

GEORGIA: THE CRADLE OF WINE,
KHACHAPURI – AND OIL-EATING
BACTERIA?

ANTI-DUMPING LAW –
DISCRIMINATION AGAINST
IMPORTS, OR A LIFELINE FOR
LOCAL PRODUCTION?

GEORGIAN WATERS
FLOWING TOWARDS NEW
EXPORT MARKETS

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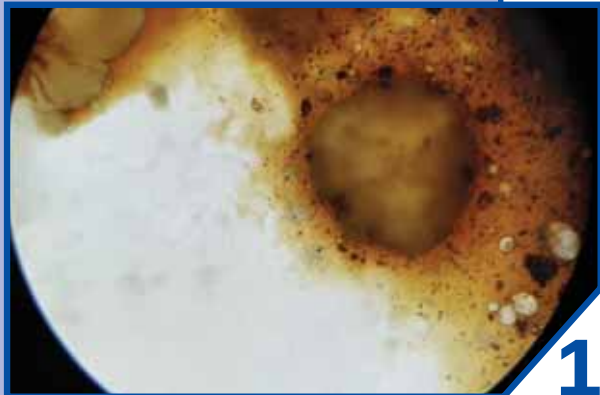
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CONTENT



12



18



24



32

6 Investor news

12 Dreams of Batumi as a European theatre capital, reflections on the stage in the times of COVID

16 How USAID is helping Georgia secure the elections from cyberattacks, disinformation and COVID-19

18 Georgia: cradle of wine, khachapuri and – oil-eating bacteria?

22 Georgian pharmaceuticals seek entry to markets further afield with introduction of GMP standards

24 Pardon our dust – work in progress to bring Georgian roads up to EU snuff, reduce accidents

28 Simetria Park – harmony inside and out, and a new concept for the Tbilisi real estate market

30 The mortgage subsidies – an effective tool during the corona slump?

32 Anti-dumping law – discrimination against imports, or a lifeline for local production?

34 Georgian waters flowing towards new export markets

38 TBC Capital: checking in on the recovery's macroeconomic vital signs

40 New FX market reforms, Bloomberg trading platform seek to bolster lari liquidity

42 BLC: New law on investment funds – a breath of hope for struggling financial markets



.....44



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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.



GEORGIA NEGOTIATING WITH SWISS TRAIN MANUFACTURING COMPANY TO OPEN FACTORY IN COUNTRY

Georgia has opened negotiations with Swiss train manufacturing company Stadler Rail to open a factory in the country which will produce subway and railway trains, the Ministry of Economy of Georgia announced in August. Stadler has supplied Georgia with double-decker trains which serve passengers on the high-speed Tbilisi-Batumi line.

CENTRAL BANK LOWERS REFINANCING RATE TO 8%

The National Bank of Georgia (NBG) cut the refinancing rate by 0.25 percentage points to 8% in early August on the heels of lower inflation, which reached 5.7% in July. According to the revised forecast of the NBG, the economy is expected to shrink by 5% in 2020, exerting downward pressure on the inflation forecast.

2,700 FOREIGNERS APPLY FOR REMOTELY FROM GEORGIA TRAVEL AND WORK PROGRAM

Nearly 2,700 foreigners had applied for the 'Remotely from Georgia' program

by early August, which allows freelancers and distance workers to travel to Georgia and work from the country for at least six months. Only travelers whose passports allow them to stay in Georgia for 360 days and who earn at least 2,000 euros a month will be considered eligible for the program. Upon arrival, they must go into 8-day quarantine at their own expense.

FOREIGNERS ENTERING GEORGIA MUST PRESENT PCR TEST RESULTS, QUARANTINE TIME REDUCED TO EIGHT DAYS

Foreigners entering Georgia as of September 15 must present PCR test results for coronavirus carried out within the preceding 72 hours prior to arrival in the country. As of the same date, arrivals only have to spend eight days in quarantine instead of the former 12.

GEORGIA TO RECEIVE \$150 MILLION EUROS IN MACRO-FINANCIAL ASSISTANCE FROM EU TO LIMIT ECONOMIC FALLOUT OF CORONAVIRUS

The European Commission, on behalf of the EU, has agreed on a memoranda of understanding on macro-financial assistance (MFA) programs with eight partners, including Georgia.



The agreements are part of a €3 billion MFA package for 10 enlargement and neighborhood partners, aimed to help them limit the economic fallout of the coronavirus pandemic, announces the Delegation of the EU to Georgia. The eight countries are Albania, Georgia, Jordan, Kosovo, Moldova, Montenegro, North Macedonia, and Ukraine. For Georgia, the €150 million from the MFA program is contingent upon efforts to strengthen public finance management, improving governance, sectoral reforms, and labour market policies.

GERMANY PLEDGES 310 MILLION EUROS IN CORONAVIRUS ASSISTANCE

Germany has pledged €310 million in aid to help the country fight COVID-19 as well as to implement various regional projects. More specifically, €180 million will be given for anti-COVID-19 measures while the remaining €130 million will go towards regional infrastructure projects. Today, Georgia is one of the largest recipients of German financial support per capita.

