the event he/she refuses to work on the basis of health hazard and the employer shall not terminate the employment relationship without cause.

Further, if an employment agreement expires during the period when an affected employee is receiving medical treatment or under quarantine or medical observation, the term of the employment agreement will not be extended and the term shall expire accordingly.

Compensation Requirements - must be paid normal salary, unless the Employee agreed to unpaid leave or if no medical certificate confirming medical incapacity (due to quarantine, or being under medical observation) is provided.

Upon the employee's return to work, an employer may request medical certification or other documentation.

Scenario #2

Employees who cannot return to the work place on time due to circumstances related to COVID-19. This would cover employees who are required to self-isolate and thus are unable to return to the office.

Employer should make reasonable arrangements to allow the employee to work from home if possible.

If work from home is not possible, the employer should try to negotiate with the employee to take advantage of any unused leave (paid or unpaid).

Compensation Requirements

Normal salary must be paid to employees who are working from home or who are taking paid leave.

Scenario #3

The employer suspends operation or business, whether in whole or in part, and requests employees to postpone their return to work due to the impact of COVID-19.

Employers are encouraged to negotiate with employees to reduce salaries, adopt shift schedules, or reduce working hours.

In addition, employers who cannot pay salaries may negotiate with employees to delay payment of salary. Employers are advised to keep record of all communications in case any dispute arises during this process.

Unless an agreement is reached with the employee, an employer may use the remedy of last resort and terminate employment under "objective circumstances" envisaged under the Labor Code of Georgia. It is highly advisable, however, that termination is used only after negotiating paid/unpaid leaves has proven unsuccessful.

General recommendations

Suspension of employment or suspension of payment under such circumstances (due to epidemic outbreak) is not an automatic remedy available to the employer under the Labor Code of Georgia.

Although certain activities and provision of certain services were temporarily banned, no mandatory instructions have been issued by the Government of Georgia in relation to the suspension of employment in private companies.

The Decree N181 of the Government of Georgia dated March 23, 2020 requires certain private entities to temporarily shift to a distance work regime, where possible. Others are required to observe the social distance of at least 2 meters between the employees at a workplace and otherwise comply with recommendations issued by the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia.

As a general note, employers are advised to adopt flexible arrangements for working hours in the face of the COVID-19 situation to meet their obligation to ensure a safe working environment for employees.

Based on the aforementioned, it is advisable to adopt a labor safety (emergency) policy and implement preventative measures based on WHO and local government requirements. An employer can require only some employees to come to the office on the justification that COVID-19 makes it too dangerous to have a large number of employees in the office.

An employer may also encourage their employees to use paid/unpaid vacation or negotiate part time performance of employment duties (with a temporary decrease of salary). Termination may only be used as a remedy of last resort based on specific circumstances in each case.

Operation of Force Majeure

If the COVID-19 outbreak qualifies as a force majeure in the context of employment relations due to a state of emergency or any other government measure causing mandatory suspension of employment relations, employers would be justified in suspending payment of salaries during the period in question. The specific effect and consequences of the force majeure will also depend on the scope of the mandatory measures implemented by the Government and their impact on the business of the respective employer.

Please apply for the professional advice prior to relying on the information given in this article. BLC and its team shall be ready and pleased to provide any information, legal advice and specific recommendations regarding the issues covered herein.

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Coronavirus' impact on the Georgian real estate market

New trends in hospitality, residential and retail real estate have reshaped the Tbilisi landscape in recent years, but the COVID-19 crisis is presenting a number of challenges. Cushman and Wakefield Georgia outline just how in a recent report.

Though the National Statistics Office of Georgia reported GDP real growth rate at 5.1% and inflation at 6.4% in March 2020, the unfortunate reality is that fears and the actual reduction in trade, commerce and tourism, as well as the devaluation of the national currency, will likely change for the worse in the medium term, as has happened world over since the COVID-19 breakout.

COMMERCIAL REAL ESTATE

The commercial real estate market is already experiencing a shortage of demand – just before Prime Minister Giorgi Gakharia announced the closure of non-essential retail establishments on March 19, Retail Group Georgia, ICR and Gtex announced the closure of their stores, including some of the most popular brands on the market such as Zara, Mango, Massimo Dutti, Adidas, L.C. Waikiki, Nike, Bata and others.

One of the defining characteristics of the Tbilisi retail market – and especially in its apparel, footwear and accessories segment – is the lack of the presence of e-commerce. This has a number of underlying reasons; rigid return policies often mean that the customer may run a greater risk purchasing online than if they were to purchase an item in-store. Additionally, the factor of perceived convenience is low: Tbilisi is small enough, and travel times to malls and stores is small enough to cancel out the convenience advantage of buying online.

This market gap of e-commerce may well be filled in the medium term, given that online shopping has a distinct upper hand over the traditional brick-and-mortar option in the context of the COVID-19 pandemic. However, closure of more stores is to be expected which will in turn put a downward pressure on rent rates both on high streets and in shopping centers as vacancy increases.

While the effects have been almost immediate for retailers, office real estate will likely have a longer reaction period. As tenants transition to remote working, office buildings will have to deal with reduced turnover, adopt rent-relief programs and prepare for reduced market demand, given that the number of new entrant businesses is expected to drop within the short term. We also expect the scheduled openings of new business centers to be delayed until 2021.

RESIDENTIAL REAL ESTATE

In a shrinking economy, the housing market typically suffers as demand is redirected towards short-term needs and necessities rather than long-term investments. Expectations – which are low at the moment – will reflect these traditional dynamics as well. Yet the primary and

underlying cause for concern is the heavy reliance of the Georgian residential market on remittances.

With the economic crisis gripping nations where remittances typically originate from – Italy being the prime example – a major reduction in the inflow of these funds is to be expected. With the loss of tourism revenue, a reduction in the circulation of foreign currencies, the drop in oil prices and the devaluation of neighboring countries' currencies, the lari is also facing destabilization. Measures have been taken by the National Bank of Georgia to hinder the process of devaluation; nonetheless, the negative pressure on residential demand may soon become apparent.

In coming months we expect the subdued demand to become apparent in transactional and mortgage data, which will gradually put a downward pressure on residential prices. The ability of this sector to rebound quickly, however, was seen in 2019, when the new regulatory framework caused a slowdown in sales in Q1, until improving expectations provided a much-needed boost in April. It remains to be seen how the timeline of the race against COVID-19 will affect the lifeline of the residential market.

STRONG PUBLIC AND PRIVATE RESPONSE

The Georgian government and the healthcare sector has dealt admirably with the COVID-19 crisis, mobilizing all the means necessary to contain the virus.

A number of commercial banks, including TBC Bank, Bank of Georgia and Liberty Bank, have instituted a three-month grace period on personal and commercial loans with a special focus on small and medium sized businesses that rely on tourism and social gatherings to generate revenue.

With the assumption that COVID-19 will be contained globally by June, Cushman and Wakefield projects the following end-year benchmarks for the tourism, hospitality and real estate markets:

- 30-35% y/y reduction in the number of residential real estate transactions
- 46% y/y reduction in international visitor trips
- Average city-wide occupancy rate of 30-35% in Tbilisi

However, there are still many uncertainties concerning the coronavirus and its effects, with the greatest concern being the longevity of COVID-19's survival and the overall resilience of the global economy.

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9 things you didn't know about Georgian wine

TBC CAPITAL'S RECENT REPORT HERITAGE OF SPLENDOR DELIVERS A SWEEPING OVERVIEW OF THE GEORGIAN WINE INDUSTRY: FROM THE DIFFICULTIES FACED BY LARGE-SCALE PRODUCTION TO CHANGING CONSUMER HABITS AND EXPORT TRENDS. INVESTOR.GE SAT DOWN WITH TBC CAPITAL'S HEAD OF RESEARCH TORNIKE KORDZAIA TO TAKE APART SOME OF THE MOST CURIOUS AND SURPRISING FINDS.

1. WINE RUSH

There was a rush to get into the wine biz in 2018 – 2019, TBC Capital's report shows, with Georgia experiencing a jump in newly registered wine producers, increasing from 337 in 2018

to already 420 in 2019 H1.

The end of the state grape subsidies program at the end of 2018 may have played something of a role in this, as many wine growers and makers may have registered and formalized their production to benefit from the final throes of the program.

Another contributing factor were regulations introduced in 2016, which established mandatory quality controls and obliged wine producers hoping to export abroad to register their companies and submit samples for laboratory testing. Up until 2016 it was easier to get unverified products to market, while recent restrictions have made that harder.

Coming into the formal sector also has the added benefit of allowing wineries to add themselves to Georgia's wine routes, which in turn attracts more tourists.

2. VINEYARD CONSOLIDATION PICKING UP STEAM

The relatively small amount of land suitable for viticulture in Georgia has always framed the question of the wine industry's priorities, and whether the volume of wine production will remain low.

TBC Capital thinks this issue is moving towards resolution, as smaller, private land plots are being consolidated into larger, formal production companies and away from household production. This is necessary not only for growth, but also to ensure standardization in taste and production.

However, one question remains as to what effect this will have on rural economies and livelihoods.

TBC Capital's Tornike Kordzaia says this is unlikely to have serious consequences:

"Basically, almost half the population lives in the countryside, where the contribution to the economy is way less overall.

There is a great mismatch in the distribution of labor and productivity and urbanization levels will likely pick up with time.

As this happens, people will go into more productive industries and switch to the demand side of the value chain or become suppliers for formal production.

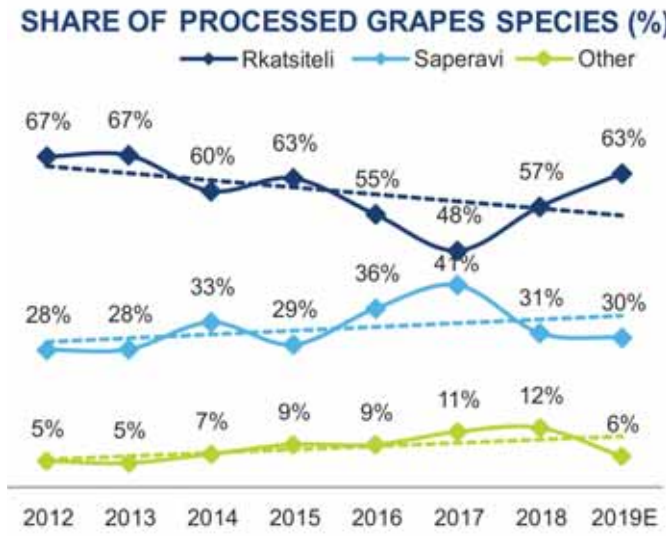
Natural demographic processes will support this process, not antagonize it."

3. TWO GRAPES TO RULE THEM ALL

While Georgia has over 500 varieties of grapes, just two of them account for 93% of all grape production in the country – Saperavi and Rkatsiteli. While many may associate Georgia with the ubiquitous Saperavi, it's actually Rkatsiteli that makes for the overwhelming majority of wine production, with a 63% share of total grape production in the country.

TBC Capital's Kordzaia comments:

"The first reason is that Rkatsiteli and Saperavi were both chosen for their weather resistant properties and high yields in Soviet times, so in part this is an issue of a remaining legacy. Other reasons include that Rkatsiteli and white wines are the



drink of choice at supras, weddings and other large social gatherings, where the pace of drinking is quicker, and for that you need a wine that's cheap to produce and easy to source.

"One other reason is that Georgian spirits, such as chacha and brandy, often use Rkatsiteli and its remains in their production, and it uses a lot: for every volume of Rkatsiteli wine produced, it can be used to make only around 7% of of the same volume of spirits.

However, TBC Capital expects a shift in production patterns – first because subsidies for Rkatsiteli production ended in 2018, which will shift attention elsewhere, and second because drinking culture is slowly moving away from quantity and drinking wine in large volumes, as consumers learn to enjoy finer wines in smaller quantities.

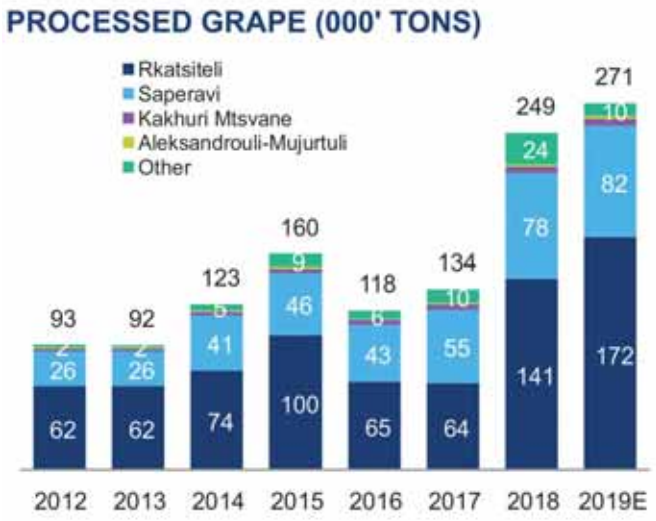
"What's interesting is that export data show an almost flipped picture", Kordzaia notes, pointing out that in 2019, 77% of wine exports by value were comprised of red wines, while whites made for just 21%."