PRIVATIZATION SALES IN FIRST HALF OF YEAR GENERATE NEARLY \$20 MILLION

More than 58 million GEL (\$18.80 million) was transferred to the state budget by the sale of state property in the first six months of 2020, the National Agency for State Property reported in mid-August.

GEORGIAN EXTERNAL TRADE DOWN 17.6% IN JANUARY-JULY 2020

Georgia's external trade turnover amounted to \$6.03 billion in January-July 2020, which is a decrease of 17.6 per cent compared to the same period of last year, the National Statistics Of-

fice of Georgia (Geostat) reports. The value of exports decreased by 16.8%, reaching \$1.75 billion, while imports also decreased 17.9% and amounted to \$4.27 billion. The trade deficit equaled \$2.51 billion – 41.7% of total trade turnover. Georgia's top trading partners were Turkey (\$843 million), Russia (\$702 million), and China (\$627 million).

STANDARD & POOR'S AFFIRMS GEORGIA AT 'BB' WITH STABLE OUTLOOK

Standard & Poor's (S&P) Global Ratings has affirmed its 'BB/B' long- and short-term foreign and local currency sovereign credit ratings of Georgia with a stable outlook.

S&P reported on August 28 that "the coronavirus pandemic has pressured Georgia's economic, external, and fiscal metrics by hitting tourism, remittances, and foreign direct investment (FDI) inflows. However, 'financing secured by the authorities from international financial institutions (IFIs) will mitigate lost foreign exchange (FX) revenues, while covering Georgia's larger twin fiscal and external deficits.' It also said that Georgia's economy 'will only recover' to 2019 levels in 2022. The report also noted that 'policymakers' efforts to widen Georgia's economic base, diversify its export geography and foreign investment, and develop its infrastructure are likely to maintain strong economic growth while gradually reducing external imbalances in the medium-term.'

GEORGIA ATTRACTS \$1.31 BLN IN FDIS IN 2019, UK TOP FOREIGN INVESTOR

Foreign direct investments (FDI) in Georgia amounted to \$1.31 billion in 2019, which is a 0.3% increase compared to 2018, show the latest adjusted data of the National Statistics Office of Georgia

(Geostat). The share of the three largest investor countries in the total volume of foreign direct investments reached 41.6% in 2019. 50.4% of FDI's were in the financial sector (\$272.1 million), energy (\$261.6 million) and transport and communications (\$126.8 million). Following the UK, Turkey (13.4%), Ireland (10.2%), the United States (8%), and the Netherlands (7.7%) were the next largest foreign investors.

WORLD BANK PLEDGES 35.7 MILLION EUROS TO IMPROVE INTERNET CONNECTIVITY IN 1,000 GEORGIAN VILLAGES



1,000 villages in Georgia will receive better internet connectivity as the World Bank's Board of Executive Directors has approved €35.7 million to support the country's digital transformation. The Log-in Georgia Project aims to connect people, enterprises and institutions across rural Georgia to high-quality, affordable broadband internet and promote the use of digital services, the World Bank announced in late August. By increasing the coverage of high-speed broadband ►

- ▶ internet services in rural settlements, the project aims to promote digital financial services and e-commerce, as well as online e-government services, as well as promote remote e-learning and tele-medicine.

WB ENTERPRISE SURVEY: GEORGIA IN TOP 10 COUNTRIES IN TERMS OF LOW BRIBERY PREVALENCE

The World Bank published a new Enterprise Survey in late August in which Georgia ranked in the top 10 countries in terms of low bribery prevalence. In Georgia, bribery incidence, which is the percent of firms experiencing at least one bribe payment request, amounted to 1.3%—compare to the same indicator in 2008, when it was 9.8%. “The result achieved by Georgia in the World Bank Enterprise Surveys has made the country and me personally as the head of the tax authority proud,” said Finance Minister Ivane Matchavariani, commenting on the result Georgia attained in the ranking. In Georgia, business owners and top managers of 581 firms were interviewed for the study from March 2019 through January 2020.

PRODUCE IN GEORGIA TO BEGIN SUPPORTING SIX NEW ECONOMIC ACTIVITIES

To tackle the economic challenges caused by COVID-19, some changes have been made to the state program Produce in Georgia, which will now support six new economic activities in the country. The six new economic activities are computer gaming, hospitals, general and specialized medical practices, dental practices, and the purchase and leasing of film equipment. Since 2014, Enterprise Georgia has supported about 12,000 beneficiaries in starting and expanding businesses.



GEORGIAN ECONOMY SHRINKS 5.5% IN JULY

Estimated real gross domestic product (GDP) declined by 5.5% in July 2020 year-on-year and by 5.8% in the first seven months of 2020 year-on-year, the latest data from the National Statistics Office of Georgia (Geostat) show.

In July 2020 estimated real growth compared to the same period of the previous year was negative in almost all activities, other than mining, quarrying and water supply, sewerage, waste management, and remediation activities.

GEORGIAN HAZELNUTS REGAIN EXPORT MOMENTUM FOLLOWING STINK BUG SLOWDOWN

Georgia had exported twice as many hazelnuts by the end of August than it did in 2019, Ministry of Agriculture data show. The major European countries to which Georgia has exported hazelnuts include Germany, Italy, Czechia, Spain, Poland, and Lithuania. Georgia expects to harvest 50,000 tonnes of high-quality hazelnuts this year, says the Georgian Ministry of Agriculture.

AUGUST INFLATION: PRICES OF FOOD, NON-ALCOHOLIC BEVERAGES DOWN IN GEORGIA

The prices of food and non-alcoholic

beverages decreased month-on-month in August by 0.5 %, Geostat data show. Prices were lower for: fruit and grapes (-10.6%), vegetables (-2.8%), coffee, tea and cocoa (-0.7%) On the other hand, prices increased for milk, cheese, and eggs (+2.2%) and for transport. Overall, in August 2020 the consumer price index decreased by 0.02% compared to the previous month, while the annual inflation rate amounted to 4.8%.

GEORGIA TAKES 8TH PLACE IN WORLD ECONOMIC FREEDOM RANKING

Georgia has taken 8th place among 162 countries in the world in the annual economic freedom report published by the Fraser Institute.

The report measures economic freedom based on regulations, freedom to trade internationally, size of government, property rights, government spending, and taxation. It says that ‘people living in countries with high levels of economic freedom enjoy greater prosperity, more political and civil liberties, and longer lives.’

DOMESTIC TOURISM DOWN 37.2% IN Q2 2020

About 596,500 Georgian tourists aged 15 years or older made 675,700

visits (-37.2%) within Georgia in the second quarter of 2020.

Domestic tourism resumed on June 15 in Georgia after months of lockdown due to the spread of coronavirus in the country.

The Georgian capital city of Tbilisi was the most visited destination by domestic tourists in Georgia, followed by the regions of Imereti, Adjara, Kakheti, and Mtskheta-Mtianeti.

FLIGHT RESTRICTIONS PROLONGED UNTIL AT LEAST OCTOBER 31

Coronavirus-related restrictions on regular international flights have been prolonged in Georgia until October 31, the Georgian Civil Aviation Agency announced in mid-September. It further noted that the restrictions will not apply to flights carried out between the airports of Tbilisi, Munich, Paris, and Riga, as well as cargo, governmental, ambulance, and emergency flights. Georgia shut down air traffic on March 21 in order to prevent the spread of coronavirus.

The government has also evacuated over 10,000 Georgian citizens from abroad amid the coronavirus pandemic.

WHATSAPP DEVELOPER INVESTS IN GEORGIAN ONLINE SHOPPING PLATFORM PHUBBER



Secondhand clothing and accessory app Phubber has received an investment from WhatsApp developer and shareholder Eugene Fuchsman. Phubber is a



digital marketplace that connects people who want to buy and sell clothes and accessories. With the new investment, Phubber will aim to expand to international markets.

AUGUST 2020: MONEY TRANSFERS TO GEORGIA UP 25.8%

The volume of money transfers to Georgia in August 2020 was \$184.2 million, which is a 25.8% increase compared to August 2019, says the National Bank of Georgia (NBG). More than one-third of money transfers came in from the European Union (\$74.53 million). The largest countries from which remittances were sent were: Russia (\$34.94 million), Italy (\$27.95 million), USA (\$22.05 million), Greece (\$20.64 million), Israel (\$14.3 million). 95% of all remittances from abroad came from 19 countries.

MEN'S AVERAGE SALARIES 46% HIGHER THAN WOMEN'S IN GEORGIA

The average monthly nominal earnings in Georgia for men (1,352.4 GEL) were 46.3% higher than for women (924.2 GEL) in the second quarter of 2020, show Geostat data.

The annual growth of earnings amounted to 10.7 GEL for women, while it decreased by 67.4 GEL for men. The average monthly nominal earnings in Georgia decreased by 2.5% (29.6 GEL) in the second quarter of 2020 compared to the same quarter of the previous year

and amounted to 1,150.1 GEL.

GEORGIA BECOMES 1ST COUNTRY TO HOLD WORLD TOURISM ORGANIZATION EXECUTIVE COUNCIL SESSION OUTSIDE SPAIN

Georgia has become the first country to ever host a session of the World Tourism Organisation's (WTO) Executive Council outside Spain. Delivering a speech during the 112th session of WTO in Tbilisi earlier today, Georgian Prime Minister Giorgi Gakharia stated that Georgia and the WTO 'have been linked with long, successful cooperation which is becoming more and more fruitful.'

GEORGIAN CENTRAL BANK TO SELL OVER \$200 MILLION THIS YEAR TO STOP LARI DEPRECIATION

In order to control the lari's depreciation against the US dollar, the NBG will sell more than \$200 million by the end of this year, the NBG has pledged. As of September 16, the exchange rate for 1 USD was 3.1546 GEL, while for 1 EUR it was 3.7521 GEL. The NBG explained that the depreciation of the lari in September was caused by 'tensions of the election campaign period...which is temporary and will not affect inflation, which, according to the current forecast, will continue to decline over the rest of the year and fall below the target level in the first half of 2021.'