4. RTVELI HARVEST ON TWO-YEAR STREAK

Rtveli [grape harvest] yields in 2019 broke 30-year record highs for the second time in a row in 2019, with an estimated total of 282,000 tonnes of grapes processed in 2019, with largely good weather to thank.

However, as climate change progresses and vineyards ex- ▸▸

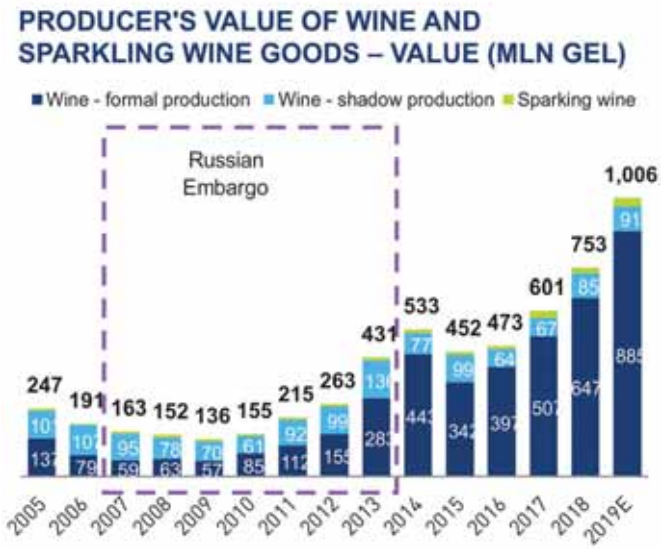
perience less precipitation, grape growers are beginning to talk about the need to move to higher altitudes.



Kakheti remains the country's main grape grower, responsible for the production of 72% of the Rtveli 2019 harvest, followed by Imereti (12%) and Shida Kartli (6%).

5. COMING OUT OF THE SHADOWS

The share of household and shadow production of wine has been steadily decreasing since the early 2000s; in 2019, this pattern continued and even picked up pace, with formal



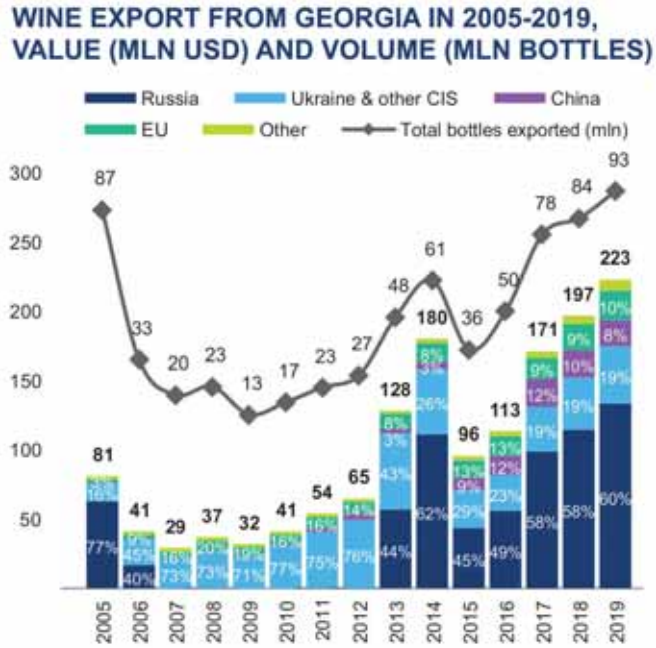
production accounting for close to 88% of production value, while informal production made for just 9%.

TBC Capital reports that increased consumer purchasing power has led to local demand shifting towards better quality and standardization, and away from homemade wines.

For comparison, back in 2005 homemade wine accounted for more than 70% of production, and remained high during the years of the Russian embargo between 2007-2013.

6. RUSSIA – AGAIN

To much of the sector's chagrin, it's difficult to talk about Georgian wine without talking about Russia. Currently about 60% of Georgian wine exports go to Russia, and despite talk of diversification, the market share of exports to the Russian



Federation continues to rise.

The Russian market for wine remains attractive, given that there is no footwork needed to introduce Georgian wine to the Russian market, and the shipment of goods is cheap and the procedure simple.

However, Kordzaia says, TBC Capital's analysis shows that this puts the market at risk: 30-40% and higher dependence on a single buyer country poses serious profitability and insolvency risks. Currently, many major winemakers in Georgia export as much as 50-60 percent of their product to Russia.

7. FRUITFUL RETURNS

Despite the risks faced by the industry, the wine business remains incredibly fruitful with IRRs ranging between 14 – 18% and project payback period standing between eight to 10

years. TBC Capital estimates that initial investment per hectare of grape production on an industrialized scale ranges between 21,000-40,000 USD, depending on the variety of grape. PDO wines and plots located in microzones are the costliest.

8. GEORGIANS DRINK LESS THAN YOU THOUGHT

One of the most surprising discoveries in the TBC Capital report: domestic consumption of wine is actually decreasing.

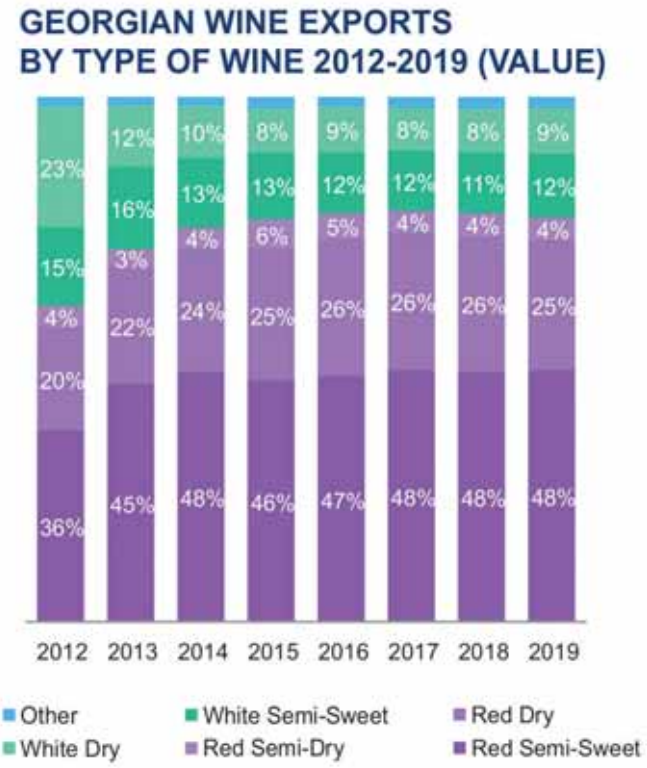
"This is seemingly due to a shift in drinking habits, where supras are becoming less the venue for drinking; instead, consumers are moving to bars, where the culture is less to guzzle, and more to sip and enjoy." Not only is domestic consumption down, it is perhaps even more curious that it is far below the level of a number of European countries.

"This can partially be attributed to the levels of tourism in these countries, which going forward will be one of the main drivers of consumption in Georgia itself as well", TBC Capital's Kordzaia says.

9. EXPORTS BY WINE TYPE REFLECT OPPOSITE IMAGE OF PRODUCTION

While white wine might make for the bulk of production in Georgia, red wine's account for 77% of wine exports, and white wines account for just 21%. The breakdown of exports of wine by type for 2019 was: Alaznis Veli (28%), Kindzmarauli (22%), Saperavi (17%), Mukuzani (7%), Pirosmani (4%), Tsinandali (4%), Rkatsiteli (3%), Khvantchkara (3%), other (3%).

Russia and China import predominantly red wines from Georgia, with their share of imported Georgian white wines standing only at 10% and 3%. The EU's imports are more



balanced, with 69% of Georgian wine imports being reds, and 28% whites.

Framing Georgian art as an investment

TBILISI'S ART SCENE HAS BEEN STEADILY GROWING OVER THE PAST DECADE, AND THE CITY NOW HAS THE POTENTIAL TO BECOME A REGIONAL EPICENTER FOR THE ARTS, BUT BEFORE THAT CAN HAPPEN, PRICE AND TREND MONITORING, ARTIST RATINGS AND BUYER INFRASTRUCTURE NEEDS TO BE DEVELOPED.

BY SALLY WHITE

Tracking values of contemporary Georgian art through the galleries and sales rooms is no easy task. Georgian art seldom comes up at international auctions, there are few large-scale regional exhibitions, no price monitoring and most sales are made privately between artists and collectors.

This lack of infrastructure has been a major put-off for buyers, particularly international ones, who want the full marketing back-up, with prices and trends.

However, the latest project by the owner of one of Tbilisi's longest established galleries, Baia Tsikoridze, could help change this and revolutionize the Georgian art market.

Tskoridze is building an online platform to provide access to all the information buyers want, with statistics and details on sales, artist ratings and a price index. She hopes to be able to launch the platform next year.

Since the inception of Baia Gallery 27 years ago, Baia says the gallery has been "been researching the market and owns an extensive database of photo and documentary materials on the works it has sold and their prices, and has created a price index; it has also explored the available results of works by Georgian artists sold at international auctions and on the local market."

A wave of interest in Georgian art was started by a major exhibition and sale at leading international auctioneer Sotheby's, "Art at the Crossroads", held in London back in 2013.

It included 10 Georgian artists among those on show which focused on Central Asia and the Caucasus. Apart from introducing regional artists to the outside world, Sotheby's purpose was to connect with the wealthy in these regions and encourage local interest in art purchases.

Sadly, after 2014 Sotheby's dropped this exhibition. However, in Georgia the Expo Georgia Convention Center's

Supervisory Board chairman, Kaha Gvelesiani and its creative director, Nino Gamrekeli, took up the challenge and in 2018 organised the Tbilisi Art Fair, which has become an annual international event.

She told Euronews: "We think there is a potential to transform Tbilisi into the regional art centre. We have a very authentic, diverse art scene with many interesting painters and artists. The national art market either does not exist, or is underdeveloped, and our aim is to make this market more real and alive."

A collector trawling through the fair and the accompanying Art Week events in Tbilisi's galleries, museums, and art spaces will, she says, find artists from the Caucasus and Central and Eastern Europe "that are hard to find … elsewhere in the world." Last year 12,000 visitors attended, buying works priced from $250 to $55,000.

The fair is helping overcome major obstacles for the recognition of Georgian art which rarely hits the international headlines and has no well-known patrons whose purchases would bring much needed publicity.

While many could name Pirosmani, not least because his painting of a Georgian Woman Wearing a Lechaki sold for a record-breaking £2.2m at Sotheby's just over a year ago, this museum-status Georgian primitivist, who died in 1918, is in a league of his own.

The fair and the galleries around Tbilisi offer many paintings at a tiny fraction of that price, starting at under $500.

A more usual price indicator for an established living Georgian artist selling abroad is the $31,250 New York auction price ascribed by the art news website MutualArt to Untitled Red painted by Levan Lagidze, one of Georgia's most significant living artists. His paintings sell better than most. He has his own Tbilisi gallery, but more significantly he has entered into an exclusive agreement with a London-based art gallerist, Katerine Levin to represent him in London and New York, securing in return for exclusivity the backing of price-supporting marketing strategies and international campaigns.

Another of her Georgian artists is Mamuka Dideba whose figurative works, such as the Sommelier and The Mission, sell between £15,000 - £18,000.

"The price varies depending on size, complexity and, as during the times of the Old Masters, the number of figures in the painting.

"These are 'starting out' prices for an artist of this calibre, reflecting the beginning of his impact in the West," she says.

Katerine Levin "specialises in extraordinary artists from places less explored". International partnerships such as hers are rare for Georgian artists, but very welcomed by investors as official gallery sales in Georgia are put at a mere 30 percent, making prices untrackable.

There is certainly no shortage of collectible work by contemporary Georgian artists - though they are scattered around the world – from paintings and drawings to installations, textiles and cloisonné enamel work. There is even a flourishing Georgian street-art scene emerging, most famously the murals on Tbilisi's' iconic hostel complex Fabrika, although Georgia has yet to produce its own graffiti artist to rival the eminently stealable (often with hammers and chisels) works by Banksy.

Nor is there a shortage of galleries. Tbilisi has a number of well-established ones including Baia Gallery, Vanda Art Gallery, Chardin Gallery, Vernisage Gallery, Gamrekeli Gallery and Dedicace Gallery. There are new galleries opening, especially in Vake, though many of these ▸▸

Niniko Morbedadze – 'About Mystical Places #1', Acrylic, Indian ink on paper, 94,3X110cm. 2019

Rita Khachaturyan – 'The Guest' – from the series 'Fear', Oil on Canvas. $12,500.

are catering to interior designers rather than collectors.

Artists need patrons and promoters, and as Ia Dvali (founder of the Chardin Gallery along with fellow art critics Khatuna Chkheidze and Maia Nozadze) says, the economic downturn has caused "investment in art to slow down a little bit in Georgia". Fortunately, to help offset that, the internet has brought in foreign online customers. Those buying for investment, she says are interested "in both contemporary artists and in earlier paintings".

Chardin Gallery, which sells mainly contemporary Georgian fine and applied art, including some amazing cloisonné enamel work, puts a wide price range on the artists attracting the most attention currently of $500 to $50,000. Artists, both past and living, which Ia Dvali includes in her list of those "whose value and recognition are slowly but surely growing", are Vera Pagava, Felix Varlamishvili, Natela Iankoshvili, Tengiz Mirzashvili, Edmond Kalanandadze, Jemal Kukhalashvili, Irakli Sutidze and Ushangi Khumarashvili. Established artists from the last century, such as David Kakabadze, Elene Akhvlediani and Lado Gudiashvili, she says, enjoy "stable and high prices" at her gallery.

At Vanda Gallery, (which very actively promotes contemporary and young artists via its international mailing list and regular shows) the Georgian art market is described as "quite active" with "more young and new art collectors emerging". The gallery, run by Vanda Mujiri and her brother Sandro, has a long list of promising young artists - Rita Khachaturyan, Tedo Rekhviashvili, George Gatserelia, George Gagoshidze, Levan Mindiashvili, Vaho Bugadze, Zurab Gikashvili, Alex Berdisheff, George Gugushvili, Shalva Matuashvili, Kako Topuria, Tengiz Marr, Temo Javakhishvili, Jemal Kukhalashvili and Gogi Chagelishvili – who sell at anything "between $1,000 and tens of thousands of dollars".

However, "it is hard to predict which artist can be the best investment, everything depends on promotion and the artist himself. At this time, probably the most promising artist in Tbilisi in our view is Rita Khachaturyan, who is already considered one of the strongest Georgian artists", they say.

Ornament Enamel Art Gallery, which is a cloisonné enamel artwork specialist, has found wide interest, especially among tourists. It has increased the following for cloisonné by also teaching the craft in its studios.

The development of enamel art in Georgia spanned, says Sofia Kereselidze, art manager of the gallery, "the 8th to the end of the 15th century" when it was employed in making icons. Yet its revival in the last century has brought not only a much wider range of pieces, as can be seen in the gallery, from jewelry to small and exotic sculptures and works of art, but a diverse range of materials (including copper as well as gold and

silver) and techniques. Prices start from as low as 200 lari.

Ornament Gallery has taken Georgian cloisonné enamel work to exhibitions in the Baltics and the United States. The gallery says artists who have a following include Thea Gurgenidze, Jimi Lominadze, Irakli Megrelishvili, Nino Tadiashvili, David Tskhadaia, Maia Jikia, Darejan Kochiashvil and Nino Kurtsikidze.

Who is buying Georgian art?

Baia Tsikoridze says that while the market is active "most of the buyers are Georgians or our compatriots living abroad, with a smaller proportion of foreigners working in Georgia," which is unsurprising, given the relative lack of international publicity. However, there are foreign buyers, including some who have built large collections.

Niniko Morbedadze – 'Flight Lessons.' Acrylic, Indian ink on paper, 50 x 69,5 cm. 2016.

Rita Khachaturyan. From the series 'Batonebi' (Lords). Oil on Canvas. 200 x 150 cm. $12,500

And her choice of best investments - Guranda Klibadze, Niniko Morbedadze, Tutu Kiladze, Rita Khachatryan, Jibson Khundadze, Vakho Bugadze and Kote Sulaberidze.

The Georgian galleries have been doing their best to help local artists find buyers on international markets, as Sandro Mujiri points out, taking them to overseas fairs, even in the hard times of the 1990s when the cultural support enjoyed in Soviet times was lacking. However, there is a huge amount of competition out there, and as Katrine Levin says, while Georgian artists are known and appreciated by Georgians, "….geographic distance from cultural epicentres like London and New York make it difficult for Georgian artists living in Georgia to be discovered internationally."

Hence, the value of the Tbilisi Art Fair and other events with international ambitions and a focus on local talent. She adds, referring to her Georgian artists: "In both cases, I went to Georgia to meet the artist."

INVESTOR SPOTLIGHT: the Georgian spacesuit that will work like magic on Mars

ELVEN TECHNOLOGIES IS SHOOTING FOR THE STARS BY HOPING THEIR INNOVATIVE APPROACH TO SPACESUIT DESIGN MAY MAKE THE FIRST MANNED MISSION TO MARS A REALITY.

JOSEF GASSMANN

Elven Technologies wants to build the spacesuit that will send humankind to Mars.

The spacesuits we currently have? Won't do. They can weigh up to 200kg, which is alright when you're in open space (no gravity), or on the moon (about a sixth of Earth's gravity), but Mars, which has a bit more than a third of Earth's gravity, is a different story.

The company is working against the clock. Elon Musk wants to get a manned mission to Mars by 2024 with SpaceX. And so when Elven Technologies came together back in April 2019, it recognized the immediacy of the task.

But just like the journey to Mars itself, the road to developing a suit that will work on the red planet is a long one, and so Elven Technologies is approaching the task by dividing it into parts.

"We want to be a part of this new frontier of exploration. So we decided to take the problem apart, piece by piece, and innovate in each technology to gradually improve upon the suit. We realized that if we built the first two easiest technologies and combined them into a suit, we could make a product for earth that would generate revenue, and thus lead us towards the production of a space suit", Elven Technologies founder, CEO and High Elder Vamekh Kherkheulidze says.

Elven Technologies is currently working on two of 10 technologies that will need to be perfected before a Mars suit will be viable: heat resistance and a cooling system.

On the Martian landscape, there is barely an atmosphere or magnetic field to stop the sun's rays, and humans on the surface would be exposed to both intense heat and radiation.

Kherkheulidze says it's conceivable that you could have a situation on Mars in which "on one side, where you are standing in the sun, it might be 100 - 150 degrees, whereas on the other it'll be negative 100 – 150. That's the problem to be solved."

Once the suit comes together in about six months, Elven Technologies plans to cooperate with local firefighters, who will test the suit in both laboratory and field conditions, after which they may begin to use the suit themselves.

Elven claims its current prototype in laboratory conditions can withstand flames and temperatures up to 1,200 degrees Celsius for at least 30 minutes (!), compared to the 8-10 seconds of protection afforded by conventional firefighter suits – that's about 180 times longer protection.

With a viable product in hand, Elven Technologies plans to move the firefighting suit to foreign markets, establishing a revenue stream to continue its chain of innovations.

But moving from a fire suit to a spacesuit is a long game, and the startup realized they would need enormous support along the way.

"When we set out, we asked ourselves the question – can we even do this? We saw that the major reason the suit didn't exist yet was not the lack of expertise, it was the lack of desire to go there – the problem is that science is not a process dedicated to speed. It's not market driven. Science is done for its own sake", Kherkheulidze says.

Elven Technologies thus chose a startup business model to attack the problem.

"With a startup, you don't have the possibility of researching for 10 years, you will fail. That's why SpaceX has progressed so much in so little time, because it is a private company. It relies on revenue and not on grants. And that's why NASA now uses SpaceX to fly to the space station", Kherkheulidze points out.

Elven Technologies bootstrapped itself and shortly thereafter received a 100,000 GEL grant from the Georgian Innovation and Technology Agency (GITA). A further 30,000 euro grant from the EU's CBRN (Chemical Biological ▸▸

Radiological and Nuclear) Risk Mitigation Initiative helped the company stay on its feet as it moved towards a buildable prototype.

Kherkheulidze says the company needs another 700,000 USD to achieve its goal, of which $400,000 will be private investment. The company hopes to receive a 650,000 GEL grant from the Georgian Innovation and Technology Agency later this year.

Perhaps surprisingly, given local investors' reticence to getting involved in large-scale and risky projects, some of this money the company plans to source from private investors in Georgia.

"There are private investors in the country willing to invest in exciting projects, but this is a fairly new development. You have to get out there, talk to everyone you can. Not because you are likely to find the investor yourself – but because once the word is out there, if you've something worth investing in, they'll find you", Kherkheulidze says.

The question of financing has been a persistent one for Elven Technologies as it is for any startup, but one they have addressed by asking the question: 'would we invest in the company if we weren't the founders?'

"In the beginning of any project, the answer is probably 'no.' But when you say that, and admit this truth, you realize how to build the company in which you would want to invest yourself", Kherkheulidze says.

As for why Elven Technologies got into the suit business at all, that story

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goes back to Kherkheulidze's training as a doctor.

"I studied medicine out of concern for human well-being. But I soon felt that medicine had stagnated, as it doesn't provide for patients whose conditions lie outside the realm of established protocols. So I decided to do something that would more immediately affect and provide for people's well-being", Kherkheulidze recounts.

The startup's concern for human health and well-being has its roots in what they say is the astounding potential and capacity of science to problem-solve.

"The fact that life on earth is so accidental makes it so precious", Kherkheulidze explains, adding that the pursuit of scientific advancement is an attempt to protect this 'rare accident', "and so we want to share with other people the joy we feel in the uniqueness, and maybe even the absurdity, of our existence. We want the next generations to continue to feel this same sense of wonder."

It's to this same next generation and other startuppers that Kherkheulidze advises remaining truthful to yourself about your business and your goals, noting that the fear of failure can be so dramatic so as to distort the evidence in front of you.

"Failure is not something you want to experience, and so you automatically are inclined to defend yourself against it. You lie, tell yourself that everything is going to be OK. But actually, there is absolutely no way that everything will be OK. If you're truthful, you can see the challenges you might have in the future, plan accordingly, and have a higher chance of success."

As for the origins of the name Elven Technologies: "they say that magic is simply technology that you can't understand. It works seamlessly. We want our suits to work in the same way: we want them to work so well that people think they're Elven magic."

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Taking the four-day work week for a spin in Georgia

RECENT EXPERIMENTS DONE BY LARGE COMPANIES LIKE MICROSOFT SUGGEST THAT EMPLOYEES MAY BE HAPPIER AND MORE PRODUCTIVE WHEN THEY WORK 4 DAYS A WEEK, INSTEAD OF THE STANDARD 5. TWO GEORGIAN COMPANIES DISCUSS WHY THEY DECIDED TO MAKE THE SWITCH.

The 40-hour, 5-day work week has been the business standard for the last century, but some companies are starting to rethink this model.

Recent experiments suggest that employees may be less productive when they work a normal 40-hour week, and many full-time white-collar workers complain of creative burnout and cognitive overload.

When Microsoft Japan decided to test drive a 4-day work week in August 2019, the company reported a '40% rise in productivity, more efficient meetings and happier workers who took less time off'

There are other ways to tinker with the orthodox work week – one experiment in the Harvard Business Review from late 2018 shows that a decrease from the average 8-hour work day to a 6-hour workday may increase productivity.

Georgian companies are starting to experiment as well.

Takaka Abramia is the co-founder and creative director of Studio Impulse, a Tbilisi design studio which started with a four-day work week when the company first launched back in April 2018.

"I had the same problem everywhere else I had worked – I didn't have time for myself, for my personal development. I have many interests aside from my job, and need to pursue them as an artist. When I was working five days a week, and going home at 10 in the evening, I wasn't particularly happy", Takaka says, noting the four-day work week at Studio Impulse is actually an approach to cultivating the talents of the company's personnel, and not just time off work.

"People in general need time for themselves to pursue what they are interested in – otherwise they become stale, stop growing and their work suffers", she adds.

In one of Studio Impulse's early concept videos, Abramia says design is a highly cerebral process: 'I think about it while en route, in the bath, while sleeping. My subconscious is always hunting ideas and chasing inspiration in unconscious pools.' When asked how one can be thinking about work all the time and finding other hobbies to engage in, she laughs:

"This is a description of the creative process in general. The creative mind is always running in the background, even when you appear to be thinking about something else. I've often seen my projects in dreams, or ideas will come to me while my attention is elsewhere."

At the heart of the decision to work only four days a week was a decision to approach the task of creative differently:

"Partially because we have a four-day work week, but also because this is how we prefer to work — we only take projects that have longer deadlines, because we want to do quality work, and not in a rush. For some clients, that doesn't work, and we have to turn them away. But a customer who can tell good design from mediocre, and who is still paying the same amount, will know that the time is valuable and much needed", Takaka says.

The reader, in disbelief, may ask: do they work more hours during the week?

To which Takaka responds: "nope, we work from 12:00 – 19:00."

"I chase them out of the office if they remain after hours"

Headhunting and HR company Insource also decided to make the switch to a four-day work week in November 2019.

Director Medea Tabatadze says the company received a mixed bag of feedback after announcing their transition, ranging from encouragement to discouraging messages as well.

"We were told that we shouldn't be working less, that we should be working more. That Georgians should work 25/7, and that 'skipping' working days won't result in anything good. This touched on something of a sensitive topic for some people", Tabatadze says.

The impetus to switch, Tabatadze claims, came from the stressful nature of the company's work, which "can often translate into improperly used working hours, slack and a lack of efficiency."

"For an agile, five-person team, this isn't a very hard task. I very firmly

believe that if you are sacrificing your free time for work, it's more than likely you're not doing it right. There are exceptions of course, but if you find someone is working extra hours, it's probably because they're badly organized", Tabatadze says.