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Founded in 1995 BLB celebrates the 25th anniversary.



Rusudan Maisuradze

To celebrate the jubilee BLB hosted a reception that was one of the last public gatherings before COVID-19 outbreak in Georgia.

The firm announced its intention to usher in the new era with the expansion of practice and the team. Rusudan Maisuradze, LSE graduate, and former counsel for TBC Group joined BLB as a new Partner.

On the question of what makes BLB stand out from other firms, Rusudan says she praises BLB for the unique experience, values, and plans she shares with the firm. Rusudan says she has always been impressed with the firm's performance that is characterized by a success-oriented approach, involving carefully elaborated detailed plan of actions for each matter and the client; the firm is known for its unrelenting commitment to excellence and value-added services to the clients. This has been demonstrated by the firm's mobilization in times of the rapid spread of COVID-19 when BLB created COVID-19 Resource Center and special TaskForce supporting the clients and communities pro-bono to respond to the legal implications of the pandemic in an emergency manner. "BLB has the team with an exceptional experience of guiding investors through the underdeveloped legal environment of Georgia in the extremely important process of transferring into a market economy back in the 90s. This team has participated in investment projects of historic importance for our country and they are still doing a stellar job. Now when there is extreme competition among respectable local and international law firms, BLB manages to maintain the leading position on the Georgian legal market that is evidenced by the international rankings conducted by Legal 500, Chambers, and Partners, IFLR 1000. BLB has always been the respectable law firm chosen by prominent investors, the firm whose name was always distinct on the Georgian legal market and I did not hesitate to make the decision on collaboration, decision was made in a flash." – says Rusudan.

Rusudan also speaks about the expectations one shall have after her collaboration with BLB: "the firm kicks off the new decade as a full-scale law firm. We are offering the clients the services from our white-collar criminal and regulatory practice led by our Partner Maya Mtsariashvili; while I will be the responsible Partner for the services the firm offers in the fields of EU Regulations, Business & Human Rights, and Media Law."

As its strategic vision for the future decade, the firm claims to be devoted to further develop state-of-the-art manners of delivering legal service, encourage innovation, welcome diversity, and to put more efforts in Pro Bono work.





Dreams of Batumi as a European theatre capital, reflections on the stage in the times of COVID

TATJANA MONTIK

The harbor city of Batumi has been transformed during the pandemic. After a short influx of local tourists, its bustling summertime atmosphere has disappeared, even on its famous seaside boulevard.

But this is exactly how Andro Enukidze, artistic director of the Ilia Chavchavadze Drama Theater of Batumi, likes the city: peaceful, intimate, and quiet. Enukidze, who is also a Professor at the Shota Rustaveli Movie and Theater University, says he sees Batumi as a place of opportunity in the art world.

“When I came to work in Batumi, I had an excellent chance to use my previous experiences received from many international stages and to establish my own creative world here,” says the artist, his eyes sparkling.

Since 2014, when he was appointed main artistic director of the Batumi Drama Theater, Enukidze has cherished the dream of Batumi becoming a new theater capital of Europe. Little by little,

he says his dream is coming true, and the city is gradually witnessing the birth of a vibrant theatre life.

Last December, he organized an international theater festival, in which some of the world’s most renowned theater groups took part, including the Berliner Ensemble.

However, due to the pandemic, the theater’s international activities had to

be cancelled. “What could we do about it? The whole world is experiencing shutdowns, so we have to share in this destiny, too”, he says.

Shortly before the curfew was put in place in March, Enukidze was in Poland rehearsing, as the invited director to stage Berthold Brecht’s *Caucasian Circle* at the Heleny Modrzejewskiej Drama Theater in Legnica. Suddenly, however, after



Andro Enukidze was born in Tbilisi. His father was manager of the famous Georgian vocal and instrumental ensemble Rero. The artistic director of the Batumi State Ilia Chavchavadze Drama Theater and Professor at the Shota Rustaveli Movie and Theater University in Tbilisi, Enukidze graduated from Tbilisi Shota Rustaveli Institute for Movie and Theater in 1987. He has since staged more than 80 theater pieces in different theaters of Georgia, Russia, Romania, Turkey, and Poland, and is the founder and chairman of Batumi International Theater Festival, in addition to being the co-founder of the faculty for directing at the University of Ankara in Turkey.

only two weeks of rehearsals, he had to abandon the project and return home to Georgia.

Enukidze has gained a reputation as director, having worked with different theaters abroad. "Traditionally, Georgia has a well-developed theater culture," he says. "Georgians love theater, and our audiences are highly demanding. So if you manage to capture the attention of a Georgian viewer, your success on the international stage is almost guaranteed."

Now, Andro Enukidze is by no means giving up his international engagements: "In December, our Polish colleagues will be waiting to continue our rehearsals, as they plan to have a premier before New Year's Eve."

Despite the lockdown, Enukidze's artistic life is full. He recalled these last months with enthusiasm, saying "We couldn't have live rehearsals, but had a lot of online activities."