In her estimation, on average just about 20% of time spent at the office is actual work. To ensure productivity, Tabatadze and her team stick to a strict task list and calendar.

"Time management skills on the team have changed drastically. Every minute and every hour has its price now. For some of us on the team, this has been a challenge, for others it has been an opportunity to blossom. It's not for everyone though, if companies want to make this transition, they have to ask themselves whether their employees are responsible and conscientious, and also if they have good time management skills – these are two very different things", Tabatadze says.

The new schedule hasn't forced the company to take on less work, either.

"Our 10 years of experience helps us be more agile and exact, and so we can handle the same workload. We try not to spend too many hours on unnecessary tasks. That is where our agility comes from, what makes us flexible. And we never take work home with us – I respect my personal time, and other people's time."

She comments on the process of adjusting to the new schedule:

"It took us a month to get used to our new work rhythm, and how to readjust our focus. The second month we needed to become adjusted to the new ways of communicating with not only between ourselves for projects, but with our clients. This has now more or less coalesced into a division of work per weekday: Monday is when we kick things off, and divvy up our tasks. Tuesday we're hard at it. Wednesday is when we troubleshoot, and Thursday is for communicating between ourselves and customers", Tabatadze explains.

Like Studio Impulse, Insource keeps an orthodox number of office hours as well.

"10? 10 is too much. We have eight working hours. We avoid even an extra 30 minutes of work. I chase anyone out who tries to stay on longer", Tabatadze jokes.

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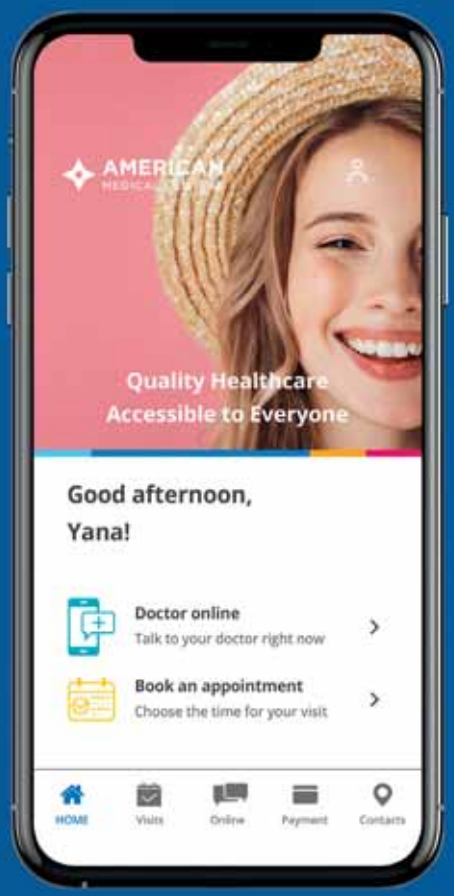

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What's behind the unlikely duo of Georgia and Japan?

THOUGH THE GEOGRAPHICAL AND CULTURAL DISTANCE BETWEEN GEORGIA AND JAPAN HAS HISTORICALLY LIMITED CONTACT BETWEEN THE TWO COUNTRIES, NEW BUSINESS PARTNERSHIPS ARE BLOOMING, ESPECIALLY IN THE WINE TRADE

SALLY WHITE

Japan is fascinated by Georgia's rich history, as the Ambassador of Japan to Georgia, His Excellency Tadaharu Uehara, has remarked more than once on his Embassy's website.

Georgia's historic viniculture and its aeons-old way of making wine in qvevris epitomise to many there the character of the Caucasian country.

Wine exports to Japan are growing and are now worth around $40 million, up over 700% on a couple of years ago. This is adding a further strand to a relationship that goes back far into history, one which Georgia hopes will give it another Free Trade Agreement.

Such is the special status ascribed to qvevri wine that Japan Airlines has just included in its wine-list offering to first-class passengers – a premium qvevri amber wine from a small Kakheti artisanal producer, Rkastsiteli 2018 from Shalauri Cellars. Last year over 200,000 bottles of Georgian wine went to Japan, much of it made in qvevris, making this a major export there (along with scrap metal, residues of precious metals and unprocessed aluminium).

Last year, Tokyo also hosted the same major exhibition of Georgian wine that launched France's new show-case wine center in Bordeaux – Georgia: Homeland of Wine, an exhibition combining unique archaeological exhibits and modern technologies.

Some may be surprised that Japan should have taken so strongly to a non-traditional beverage, yet even a few years ago, according to a report by the Japan-EU Trade Center, wine market tracker website Vinitrac found that over 50 percent of the Japanese population was drinking wine at least once a week. So, given this level of interest, the exhibition won the support of two major companies - Sony Music and Japan's global printing company TOPPAN.

As Tina Kezeli, the director of the Wine Association tells it, what started with exports by the small Georgian qvevri wine producers is now becoming business for the large wine companies.

"The Japanese really venerate tradition and ancient customs, and appreciate the history of the qvevri and the place it has had in wine-making for thousands of years," she says.

Clues to Japan's interest in Georgia's traditional premium wine product can be found in Vinitrac's explanation of the difficulties faced by new Central & Eastern European producers in selling in the Japanese market:

"This is partly owed to the ingrained ethnocentric mentality of Japanese culture. Consumers have also traditionally been elitist in their tastes, an approach that has permeated into the wine market as well. Even with Chilean and Australian wines gaining ground in Japan, they still cannot measure up in terms of appeal to the classic wine-growing regions of the Old World, such as Bordeaux and Burgundy." It is impossible to be more "Old World" than Georgian qvevri wine!

Having discovered qvevri wine at the supras held to celebrate the many business and investment links between Japan and Georgia, Japanese businessmen introduced it to Japan's growing number of wine drinkers. Japan has also added a traditional Georgian dish to its gastronomic scene: the fast-food company Matsuia has begun to sell the classic Racha dish Shkmeruli (made of chicken, garlic and milk). Importers are already bringing in Georgian kiwi fruit and berries.

There is, in fact, a long history of wine-drinking in Japan.

Legend has it that Japanese viticulture began in 718 AD, in Katsunuma, Yamanashi Prefecture. The first regularly documented wine consumption in Japan was in the 16th century, with the arrival of Jesuit missionaries from Portugal. Saint Francis Xavier brought wines as gifts for the feudal lords of Kyūshū, and other missionaries continued the practice. However, it was not until the Meiji Restoration in the late 19th century, a period when Western culture was avidly received, that wine grew in popular-

ity and Japanese viticulture emerged. It used then mainly imported American grape varieties, according to the Vinitrac survey.

Japanese wine production grew slowly in the last century and in the 1970s and 1980s, yet for the first time domestic wineries began to focus on producing superior wines using only domestically cultivated grapes. Also, in response to demand from Japanese consumers, the production of organic wines became popular.

In the 1990s and 2000s, due to a reduction in taxes on imported wine and a diversification of Japanese food culture, wine consumption continued to grow. In 1995, Shinya Tasaki became the first Japanese to be awarded the title of Meilleur Sommelier du Monde and helped to significantly raise public awareness of wine appreciation.

Media attention given to the beneficial effects of tannins (in which Georgian red wine is rich) and local government led efforts to promote high quality domestically produced wine also contributed to industry expansion. From 2002 onward, leading with Yamanashi Prefecture, competitions focused on "Japanese wine using only 100% Japanese grapes" began.

Of significance is that Japan has found, from DNA analysis, that its Koshu wine grapes are scientifically identical to one of the Georgian species, according to former Japanese Ambassador to Georgia, His Excellency Tadaharu Uehara.

Characteristics of wines made from the Koshu grape are typically a pale, straw colour and a soft, fruity bouquet with overtones of citrus and peach. Its ancestry, according to The Winegang website, includes the Davide hybrid, which is believed to have come via China, travelling the Silk Road from Georgia across Asia a thousand years ago.

This grape comes from a long-established Japanese vinicultural center. A report written in 1869 by John Adams, Secretary to the British Legation in Yedo, describes "a quantity of vines, trained on horizontal trellis frames, which rested on poles at a height of seven or eight feet from the ground" in the region of Koshu, Yamanashi.

Referring to Koshu grapes' history the then Ambassador explained to Georgia Today in 2017: "It is definitely a very interesting discovery as it goes to show just how far back the two countries go."

Moreover, he wrote, Japan has "a very old national treasure warehouse 'Shosoin' in Nara prefecture that was built in the 8th century by the then-Emperor. Within that warehouse, we found Sasanian (an Empire of Iranians in Late Antiquity that encompassed Georgia) in ornamental jugs, plates and pots: Japan is one of the destinations of the Silk Road, that bridge between East and West and a project that Georgian government is emphasizing.

"Since Japan is recognized as a part of that, this bridge between the cultures, it is very natural for Japan to play a co-operative role to develop this strategy in modern form," he commented.

While some Central and Eastern European producers have faced difficulties in entering the Japanese market, due to lack of country and brand awareness, it helps that Japan is very much in sympathy with Georgia on a number of levels.

"Japan and Georgia are two countries looking at a geopolitical mirror. At first sight, the two countries are far apart, physically and qualitatively", wrote veteran Georgian diplomat and politician Tedo Japaridze, a few weeks ago after a visit to Japan.

"And yet we are so close! Both our countries have part of our territory effectively annexed by Russia."

He added: "But we are also becoming physically closer. As technology and economic growth are revitalizing the ancient Silk Way, Georgia and Japan emerge as bridges between mature and emerging economies. Japan is of course the third biggest economy in the world and is a global investment and technology hub that pioneered the road to the Pacific Century. Georgia on the other hand is an emerging economy that tries to imbue its location with economic significance, creating a nexus of free trade agreements and physical infrastructure that bridges Europe and Asia."

Are Japan and Georgia too far apart to be relevant to each other, he asked: "No, we are not. The distance between us is shrinking, as we are at opposite ends of a tunnel linking the Atlantic with the Pacific economies, developed and emerging economies."

He added: "Georgia is strategically located between Europe and Asia with preferential access to the Single European Market – through the Association Agreement (AA) and the Deep and Comprehensive Trade agreement (DCFTA), the CIS, and China. We have been negotiating the same kind of Trade regime with India.

"Given globally low energy prices, a competitive workforce, and increasingly sophisticated logistics infrastructure, Georgia is precisely the kind of partner Japan seeks as an export-driven global manufacturing powerhouse: this is a place where the vectors of localization and globalization intersect with each other, making Georgia a reliable partner in the localization of a qualitatively different corporate culture and a purveyor of Western digitalized standards and ideals, thus creating opportunity for anyone who can see it and exploit it."

And a toast to that, be in with a glass of Rkatsiteli or Koshu wine!

What Georgian startups can take away from Silicon Valley

GEORGIA'S FASTEST GROWING CAR REPAIR SERVICE, DESIGNING A SPACESUIT FOR HUMANKIND'S FIRST STEPS ON THE MOON AND PHUBBING ON PHUBBER – THREE GEORGIAN STARTUPS SHARE SOME OF THEIR MOST IMPORTANT TAKE-AWAYS FROM THEIR TIME IN SILICON VALLEY.

What can Georgian startups learn from Silicon Valley? The question may sound rhetorical to some, but innovation and entrepreneurship still mean drastically different things in the Bay Area's tech Mecca than in Tbilisi.

In February, a group of Georgian startups got on a flight – just weeks before the Coronavirus would turn our world upside down! – and made the transcontinental trek to San Francisco. Some went to participate in Startup Grind's annual Global Conference, while others attended a USAID-sponsored four-week acceleration program conducted by the US Market Access Center.

Investor.ge sat down with three of these homegrown startups to talk about

their companies, the challenges of finding investors in Georgia, what to expect when courting US investors and what they've brought home to share with other aspiring entrepreneurs.

The Caru platform allows car owners to effortlessly connect with service professionals whose ultimate responsibility is not merely to fix a break or pump a tire, but to oversee the entire process of car repair – from pick up through repair and return.

"We're the Uber of car repair service", says Nika Abashidze, the founder of Caru, Georgia's fastest growing car maintenance company, which in early March began its expansion abroad in Ukraine.

Caru is convinced it has the ultimate formula for car service and maintenance to become the car repairman of not only the region, but of garages as far afield as the US – Caru founder Abashidze's target market.

"The US market is attractive for a number of reasons: the market is bigger, businesses are more scalable. In Georgia, the problem is we have great ideas, but local investors are after quick returns – they want to see that the business will be self-sufficient within Georgia itself. But that's difficult: the Georgian market is small. Another thing attractive about the States is that if we can get set up there, a US investor won't ask for 50% of the company. In Georgia, investors can ask for too much, and can suck the motivation or enthusiasm out of the company by taking too big a stake in its ownership", Abashidze says.

Going by your experience in the US and speaking to investors there, what is the moment in the relationship when you can ask for a dollar?

"That moment comes when a potential investor becomes your 'cheerleader' – your supporter. When they start caring about you and your endeavor.

"To do that, you need to build trust, and that's a feat in itself. My favourite quote is 'A reputation is something you build in 20 years, and takes just five minutes to destroy.' As a startup, you must take into consideration that your goal is not to give investors a reason to say 'yes.' Your goal is not to give any reason for an investor to say 'no'. That's when you'll find support – when not giving you money is a crime."

What would you tell startups just getting on their feet?

"Two things. The first is: do you really want to? If you stop to think about what it will really involve, there is a 99.95% percent chance that you, in fact, don't want to do it.

"The second: forget fear. Making a mistake, getting beaten by a competitor – forget about it. You must think like one of the 'craziest' men on earth. Forget restrictions, and have the ability to pursue your project your way. Even if 100 experts and experienced people come to you and say 'don't do it like this', you must have the ability to follow your gut feelings."

Crazy things is just what Elven Technologies is looking to do: by aiming to be the company that designs and produces the spacesuit that will accompany humankind to Mars in either 2024, if Musk has his way, or in 2040, with NASA's more conservative estimate.

"As it stands now, we've nothing in which to send people to Mars." Elven Technologies CEO Vamekh Kherkheulidze told Investor.ge.

"The issue is this: the current spacesuits weigh up to 200 kg – that's alright on the moon, where gravity is just about one-sixth of that of earth, or in space, where there is no gravity. But Mars has about a third of earth's gravity – so that's one problem. Another is that the suit has to be able to handle a slew of additional issues, amongst which is the fact it has to be able to handle high temperatures, as well as low ones – you could feasibly have a situation in which the rays of the sun are heating suits to 100 C + on one side, while the back will be - 40 C.

"To get there, we've decided to start with a product that will be commercially viable on earth – a suit that could be used by firefighters to withstand flames, ▸▸

and something that can keep them cool as well."

What surprised you the most about Silicon Valley culture?

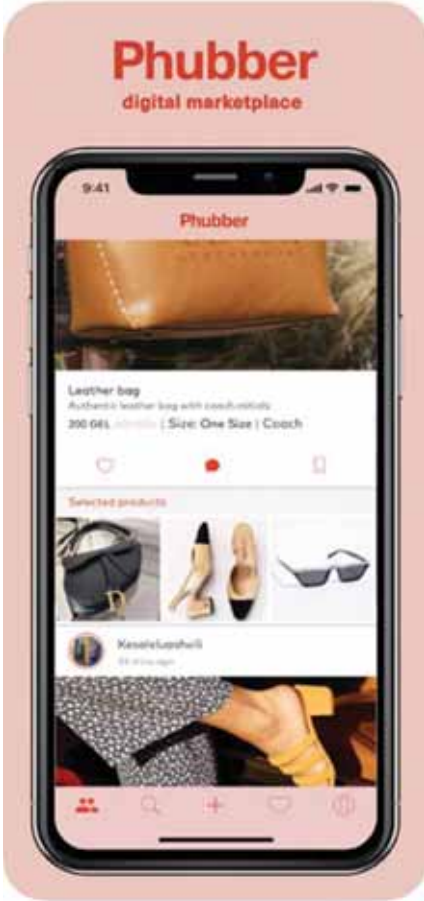
"One thing that got me was that everybody's in flip flops! Personal comfort is so important there, and is maybe even a determinant of success. If you're happy all the time, the likelihood you'll be motivated to achieve great stuff is much higher. This freedom to be comfortable, and the individual's pursuit of happiness, is so important in the US."

The most important thing you'd tell young startups?

"Always be truthful first to yourself, and then communicate that truth to others. The idea of failure is so dramatic and traumatic that you don't want to experience it. You automatically defend yourself, and try not to experience it. You lie to yourself that everything is going to be OK. But actually, there is absolutely NO WAY everything will be OK. If you're truthful, you can see the challenges you might have in the future, so you can plan accordingly. If you are truthful, then you have a higher chance of success, because you can plan truthfully. This is also important of course when it comes to investors – lying kills a relationship in the very beginning", Kherkheulidze says.

When Giorgi Chugoshvili and Anano Dolaberidze launched secondhand retail app Phubber, they felt they were not kidding themselves when they thought it would be an achievement to have just 10,000 users in Georgia.

They hit that number in the first 10 days of launching their app, which connects sellers of clothings and accessories to buyers. Now, they say they are the largest online clothing and accessory website in Georgia.



"We never thought it would reach the scale that it has", co-founder Giorgi Chugoshvili says.

Phubber capitalized on the fact that in Georgia, most people were selling and buying secondhand clothing and accessories via Facebook groups, where buyers and sellers were faced with a slew of issues when it came to shipping, verifying product authenticity and payment. The market was a mess.

Having realized the value to be found in bringing people together more effectively, Chugoshvili says that during his one-month stay in San Francisco to participate in the US Market Access programme, he was most interested in how willing and eager people were to cooperate and network.

"You never know who's sitting next to you in Silicon Valley. Be it in a Starbucks, at a traffic light. They might be dressed worse than you, but be significantly wealthier than you are. Everyone is doing something in Silicon Valley. Everyone has some interesting idea, and you never know who it is.

"What this means is that there is a culture of helping one another – it's rare that someone won't give you at least 15-20 minutes to talk, to hear you out. Sometimes this can open very unforeseen doors", Chugoshvili says.

And that's partially because of the fear of missing something big – like a unicorn:

"While we have this culture of helping our friends and family in Georgia, it is limited to close friends and acquaintances. That's not the case in Silicon Valley – people really just want to help. If you don't give people the time of day, you can miss out on big opportunities."

It seems clear what an investor might be looking for in you as a company – but what does your company look for in an investor?

"We're currently reinvesting our revenue into our development, so what we're looking for is not just money. In our case, we want to be in 10 countries within five years, which will give us a base of several million people. While we've expanded here, doing that abroad will be harder. What we want to find is a partner who could help us expand our base, not just give us money.

"Also important to us is our potential partners' willingness and excitement to continue with Phubber as it is, and not to try to change it according to their own understanding of what our product should be", Chugoshvili says.

Agro-exports to the EU: overcoming key barriers

LIMITED VOLUMES, AS WELL AS SPECIFIC BARRIERS IN TRANSPORT AND LOGISTICS, CONSTRAIN THE GROWTH OF AGRO-EXPORTS TO THE EU. AGRICULTURAL SPECIALIST HANS GUTBROD PROPOSES FOUR MEASURES THAT COULD IMPROVE EXPORT PROSPECTS.

HANS GUTBROD

Production volumes, as well as barriers in transport and logistics, play a key role in constraining agro-food exports from Georgia to the European Union, according to a recent study of the German Economic Team.

These challenges can be addressed by focusing on increasing exports through foreign direct investment and by accelerating exports of existing producers; by providing critical logistics infrastructure, including an airport cargo terminal in Kutaisi; by stimulating domestic demand for quality logistics; and by bundling interests and closing information gaps.

POTENTIAL OF AGRO-EXPORTS TO EU

In 2014, Georgia and the European Union established a Deep and Comprehensive Free Trade Area (DCFTA). Most observers hoped that Georgian exports to the European Union would rapidly increase, especially in agriculture.

However, the actual exports of agro-food products to the EU have remained small and concentrated. The limited success is all the more of concern as Georgia ▸▸

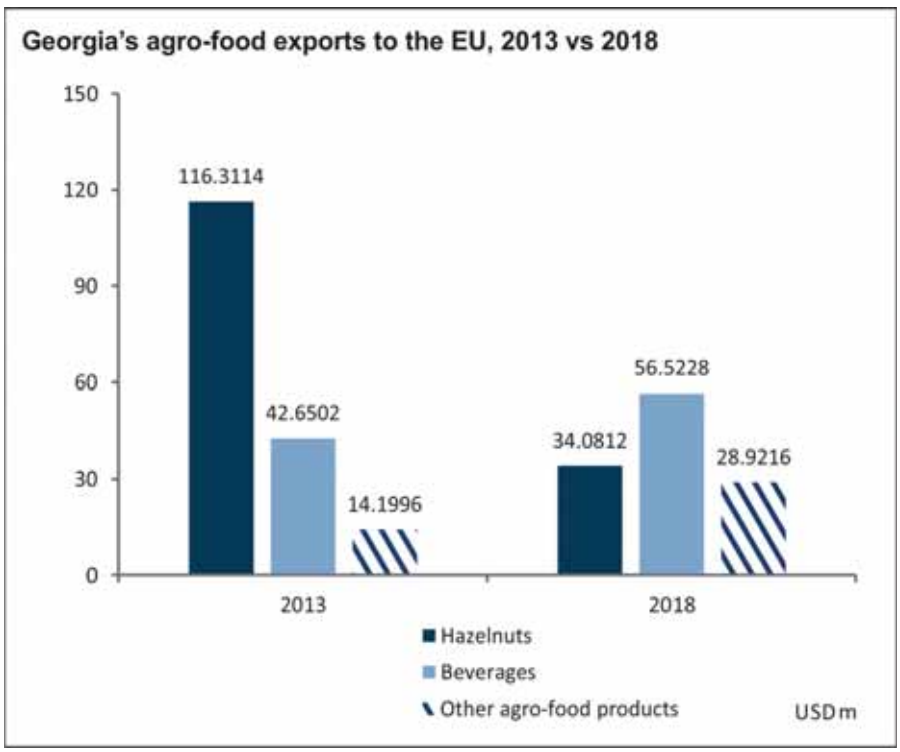
has significant potential. With a climate as diverse as California (add Svaneti glaciers, subtract the Mojave desert), Georgia could supply – and traditionally has supplied – many neighboring countries.

As one Swiss-based agronomist put it: "in the North of Georgia, it is cold; to the East, it is mostly dry; in the South, it's hot; and to the West, labor is more expensive. This puts Georgia's agriculture in a great spot, longer term." Similarly, a recent German Economic Team study listed more than a dozen products that should do well in the EU market, including fresh berries, fresh peaches, greens/herbs, and nuts.

Why, then, has there only been a lackluster expansion of exports? Limited volumes, as well as specific barriers in transport and logistics, constrain the growth of agro-exports to the EU.

GEORGIA'S AGRO-FOOD EXPORTS TO THE EU, 2013 VS 2018

Georgia exported USD 120 million of agro-food products in 2018 to the EU. Exports have, in fact, reduced since 2013. The reduction has been due to the invasion of the so-called brown marmorated stinkbug (see 'Pushing back the pest – is Georgia beating the stink bug? in the Dec-Jan 2019 issue of Investor.ge), which took a big bite out of the hazelnut harvests, which had been Georgia's biggest agricultural export category in recent years. Somewhat compensating for this loss, non-hazelnut agricultural exports grew, but from a low base. As UN Comtrade data shows, the exports of beverages grew by 33% from 2013. Other agricultural products increased by 104% but still only stand at USD 29 million for 2018. Exports now encompass a broader range of products, including nut mixtures and jams.



Source: UN Comtrade, GET estimates; agro-food exports include codes HS 01 – 24; re-exports are not included

Whichever way you spin the data, the actual export volumes remain low. Limited volumes lead to higher per unit cost for shipping. Additionally, there is no regular provision of transport. As one exporter put it, there is "no established pipeline to Europe". Consequently, essential logistics services (including advanced laboratories for doing reliable residue tests) often are not yet commercially viable. Georgian entrepreneurs can find it a struggle to get their products to EU clients.

MAIN EXPORT ROUTES TO THE EU

Currently, trucks typically take one of three routes to the EU. The majority (70%, by one estimate) takes the long road winding through Turkey. The least expensive option is the ferry from Poti to Odessa, though transits through Ukraine are not without complications. A few years ago, entire containers could go astray on that route. The safest and fastest route, according to one European logistics company, is the ferry from Georgia to Bulgaria. This ro-ro (roll-on, roll-off) ferry, however, does not have a regular schedule.

The cost for a refrigerated truck to Western Europe will typically be above EUR 4,000, with seasonal peaks of up to EUR 5,500. For some fruits and vegetables, the advantageous production cost in Georgia can be offset by high transport costs to the EU.

Transporting goods to the EU by ship is cheaper, at around EUR 2,000, but takes longer. Containers require reloading in Turkey or Greece, take 28 days to Antwerp and a few extra days to Bremen, Hamburg or beyond. Trucks, by contrast, take about seven days. A second driver, at extra cost, can cut two days from the trip. For special products, cruising to their markets can be an at-

tractive option. Otherwise, patience is not necessarily rewarded: products that can sail from Georgia could also travel e.g. from Chile, leading to fiercer price competition.

Exporting products by air is viable for a handful of products that are valuable relative to their weight, such as berries or herbs. While flight costs vary, they typically are around EUR 1-2 per kilogram. At this point in time, few airlines offer air freight, nor is there always a full cooling chain if blueberries have to catch a connecting flight.

An added challenge is that most exportable products require special packaging. As export volumes from Georgia are low, such packaging cannot be sourced domestically. Importing packing materials requires time, added cost and prepayment. One exporter says that they import heat-treated pallets. This pallet sells for EUR 17 in Italy yet costs EUR 35 by the time it arrives in the Caucasus. Used pallets are available locally, but exporters do not want to risk contamination when sending their quality products abroad. Some exporters have lost a part of their harvest to frost, while waiting for their shipment of cardboard boxes from abroad.