He's been teaching two groups of students, in Batumi and Tbilisi, and says he can't recall having had such a busy life as now, during the pandemic. "It's very time-consuming to reach a person's mind via the Internet. We used to start our online sessions at 3 p.m. working until 1 or 2 a.m. With my Batumi students I was rehearsing Romeo and Juliet, while I was spending the rest of the time with my Tbilisi group of eight young theater directors, each of whom is a distinctive 'planet', needing special attention. I think the curfew barely touched me negatively. When I finished online lectures, I wrote or read, then at 6 in the morning I went out for a walk, then went to bed and woke up at 10 a.m. to continue my routine."



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► Because many performances were cancelled, the Batumi Drama Theater experienced financial shortages. “This year, we had planned to stage nine new plays, for which we got funding from the Adjara government. However, as the pandemic got in the way, we had to reimburse the money back into the pandemic fund,” he said with a tone of regret.

Enukidze shows off a newly obtained luxury – a live rehearsal onstage – with pride. The theater building, freshly renovated last year, is a special source of pride for its director, and no wonder – the lighting, sound and other technical installations are in line with the highest international standards. Enukidze recalls that during their last festival in December, members of the production group of the Berliner Ensemble were so pleased with the organization of the festival, that they said it was “their best tour in the last 30 years.”

With actors rehearsing live onstage again, the drama of the pandemic seems

to have been as surreal as a performance.

“After lockdown, we staged an open-air play on the staircase in front of our theater. It was a beautiful play entitled *Electra’s War* by Nino Kharatishvili, directed by Guram Matskhonashvili. The decorations matched the scenery of our beautiful city, and the Bordeaux tones of our theater armchairs were striking, placed in the open square in front of our building; due to the new regulations we could only place 200 chairs, even in an open space. Fortunately, however, people came from far away to watch our performance.”

On July 26, the Batumi Drama Theater held a live streaming event on Adjara TV. It was a new performance of *Last Stop*, a play revived after ten years and based on the famous American movie *Incident*, which had formerly been a great success with Batumi theater-goers.

This September, the troupe will perform another open-air interactive play, in which professional actors and Batumi

children perform together in a drama based on *Hellados*, a story by the famous Georgian writer Nodar Dumbadze. The young actors for this piece were chosen by casting previously organized in several Batumi schools.

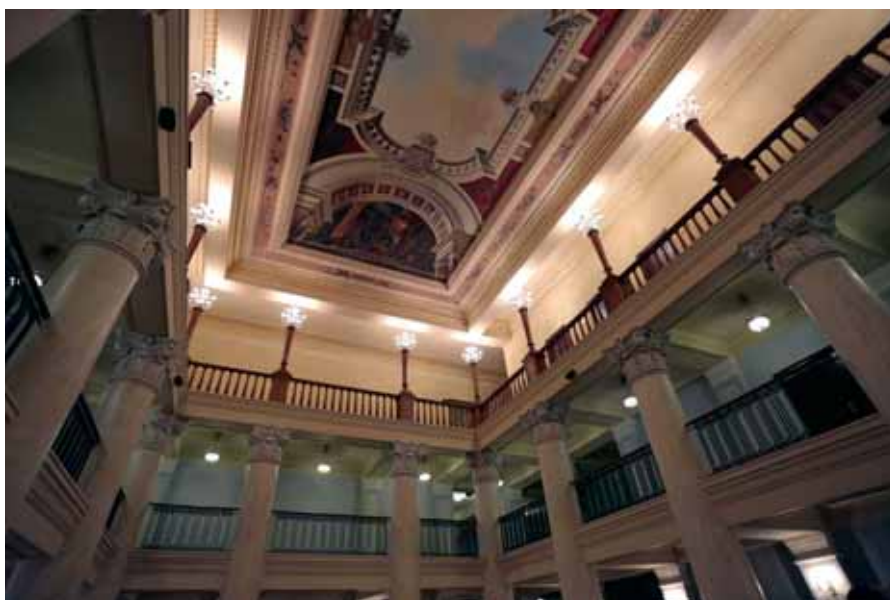
Over the last six months, Andro Enukidze has seriously reflected on the creative process in theater.

“Especially after the experience of the pandemic, you start to understand clearly that theater is not just a creative infrastructure, but also a place where miracles happen. If there is no miracle on the stage, your theater is dead. That’s why we must invent new technologies to open the full potential of an actor on stage, so that for the audience the result is a shock.

During my career, I have experienced examples of such phenomena in other theaters, but often no one shares this know-how, so as director of the theater I must invent this magic myself. A theater performance is a public matter, as well

as a difficult task. Naturally, during a pandemic it becomes even more difficult, since people don't want to go to the theater to be disappointed, so we must astound them – or else all your work has been in vain.”

Enukidze is not only a dreamer, he's a perfectionist. “Theater is a highly important part of my life. Of course, there are people who love khinkali more than theater, and though I have nothing against khinkali, it's theater and not khinkali that I do best. However, there's no guarantee that I can do it forever,” he mused. “Theater is like a horizon slowly moving away from you as soon as you approach it. Or let's say, theater to me is like the carrot in front of a donkey – as soon as I try to create something important, something sacred slips on, ahead of me, moving faster.”