EXPORTING WINE, BLUEBERRIES AND HERBS

The logistics and transport play out in various ways for different products. Wine producers say that they can get their products to Western Europe on single pallets at approximately EUR 500, adding EUR 0.50 to the cost of each bottle. The main headache is organizational. Bundling pallets can help but has its hazards. Some exporters have had their consignment caught up with others' quality problems.

For blueberries, being shipped out from Tbilisi airport entails a far drive from their ideal – acidic – soils close to the Black Sea shore. There are also not yet enough cooling facilities in the Guria region. Similarly, the herbs grown in a thriving cluster by Kutaisi could be exported by plane. If exported by truck, they mostly wilt when driven beyond Bulgaria.

FOUR SUGGESTIONS TO INCREASE AGRO-EXPORTS

our measures could improve export prospects. First, paradoxical as it may sound, volume should be increased for its own sake: more chicken means more eggs. In practical terms, targeted foreign investment would accelerate export growth. The best strategy may be to identify mid-sized investors with access to EU retail shelves to assist in building that export pipeline. For this purpose, a smooth implementation for investment exceptions for foreign investors buying agricultural land remains vital. Volumes can also be increased by accelerating the export of existing producers. Continued access to inexpensive capital, as well as facilities for absorbing growth risks, would help current exporters expand faster. The use of the system of Pan-Euro-Mediterranean cumulation of origin can help to increase volumes also. Georgian producers can still keep the preferential access to the EU market if they use inputs from its FTA partners within the Pan-Euro-Med zone. For more detail, refer to the German Economic Team's Policy Briefing from February 2020 at bit.ly/Geo-PEM2020.

Providing logistics infrastructure is a key step. Current exporters would like to see more regular ferry service to Bulgaria (or Romania). Most exporters would also welcome a cargo terminal at Kutaisi airport. They believe this would accelerate exports to the EU, though there are several challenges. For example, budget airlines and destinations often do not have cargo facilities. People in the transport sector say they may invest more if there were dedicated logistics zones, in Kutaisi and other locations, close to major roads, with all utilities and building permits.

Stimulating domestic demand for logistics by implementing standards for the local market would increase readiness for export. In that light, the wider adoption of the GeoGAP standard (see GeoGAP – moving towards traceable, safer, sustainable produce in Georgia, in the Feb-Mar 2020 issue of Investor.ge) could develop the logistics value chain, including laboratories. The key in all of this is not just the geographic destination of the EU, but rather the quality of the product. Once Georgian products have EU-level quality, they also fetch premium prices in Russia and even China.

Lastly, business associations (including AmCham, and its Agribusiness committee), donors and the government could bundle interest and close information gaps. There is, as of yet, no comprehensive map of key services, including refrigeration and storage facilities. A business-to-business platform might smooth export transactions. Business associations could focus even more on addressing information gaps and facilitating exchange. Donors can help, but sustainability beyond their assistance will be essential.

The German Economic Team's full policy briefing is available at http://bit.ly/PromotingGEO-Exp2EU.

Interested in joining AmCham's agribusiness committee? Get in touch with AmCham Executive Director George Welton.

Hans Gutbrod is active in agriculture, teaches at Ilia State University and consults with the German Economic Team.

Delivery service, restaurants saying 'fork no!' to plastic

THE #SAYNOTOPLASTIC CAMPAIGN LAUNCHED BY CENN WITHIN THE WASTE MANAGEMENT PROGRAM SUPPORTED BY USAID TO RAISE AWARENESS ON SOCIAL MEDIA HAS NOW EVOLVED TO INCLUDE ONE OF THE LARGEST FOOD DELIVERY SERVICES IN GEORGIA, AS WELL AS MANY LOCAL RESTAURANTS AND CAFES. INVESTOR.GE SAT DOWN WITH THREE OF THEM TO TALK CORPORATE SOCIAL RESPONSIBILITY AND HOW ATTITUDES TO WASTE MANAGEMENT ARE CHANGING.

TAYLOR MARGVELASHVILI

Plastics take centuries to break down, which gives them ample time to make their way into the environment where they pose a threat to wildlife.

To reduce Georgia's dependence on plastic, the Caucasus Environmental NGO Network (CENN), with the support of USAID, launched the #SayNoToPlastic campaign in October 2019, in which social media users were asked to post pictures and stories describing the efforts they have made towards more sustainable living.

As local restaurants started to join in the campaign, delivery service Glovo decided to get involved as well in February 2020, and created a filter to give customers the choice to say no to plastic cutlery and packaging.

More than 1.8 million people use Glovo across the world ever year, resulting in hundreds of tons of plastic waste. The company hopes this campaign could drastically reduce that number by offering re-usable alternatives, such as wood, paper, and even plant-based packaging or cutlery.

"I believe all corporations should feel responsible about waste management," says Glovo Marketing Manager Shalva Iosava. Iosava says that the campaign has already seen enormous success.

"We only started a week ago, and already more and more partners are signing up and want to get involved in this project. As for the consumers, the numbers speak for themselves – the sales of the participating restaurants have doubled in the past week."

CENN expands on the purpose of the campaign: "The #SayNoToPlastic campaign is aimed at companies just as much as individuals. If companies and organizations can establish sustainable practices and give their customers an option to choose environmentally friendly products, the results will be much bigger and systematic. Often, as consumers, we are faced with the issue of not having other options and this is an excellent example of how businesses can offer that choice and encourage positive change in behavior."

One restaurant that joined the campaign is Kiwi Vegan Cafe, which was the first vegan restaurant in Tbilisi when it was founded in 2014.

Co-founder and director Soroush Negahdari discusses how public opinion surrounding the issue of plastic waste has changed over the past five years.

"From the beginning, we've had this vision," says Negahdari. "We have paper containers and bags, we didn't have disposable cutlery, and we saw that not everybody was happy about it. People were complaining or asking us to explain why we made this choice. But with the recent campaign, people have been very understanding, seeing that we're ultimately trying to prevent polluting the environment."

However, he admits that the cafe can only do so much. "The scale that these companies work at is much bigger than what we do, and the effect they have is much bigger. They have better tools, and they have a larger impact."

Negahdari says that there are still several barriers to overcome before we will see a broader switch to sustainable packaging.

"One issue is comfort," he explains. "When people are used to having something, any kind of change is a shock or a little bit uncomfortable. You need to raise awareness, to let people know how important it is, how huge the impact is of this tiny thing that makes their life a little bit more comfortable. This is the most important part, because people need to be ready to participate and cooperate."

Money is another barrier: "Supply and demand is not balanced. There should be good options available, including with animal rights and vegan food. If you don't give them a good, healthy meal that is tasty and affordable, you cannot ask them to switch without any interesting offer. We try to make that available and possible, with both the food and the packaging. But the more people and companies join these kinds of campaigns, the more production and the cheaper the prices will be. That's how it works."

Negahdari believes that in environmental activism, time is of the essence. "With all of these issues, they're going to get better, whether we like it or not, because they're not sustainable. It's about how fast we get it done to prevent further damage to the environment."

Many restaurants that are not directly involved in the #SayNoToPlasticCampaign are still serious about reducing plastic waste.

Ana Tikaradze, founder of vegan food cafe Namu, is taking recycling to the next level.

"Waste management is even a hobby for me," says Tikaradze. "I try to reuse most things. I use coconut oil jars that I have lying around anyway for soups. I use glass bottles with stickers on them, asking clients to return them. I use cotton for bags, and I'm talking with experts in the UK to bring in eco-friendly packaging." The packaging alternatives she is considering are made from decomposable, plant-based materials.

Tikaradze also runs a blog on her website namu.ge, where she teaches people about composting and the three 'Rs' – reduce, reuse, recycle.

But it's not just vegan and raw food cafes that are participating. Big chain restaurants are also taking on their share of the responsibility.

Giorgi Manjavidze, founder of fast food chain Manjistan, which has recently joined the Glovo campaign, says he is happy to do what he can.

"It's an overstatement to say we're saving the world," says Manjavidze. "But I think that these small steps, if we take enough of them, will at least do something."

"I remember when I was a kid, no one thought about these issues. Nowadays - I have two kids, and they participate, they say, 'We can't throw that out, we have to recycle it.' And my generation is starting to think about it as well."

Manjavidze believes that raising awareness about the issue is an important step towards changing the future. "We need to start educating people - in schools, in kindergartens, so that the new generation starts not only to think about these issues, but to act."

How Georgia can solve its plastic bottle waste problem

DISCUSSIONS CONCERNING THE LAST EXTENDED PRODUCER RESPONSIBILITY BY-LAW ON PACKAGING WASTE, INCLUDING PLASTIC BOTTLES, ARE ONGOING, HOWEVER THE GENERAL FRAMEWORK OF HOW THE SYSTEM WILL WORK HAS BEEN ESTABLISHED. IT REMAINS TO BE SEEN TO WHAT EXTENT THE MANAGEMENT OF PLASTIC BOTTLE WASTE WILL BE HANDLED BY MUNICIPALITIES IN ADDITION TO PRODUCER RESPONSIBILITY ORGANIZATIONS

Georgia's National Waste Management Strategy for 2016-2030 calls for 80% of the country's plastic waste to be recycled by 2030.

One of the most significant attempts to get the country on track to hit this target is the last remaining EPR (extended producer responsibility) bylaw on packaging waste, which has yet to be put forward to the government for approval, despite expectations it would be tabled in early January 2020.

EPR is a policy approach of waste management successfully implemented throughout Europe, per which producers and importers of products take on the responsibility of properly collecting and treating the waste they produce.

There are several models that have been implemented to recuperate plastic waste packaging across the world, but stakeholders in Georgia seem to have settled on a deposit return scheme (DRS).

When Lithuania implemented such a system for plastic bottle collection back in 2016, within two years it had a 92% recycling rate.

For Georgia, that rate has been set at 70% for the deposit system.

The approach is private sector-led, and would involve the formation of producer responsibility organizations (PROs) by local stakeholders and importers, who would be responsible for the creation of a plastic bottle deposit system that would cover the entire country.

Elsewhere, this generally results in the creation of one large PRO that serves

the entire country, but any stakeholders that account for more than 10% of the waste produced will be able to form a PRO after receiving authorization from the Ministry of Environment.

The scheme in broad strokes: 20 tetri would be added to the price of goods packaged in plastic bottles on the retail end, which would then be redeemable via bottle deposit machines located at larger supermarkets and potentially other key locations as well. Curbside collection bins will also be made available for the disposal of plastic bottles.

PROs will be responsible for investing in the creation of the system, installing and servicing it and facilitating the return of the deposit to those who bring bottles back via the host locations.

The collected waste will then either be sold on to local recyclers or exported abroad, and any profit made from this transaction will have to be redirected into the expansion and maintenance of the system.

There have been several hiccups along the way that have postponed the implementation of the scheme, and still several roadblocks remain, however consensus slowly seems to be forming.

20 TETRI

There are several issues associated with the bottle deposit price.

One is the deposit amount itself – some producers are concerned a price bump could hurt sales.

Another issue is pointed out by Givi Kalandadze – the head of a group of producers that have banned together to look into the issues surrounding the implementation of the EPR: that of value-added tax being calculated by including the 20 tetri deposit fee in the total price of the product.

"We believe that VAT should not apply to the 20 tetri", says Kalandadze, "as producers say that this will make it problematic for them to establish prices for their products."

While in many countries with similar schemes VAT is calculated with the deposit fee, Deputy Head of Department of Waste Management at the Ministry of Environment Irma Gurguliani says the issue is still under discussion with the Ministry of Finance but that "we are trying our best for the VAT not to be applied to the deposit fee."

It's not all bad news though for producers, Gurguliani says: "When it comes to this 20 tetri fee, a number of bottles will still remain outside the system and will not be returned for various reasons. This money will then remain within the system of the PROs, and it can be put towards bolstering and strengthening the system."

Gurguliani touched on the importance of finding a sweet spot when it comes to establishing a deposit fee, noting that in Georgia, 20 tetri is not an amount of money that a number of people can ignore.

"If it were 10 tetri, or five, then maybe it wouldn't work so well. But in this case, it is definitely an incentive to return the bottles.

What works about this system is that even if I don't do it, then my neighbor will. People will go out and look in bins, they will even retrieve them from nature", Gurguliani says.

PUBLIC-PRIVATE

One of the last issues remaining before the EPR by-law is put before the government for approval is that of the involvement of municipalities, given that regardless of the efficacy of the implementation of the EPR policy, some waste will still end up in municipal landfills.

"From the beginning, there seems to have been some overlap and confusion about where the responsibilities of PROs ends, and where that of municipalities begins", Kalandadze says.

"Handling post-consumer waste is clearly a producer's responsibility, and not that of public entities. Public money should not be spent on fulfilling what is a producer's responsibility, especially when the private sector will be able to deal with this issue. The involvement of the public sector would also double the work of PROs", Kalandadze notes.

Head of the Georgian Waste Management Association Giorgi Guliashvili says that international experience shows that such waste collection schemes work best when driven by the private sector.

"This is the classic private-public sector problem – if there is no monetary or business incentive to do your job better, it is likely to be less efficient and organized", Guliashvili says.

Another issue, Guliashvili notes, is that if the capital's plastic bottle waste is managed by municipalities, it would likely mean that regional cities would be responsible for organizing plastic bottle collection as well, since PROs would be rendered less effective given the reduced resources they would receive from collecting raw material to sell to recyclers, which otherwise would have been put to work in strengthening collection efforts.

"Cities already had the obligation to begin separate collection – this obligation existed even before the EPRs were formulated. However, this task has proved difficult for the public sector. The EPR will resolve this problem the best, because it is business oriented", Guliashvili states.

Head of the Environmental Department of Tbilisi City Hall Giga Gigoshvili says internal discussions concerning the municipality's participation in the management of plastic bottle waste are ongoing.

Banking regulations revisited – NBG eases lending requirements

New lending regulations going into effect April 15, 2020 aim to create some wiggle room for banks to expand their lending activities and provide relief for households looking for mortgages.

The new regulations follow on the tail of changes that came into force in January 2019, which set stringent limits on the ability of banks to make loans in dollars, on PTI (payment-to-income) ratios for loans and on effective interest rates.

These restrictions have brought some undoubted benefits for consumers. One big benefit is that by forcing people to take local currency debt, the national bank regulations have protected consumers from the recent GEL devaluation. This has turned out to be more important than even the National Bank could have expected, since (at time of printing) dollarised loans have seen their local currency repayments go up by 20% since January 2019. Earlier this month, that increase briefly hit 30%.

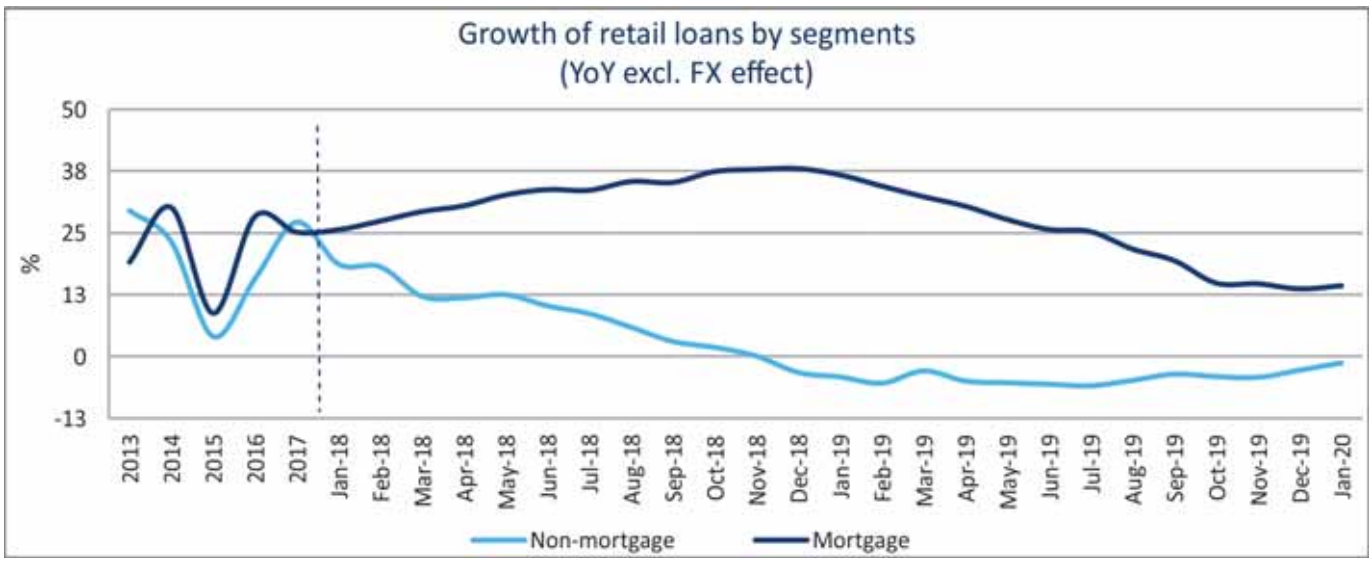
Nonetheless, recent changes mean that banks will be able to grant loans with substantially higher PTIs and flexibility.

The other important changes slated for mid-April include:

- Financial institutions will have increased leeway in determining a borrower's complete income
- Mortgage maturity limits will increase from 15 to 20 years
- Corporate governance requirements will be introduced for commercial banks and microfinance institutions.

The National Bank of Georgia introduced the 2019 regulations in a measure to counter foreign currency over-indebtedness in the country (the household debt to GDP ratio had risen from 10.6% in 2011 Q1 to 36% in 2018 Q4), to prevent what it said were predatory lending practices at the time and to encourage the process of de-dollarization.

As predicted, the first four months of



Payment to income (PTI) ratio

Updated

Monthly salary	Foreign currency	Lari (or FX if income in same currency)
<1,000	20%	25%
>=1,000	30%	50%

Previous

Monthly salary	Unhedged borrower	Hedged borrower
<1,000	20% / 25%	25% / 35%
>=1,000 - 2,000<		35% / 45%
>=2,000 - 4,000<	25% / 30%	45% / 55%
>=4,000	30% / 35%	50% / 60%

2019 saw a cool down, with year-on-year growth across retail, SME and corporate loans shrinking, demonstrated in the graph below.

Microfinance organizations also felt the squeeze, and experienced net losses of 79 million GEL in H1 of 2019.

Though lending across most portfolios picked up again in April and more so in the third quarter of 2019, calls for lighter regulation have continued to resound in the Georgian banking, construction, real estate development and business communities, as growth has been slow.

Prime Minister Giorgi Gakharia himself urged Finance Minister Ivane Matchavariani in November 2019 to consider decreasing the GEL ceiling from 200,000 to 100,000.

Head economist of TBC Bank Otar Nadaraia says that overall, the lending restrictions have not ended in drastic downturns for banks, and lending has picked up because of competition and banks' willingness to lend at lower margins, however:

"The situation is still not great for the market. The [earlier] regulations created a large informal mortgage market, in which people can now get quasi-loans from developers, which is problematic because this market is nowhere near as regulated as the banking sector. This further jeopardizes consumers, and pushes them into loans that may be more expensive than what they could have gotten at banks before.

Nadaraia suggests a middle-ground be sought between the ease of the pre-2019 regulations and the stringency of what has followed since.

"A rational approach would be something in the middle: multi-currency lending. You could mandate half the loan be denominated in GEL. From a risk management perspective, this is effective, and it would allow the banking sector to reclaim some of the business that has gone into the informal market."

Time will tell how much lending availability will be created for borrowers by this round of easing of lending regulations, but one positive that banks have already identified is less procedural headaches.

TBC CEO Vakhtang Butskhrikidze says the new regulations will ease the burden on operations: "The important thing is that we are moving away from a rules-based approach towards a principles-based approach. For example, when it comes to the self-employed, we ourselves will determine the formulation of how to extend a loan. Of course, we will agree on these principles with the National Bank."

The Georgia wide web – a snapshot of the country's internet infrastructure

IN THE PAST TWO DECADES, GEORGIA HAS GONE FROM A COUNTRY WHERE THE MAJORITY OF THE POPULATION HAS NO INTERNET ACCESS TO A REGIONAL INTERNET HUB. READ ON TO FIND OUT HOW THE LOCAL INDUSTRY HAS EVOLVED, WHAT CHALLENGES IT FACES IN ITS EXPANSION AND WHERE IT'S HEADED.

ANDREW WESTON BRAUN

For a country that got its first DSL connection in 2002 and only had 27% of the population online in 2010, Georgia has come a very long way.

As of 2020, Georgia is ahead of most of the EU in terms of fiber optic cable penetration – currently the most common form of connection in the country – and at least 70% of Georgians were using the internet every day as of November 2019 (according to the Caucasus Research Resource Center's Caucasus Barometer 2019 Georgia).

Overall, most residential users in Georgia have access to a good internet connection, though quality and stability may vary somewhat by region and neighborhood. The most obvious limitation is that it's not generally possible to get more than 100 megabits per second (Mbps)—a relatively low speed limit for a modern fiber network, but quite good for the Caucasus region. That's not an issue for residential users, though, who usually don't need much more than 10-20 megabits per second for typical streaming and browsing.

A large-scale, data-heavy enterprise with international traffic might need 1 or even 10 gigabits per second (Gbps), however, and that can be a bit more of a challenge to find in Georgia.

The country's geographical location and modern infrastructure make it an attractive place for routing and storing data, though, and there are efforts under way to enhance its potential as a regional internet hub. Fiber penetration is increasing, the regions are steadily getting more connected, a new international cable

is in planning stages, and regulation is working to keep the markets open and innovative.

What does Georgia's internet infrastructure look like?

Georgia's primary fiber links run through the Black Sea to Poti, where high-capacity cables connect the country to Bulgaria via the Georgian-owned Caucasus Cable System owned and operated by Caucasus Online, and Russia via the Russian/Danish/Georgian-owned Georgia-Russia Optical Fibre Submarine Cable System. A plan for a new cable between Romania and Georgia was put forward in 2018 by Diamond Link Global in partnership with Subcom, but no major updates have emerged since then.

From the Black Sea, the fiber connection runs along the Georgian Railway line to Tbilisi, forming the country's primary internet backbone. Extensions from this cable also provide connections to Azerbaijan and Armenia, both of which depend heavily on this connection. The network ultimately reaches as far as the Iran-Pakistan border.

The reach of the Caucasus Cable System and its direct route to Europe, particularly its avoidance of Russia and active conflict zones, already make Georgia a geopolitically significant regional connection hub.

A Caucasus Online employee told Investor.ge this is seen as an opportunity: "Georgia has a geographically strategic hub location, a key position in the Caucasus region, and if we talk about Georgia as a gateway between Europe and Asia, this is true also for digital infrastructure."

Of course, the cable also gives Georgian users fast, international internet access—If they've got a line to the backbone.

Getting optical fiber (currently the gold standard for high-speed broadband connections) to dense urban areas like Tbilisi and Batumi isn't very difficult, as connection distances are relatively short and the number of subscribers makes the investment profitable. Even so, cities aren't 100% covered by fiber to the home/premises (FTTH/FTTP), as upgrading the copper-based DSL (an older technology with lower bandwidth capacity than fiber) networks in some older locations is expensive and time-consuming—an issue shared by many other European cities, where internet speeds also tend to drop as you approach the older areas.

Nonetheless, as of December 2019, over 82% of all internet connections in Georgia were fiber, up from 76% in December 2018, 55% in 2015, and 43% in 2012. The total number of connections more than doubled from 426,293 in December 2012 to 915,622 in December 2019, but fiber actually grew from 184,109 connections to 758,680—an increase of 574,571.

That's because DSL connections have been steadily shrinking in number since around 2014, with telecom companies gradually upgrading them to fiber. As of December 2019, there were still 41,345 DSL connections in Georgia, with a significant share of those located in Tbilisi, Batumi, and Kutaisi—likely in the abovementioned older areas. That number is steadily shrinking, however, with DSL losing at least 1,000 connections a month while fiber gains at least 10,000.

Fixed wireless is currently the second-most common connection technology in Georgia, with 94,846 connections recorded in December of 2019—about 10% of the total. Unlike all the other technologies mentioned, the absolute ▸▸

Figure 1. Breakdown of internet connections by type over last 10 years in Georgia

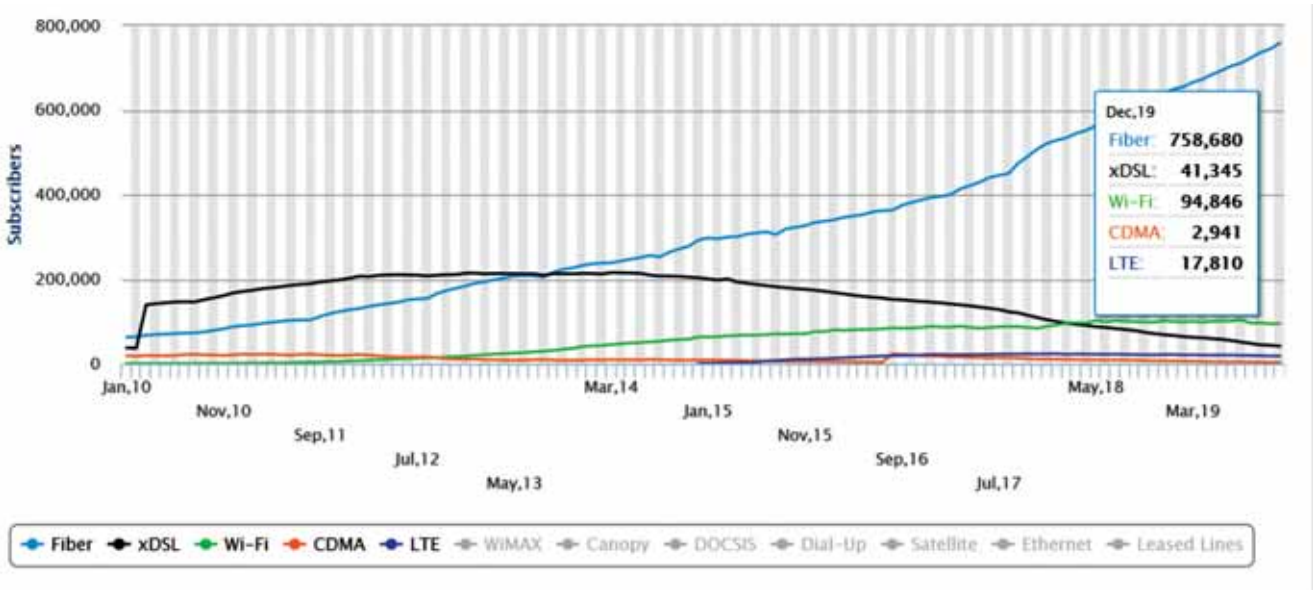


Figure 2. Number of internet subscribers over last 10 years in Georgia

number of fixed wireless connections has stayed fairly stable since 2017, hovering between roughly 85,000 and 100,000. This relative equilibrium may be due to the expansion of both the fixed wireless and fiber networks, with the growth in new wireless masts offsetting the expansion of fiber into some areas.