In October, Andro Enukidze plans his fourth performance this year, a play based on short stories by Leonid Andreyev. “Without a real stage, however,

this particular play is unthinkable,” he said. He hopes that regulations will allow it to be performed live on stage in the Batumi Drama Theater.

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How USAID is helping Georgia secure the elections from cyberattacks, disinformation and COVID-19

USAID IS SUPPORTING GEORGIA TO BUILD A STRONGER DEMOCRACY THAT RESPONDS TO THE NEEDS AND INTERESTS OF ITS CITIZENS. AS THE GEORGIAN PEOPLE LOOK FORWARD TO OCTOBER'S PARLIAMENTARY ELECTIONS, USAID IS PARTNERING WITH GEORGIA'S CENTRAL ELECTION COMMISSION TO DEVELOP NEW TOOLS TO PREVENT CYBERATTACKS, COUNTER DISINFORMATION, AND PROTECT VOTERS AMIDST THE COVID-19 PANDEMIC.

This year, the Georgian people have a historic opportunity to further consolidate their country's democratic development. Georgian voters will go to the polls on October 31 to elect their representatives in parliament. These elections will take place under a reformed electoral system that has the potential to result in a more pluralistic parliament that reflects the diverse views and interests of Georgian society.

The United States Agency for International Development (USAID) launched its Elections and Political Processes project in 2019 to empower the Georgian people to build a more responsive democracy in the long-term. Through this initiative, USAID is deepening its long-standing partnership with Georgia's Central Election

Commission (CEC), helping it upgrade its infrastructure and procedures to protect the elections from cyberattacks and disinformation and to ensure health and safety on election day.

"USAID assistance empowers citizens from all walks of life to contribute to Georgia's transition to a mature, consolidated democracy. At the most basic level, that means ensuring that elections reflect the will of the people and are conducted in a way that inspires public confidence – confidence in the electoral process itself, and confidence in the legitimacy of the government that forms as a result. We are enriching our longstanding partnership with the Central Election Commission, helping them strengthen and diversify their toolkit for administering free and fair elections," comments USAID/Georgia Mission Director Peter Wiebler.

MODERN INFRASTRUCTURE TO COMBAT MODERN THREATS

The CEC took an important step forward on August 17 with the opening of a new USAID-funded cybersecurity server center to protect the election administration system from cyberattacks. Delivered through USAID's partnership with the International Foundation for Electoral Systems (IFES), a key implementing partner of the Elections and Political Processes project, the center will enable the CEC to repel potential future cyberattacks and protect

the voting process from manipulation by malign actors. In addition to the new servers, the assistance includes cybersecurity training for CEC employees.

This support is timely, and not only because 2020 is an election year. Georgia has been the target of several high-profile cyberattacks in the past 12 months. In October 2019, an attack by Russia's military intelligence service knocked out several thousand web pages, including Government of Georgia pages and the website of the Georgian Public Broadcaster. In April, an attack resulted in the leak of personal data on Georgian citizens. On September 1, reports indicated another cyberattack targeting Georgia's Ministry of Internationally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs. The CEC's new cybersecurity server center will strengthen Georgia's defenses against election-focused attacks and bolster public confidence in democratic elections and political processes.

CEC Chairperson Tamar Zhvania emphasized the importance of cybersecurity in this environment:

"Cybersecurity and disinformation are modern-day challenges that impact various sectors across the globe. Indeed, they have no border and have the capacity to penetrate the most secure public and private spaces. We are not immune to this global threat and we realize the significance of the issue; having in place

electoral security measures is a priority for our administration.

In light of challenges related to the security of elections, for our administration to have long-term partners such as USAID and the International Foundation for Electoral Systems, which support and facilitate the strengthening of our server infrastructure and cyber-hygiene culture, is critically important."

In addition to cybersecurity support, USAID is supporting the CEC to establish an Information Protection Center. The center will be a unit within the CEC devoted to monitoring and responding to election-related disinformation. USAID assistance includes procuring hardware and software for disinformation monitoring, providing training for the CEC's disinformation monitors, and delivering ongoing technical assistance to help the CEC set up the center and ensure that it continues to function effectively. Currently under development at the time of writing, the Information Protection Center is scheduled to go online in September, helping ensure that citizens have fact-based information during the pre-election period.

Keti Maisuradze, the IFES Country Director in Georgia, emphasized the importance of strengthening Georgia's defenses against both cyberattacks and disinformation: "The 2020 parliamentary elections, which are critical for Georgia to continue its path toward consolidating its democracy, must be secured against cybersecurity vulnerabilities and the possibility of malign influence by domestic and foreign disinformation efforts."