One piece of infrastructure Georgia is currently missing is an Internet Exchange Point, or an IXP, which is a physical location where multiple networks (ISPs, CDNs, et cetera) converge in order to route information between them directly rather than depending on private connections or requiring data to take a circuitous route to some farther away point where the data can be exchanged. This has an impact on speed, and, since the data may have to travel through networks that charge fees for using their bandwidth, it affects prices and smaller ISPs' ability to compete as well.

NewTelco Georgia has been advocating for carriers to cooperate and set up an IXP in Georgia since 2016, managing director George Gotoshia told Investor.ge, and while it's not on the immediate horizon, it's an important part of modern internet infrastructure and will likely be created at some point in the future.

Armenia set one up in 2010, they're ubiquitous in Europe, and other countries in the region like Kyrgyzstan, Kazakhstan, Uzbekistan, Turkey, and Iran all have at least one. While an IXP won't necessarily enable noticeably faster internet, it will certainly help save on bandwidth and fees.

Rates of infrastructure-sharing are also fairly low. You'll generally see three cell towers clustered together, Gotoshia says, as the mobile networks aren't just putting up one and sharing it, which is common practice in Europe. Fixed broadband is in a similar situation, with telecoms generally having to build out infrastructure before offering service in an area, rather than being able to compete directly by paying a fee to the cable owner.

INTERNET PENETRATION RATES

How many people is the internet actually reaching in Georgia?

If you look at the more densely-populated areas, penetration rates seem to equal of any country with robust telecom infrastructure. Tbilisi, Batumi, Rustavi, Borjomi, and even Stepantsminda technically have more connections than households—likely because businesses are being counted as connections, but not households. If you live in a city, chances are very good that you have access to fixed broadband.

If you live in a more rural area, though, there's a chance you won't have access to a connection at all. The map of Georgia showing internet connections vs households is a fairly uniform light green when you look at the regions, indicating penetration rates in the 40-70% range. Guria (33%), Racha-Lechkhumi (15%), and Kvemo-Svaneti (15%) are the exceptions here.

If you break the regions down into districts, though, it becomes easier to see that certain areas have very little connectivity, with some having just 5-15% of their households connected. These are typically quite remote, mountainous places with populations that, in many cases, are getting smaller—a trend partially attributable to the lack of internet access.

This is where projects like Tusheti Community Internet Network can be especially effective, as shown by the success of a fixed wireless project covering

76 villages in the Khevsureti/Pshavi/Gudamakari ravines, built with the support of the Internet Society (ISOC) in Georgia and the Small and Medium Telecom Operators Association of Georgia (TOA). Both Tusheti and the Mtskheta-Mtianeti districts connected fairly significant segments of the population for relatively low cost, but the fact remains that these and any future initiatives can really only come from non-profit and community organizations, as the cost of entry is high and subscriptions from small, spread-out populations are unlikely to even cover infrastructure costs for a commercial provider.

Covering Georgia with fixed wireless may not be the only solution, though. Satellite internet is currently used around the world (though minimally in Georgia), but its low speeds, high latency, and instability make it a last resort for any. Recent developments in low-Earth-orbit satellite constellations like Starlink and OneWeb, however, could potentially provide even the most remote Georgian settlement with low-latency, gigabit-speed internet by the time the decade is out. Silknet has already signed a distribution agreement with OneWeb, making them responsible for providing the base stations and other equipment required to use the satellite internet. If OneWeb sticks to its plan to start service in 2021, it will be a very clear alternative to the arduous process of laying fiber and building mast networks.

Another innovation on the horizon is the coming 5G revolution, which, a Caucasus Online employee believes, "will significantly change existing business models not only for telco companies, but also for everyone. Telco companies will need to create ecosystems with different participants to provide 5G service," they say, and "Caucasus Online will be one of the main parts of this ecosystem." 5G is a short-range technology best-suited to urban environments, where its up-to-2 Gbps speeds may end up actually being faster than the hardwired fiber networks.

Future developments and opportunities

Yes, developing Georgia as a regional hub for internet traffic will take some infrastructure upgrades and changes on a few different levels, but it certainly seems set up for success: it has higher rates of fiber use than most of Europe, it's in a geographically advantageous area between Europe and Asia, and the digital economy is catching up with the infrastructure.

Whether fixed wireless, low-earth-orbit satellites, or 5G networks, the Georgian telecom sphere seems eager to make the most of the latest tech—and, purely from a numbers standpoint, their track record seems to back up that spirit. Georgia went from having very little internet connectivity to having most of the country connected to modern networks in less than two decades, and there's now a chance to reinvest some of the residual energy from that catch-up growth into expanding Georgia's networks both domestically and internationally.

Regardless of anything else, though, Georgia's journey from 130,000 DSL and 64,000 fiber connections in 2010 to 712,000 fiber and 37,000 DSL connections in 2019 is an impressive achievement, and one which may lead to Georgia becoming a significant digital hub in the future.

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ENVIRONMENTAL BUSINESS COMMITTEE MEETING

Georgia with participation of Georgian Waste Management Association (GWMA) and in the scope of USAID WMTR II Program (@WMTRProgram), organized a meeting of the Environment committee on January 29 which was hosted by the ProCredit Bank Georgia.

AMCHAM BUSINESS ROUNDTABLE WITH NEW BUSINESS OMBUDSMAN

AmCham Georgia hosted a business roundtable meeting on February 4 at the Sheraton Grand Tbilisi Metechi Palace with the new Business Ombudsman of Georgia Mr. Mikheil Daushvili. He presented on the current challenges faced by the private sector and introduced the plans of his office for the future. The presentation was followed by a dynamic Q&A session between AmCham members and Mr. Daushvili.

AMCHAM HOSTS BUSINESS ROUNDTABLE WITH MARK MCCORD

AmCham hosted a presentation by Mr. Mark McCord on February 18 on the USAID Economic Security Program's grant and other support mechanisms for private companies, which was then followed by a Q&A session.

GWMA HOLDS WASTE EXPO 2020 FOR AMCHAM MEMBERS

The Georgian Waste Management Association (GWMA) organized Waste Expo 2020 for AmCham members on February 27. The exhibition, which featured 14 waste recycling and collection companies in Georgia was opened by AmCham President Mr. Michael Cowgill. Welcoming speeches were made by Solomon Pavliashvili, Deputy Minister of Environment Protection and Agriculture of Georgia, Nana Janashia, Executive Director of CENN, and Giorgi Guliashvili, President of the Georgian Waste Management Association. The event was moderated by George Walton, Executive Director of the American Chamber of Commerce.

AMCHAM TAKES BUSINESS ONLINE

The American Chamber of Commerce has been engaging with its members intensively in this time of difficulty with the help of online conferencing.

This has involved multiple correspondences on new laws regulating the state of emergency, exceptions and monitoring. It has also included extensive engagement with AmCham committees. In particular, the committees that cover tourism, construction, education/training, commercial law/tax and agribusiness have met regularly to share experience and to provide input that has been forwarded to the government authorities working on the crisis response and support for the economy and business sector.

AmCham Georgia has also maintained, albeit digitally, its tradition of cocktail hours, and has organized roundtable discussions, such as with the Georgia Red Cross and Tbilisi City Hall Deputy Mayor Ilia Eloshvili, both of whom spoke to AmCham members about what they are doing to manage the coronavirus crisis.

NEW MEMBERS

Forbes Georgia Magazine / Media Partners JSC
Corp A

Forbes Georgia is a business magazine - an official licensee of Forbes in Georgia. Published on a monthly basis, it features original articles on finance, industry, investing, and marketing topics. Forbes also reports on related subjects such as technology, communications, science, and law. The magazine is already well known for its lists and rankings, including Georgia's 100 Most Profitable Companies, Georgia's 100 Largest Companies, the Georgian Retail Index and others.

www.forbes.ge

KFC/Iberia Food Company
Corp A

KFC Corporation, based in Louisville, Kentucky, is one of the few brands that can boast a rich, decades-long history of success and innovation. It all started with one cook who created a soon-to-be world-famous recipe more than 70 years ago, a list of secret herbs and spices scratched out on the back of the door to his kitchen. That cook was Colonel Harland Sanders, of course, and now KFC is the world's most popular chicken restaurant chain, specializing in that same Original Recipe® along with Extra Crispy™ chicken. We're at over 23,000 KFC outlets and more than 140 countries and territories around the world. Ltd Iberia Food Company manages 6 restaurants in Georgia, Tbilisi since December 2014.

www.ifc.ge

Bene Exclusive LLC
Corp B

Bene Exclusive is a prime and business class transportation service company, covering transportation of 4/5 star hotel guests', Government delegations and officials, business events and corporate customers.

Since November 2019, Bene Exclusive operates with Taxi service in Tbilisi International Airport, with 90% of electric vehicles. Bene Exclusive is also actively and successfully involved in organizing business events, such as: Networking Georgia, Mercedes-Benz Business Week Georgia, Mercedes-Benz Summer Event.

www.bene-exclusive.ge

Gergili LLC
Corp B

Gergili LLC is a Health, Safety, Environment (HSE) consulting company based in Tbilisi, Georgia. The company was founded in 2002 in Tbilisi, Georgia. The director of the company is Mr. Revaz Enukidze. Since its establishment the company provides consulting services in the areas of Environmental Assessment, Natural Resources Management, Water Supply, Waste Management, Urban Environment Improvement, Social Development etc.

www.gergili.ge

Golden Tulip Design Tbilisi Hotel
Corp B

The 4-star hotel Golden Tulip Design Tbilisi, offers you a playful and original experience in the historical part of Tbilisi, Georgia. Golden Tulip is operating under Louvre Hotels Group with over 1,175 hotels in 51 countries. The Hotel comprises 77 trendy rooms and suites, gourmet 80-seat all-day dining restaurant with a panoramic view over the city, a trendy 100 seat Roof top terrace bar and a 50 seat lobby bar, small health club and flexible meeting rooms for up to 60 delegates. Be inspired by its extraordinary location, contemporary design, authentic cuisine and amazing views over the Mtkvari river combines with dedicated services. The Golden Tulip Design Tbilisi will open its doors in second half of 2020.

www.goldentulip.com

Imperial Tobacco Production Management
Corp B

Imperial Brands is a dynamic FMCG business, today represented with traditional tobacco products, as well as with new generation products (smokeless tobacco, e-cigarettes, heated tobacco products, etc.).

The company is the world market leader for fine cut tobacco, cigars, rolling paper, as well as the fourth largest player in the cigarette market. The product portfolio of the company includes more than 30 strong international brands, the most famous among them are Davidoff, West, Gauloises, JPS, Cohiba, Montecristo, Golden Virginia, Rizla, Drum, Bastos and others.

NEW MEMBERS

PMO Business Consulting
Copr B

PMO is a management consulting company that provides expert knowledge and a various of services to organizations across industries. The company's services are distinguished by superb quality, true innovative, and a client specific approach. PMO offers consultation to organizations to assist them in becoming more efficient and to meet their growth and expansion goals, assists their clients in market research and analysis, organizational improvement, market entry and expansion, human resource management marketing and products development, and in financial and risk management.

www.pmo-bc.com

Prime Concrete LLC
Corp B

Prime Concrete is the leading Contracting and Materials Company, operating throughout Georgia, specializing in Civil Engineering, Infrastructure and Port Construction, Aggregate and Concrete production, production of reinforced concrete elements, and paved concrete materials.

As EPC contractors, in coordination with leading international companies, Prime Concrete has acquired exceptional competence and invaluable expertise in the fields of port infrastructure, water infrastructure, road infrastructure, as well as construction of different civil and industrial infrastructure.

www.primeconcrete.ge

SEA LLC
Copr B

SEA LLC operates under brand name World Sightseeing Tour (WST). WST was established in 2013 and is the leading Destination Management Company in Caucasus region. The company brings new European standards to the travel industry and is the expert in organizing general and special interest tours all around Georgia.

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