USAID ASSISTANCE HELPING KEEP VOTERS SAFE ON ELECTION DAY

In addition to helping Georgia secure its election infrastructure, USAID is partnering with Georgian institutions to develop tools to protect citizens when they go to the polls in October. That includes helping the CEC prepare for a safe election day, engaging Georgia's Ministry of Health and National Center for Disease Control and Public Health to develop a plan for ensuring adequate physical distancing and sanitary measures at polling stations. IFES is currently assessing the CEC's needs for conducting safe elections. This assessment includes focus group discussions with voters to hear their concerns and ensure that measures are taken to ensure voter confidence in the health and safety of

the voting process. When the assessment concludes, USAID will support the CEC to implement the recommended procedures and procure the necessary equipment and supplies, including medical masks and personal protective equipment to protect voters, polling station workers, observers, and others involved in the process. At the same time, USAID is engaging with the CEC and with civil society partners to ensure that citizens are well informed of voting procedures ahead of the elections.

This broad-based assistance represents the latest chapter in the long-standing partnership between the U.S. Government and the CEC, a point emphasized by Chairperson Zhvania: "It is important to note this large-scale unprecedented assistance. It should also be underlined that this is not the only aid we receive from our American partners. The US has long been a reliable and long-term partner for us."

USAID'S GROWING EMPHASIS ON HELPING GEORGIA BUILD RESILIENCE TO MALIGN INFLUENCE

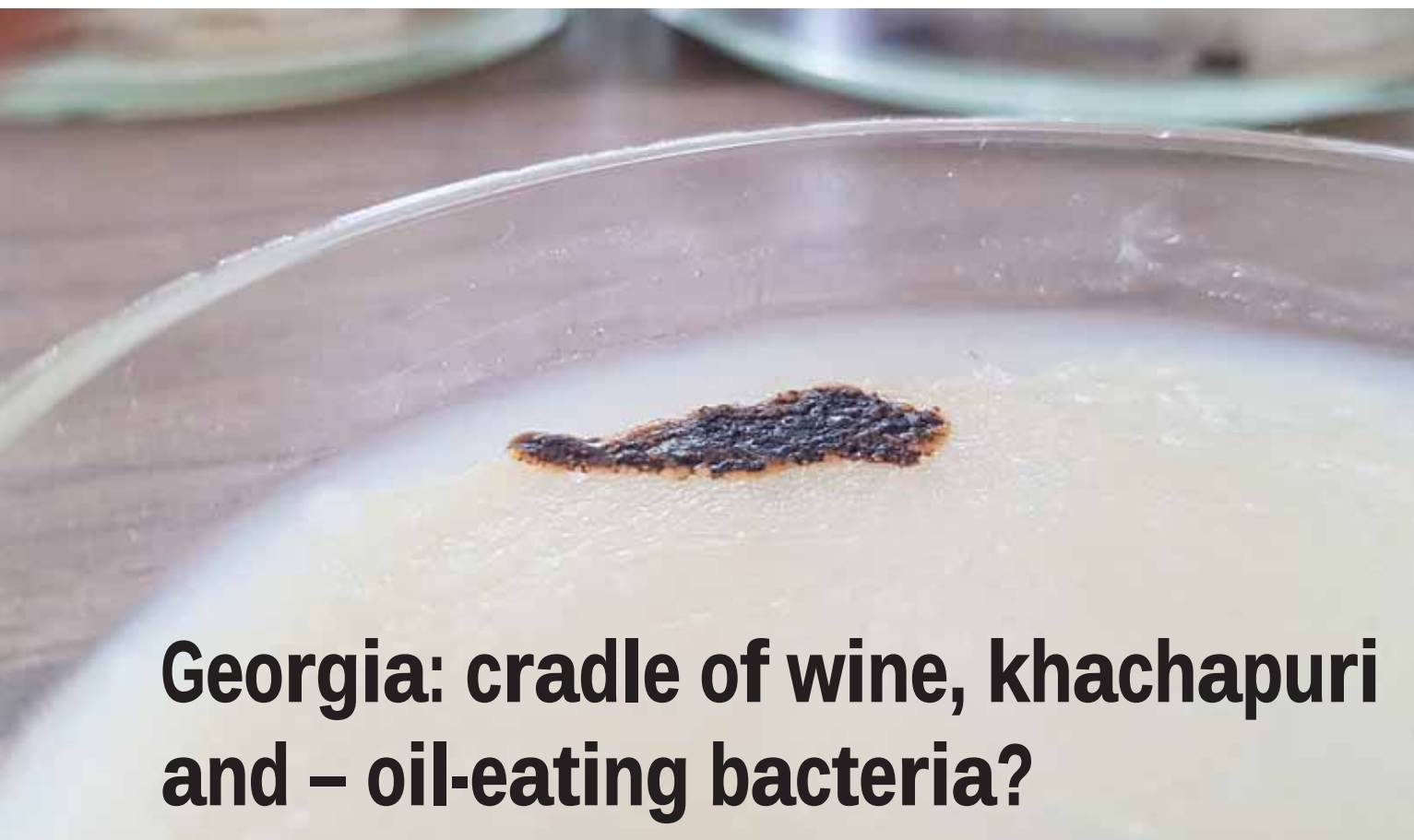
USAID's partnership with the CEC reflects its growing emphasis on 'resilience' – helping Georgia build the institutions, infrastructure, and practices necessary to protect its society from malign influence, whether it be disinformation, cyberattacks against key infrastructure, Russia's continued occupation of Georgian territory and the hardship faced in conflict-affected communities, or economic dependence on the Russian market.

Under its new Country Development Cooperation Strategy for 2020-2025, USAID is placing its highest priority on supporting Georgia to build resilience against these kinds of malign influence which pose significant challenges to Georgia's self-reliance. Over the next five years and beyond, USAID will partner with the Government of Georgia, independent institutions such as the CEC, the private sector, and civil society organizations to help Georgia build a stronger, more inclusive society that is able to withstand external pressure and continue its journey toward self-reliance.

About USAID support for elections and political processes in Georgia: USAID's Elections and Political Processes project aims to support Georgia's democratic development by enhancing electoral integrity and citizen-responsive politics. The four-year, \$14.4 million initiative, comprising seven activities and nine local and international implementing partners, will build political party capacity to better represent citizen needs; equip citizen groups with the tools to effectively engage parties and elected representatives on behalf of their interests; ensure level-playing-field electoral competition; and boost the electoral and political participation of underrepresented groups, including women, youth, persons with disabilities, and ethnic, religious, and sexual minorities. This project will define USAID's development assistance to Georgia for the 2020 parliamentary and 2021 municipal electoral cycles and beyond.



Left to right: U.S. Ambassador to Georgia Kelly C. Degnan, CEC Chairperson Tamar Zhvania, USAID/Georgia Mission Director Peter Wiebler



Georgia: cradle of wine, khachapuri and – oil-eating bacteria?

THE OIL INDUSTRY HAS LONG BEEN DISMISSIVE OF MICROORGANISMS' ABILITY TO REMEDIATE SOIL CONTAMINATED BY PETROLEUM HYDROCARBONS DUE TO THE TECHNOLOGY'S LOW SUCCESS RATE, BUT GEORGIAN STARTUP BIOCURE SAYS IT HAS PERFECTED A PROCESS TO STAND THE FIELD ON ITS HEAD.



JOSEF GASSMANN

Georgia has already once proven itself an innovator in proposing microbiological solutions to modern problems: the country's bacteriophage industry alleges it can stave off a bacterial end of days with the help of bacteria-eating viruses. Another Georgia-grown startup with its roots in microbiology, BioCure, seeks to use bacteria to

cure a different sort of blight – that of petroleum hydrocarbon environmental disasters.

And right on time: the oil spill management market is predicted to hit \$140 – 175 billion by 2025, market estimates assert.

The fact that some bacteria have an appetite for oil is nothing new, and even came to the attention of the general public during the 2010 BP oil spill in the Gulf of Mexico, which had a happier ending than predicted due to oil-eating bacteria present in the water.

However, the uptake of the technology by the industry has been slow: the technique has a low success rate when deployed to gobble up oil spills in non-laboratory conditions.

But BioCure's approach *is* new, and the startup believes it can revolutionize the field. ►►



At a time of hardship each business' journey is likely to follow a series of similar steps. So take time to Rethink your business and transform challenges into opportunities.

BDO's Rethink framework can support you through the journey across the key stages, issues and opportunities to consider when progressing towards the 'new normal' post crisis.

REACT
RESILIENCE

REALISE

► A STICKY PROBLEM, A TRICKIER SOLUTION

A market with a pain point, a novel solution – why, then, hasn't BioCure become Georgia's first unicorn?

BioCure co-founder Temo Rukhaia says the complexity of employing bacteria to remediate petroleum hydrocarbon-afflicted terrains is enormous.

"Every site has its own bacteria biodome. The bacteria you introduce in one location to clean up a spill aren't guaranteed to work in another – in fact, it's very likely they will fail," Rukhaia says. The reason is that while all men are created equal, all oil-eating bacteria are not: they have to be adapted to a particular environment and not face destruction at the 'hands' of other competing bacteria on the food chain.

The approach currently used by competitors, Rukhaia points out, doesn't take heed of these issues, noting there are currently two main techniques in the field. One relies on bacteria that have worked well in the past and offers a one-size fits all approach, selling bacteria solutions 'straight from the shelves.'

The second method is one of bio-stimulation, which uses chemicals and minerals to stimulate the growth of oil-eating bacteria in the affected area. The success rate of these approaches comes to a halt at around 30%.

The BioCure approach is radically different and involves analyzing the soil sample, identifying the native bacteria populations and rapidly – within days! – isolating a strain of oil-eating bacteria that will thrive and clean up best.

To do this, BioCure relies on years of experience and expertise in identifying the bacteria that will yield the best results if applied in customized solutions – and all this without disturbing the local ecosystem's balance, which happens often with other methods.

PROPAGATING BACTERIA, GROWING THE BUSINESS

BioCure will be tackling two issues as it seeks to propagate – itself. Rukhaia comments:

"The technology's reputation has suffered due to the use of one-size-fits-all methods. Industry leaders look at this kind of bioremediation with skepticism. And so we are working on spreading awareness that we have, in fact, the key to this problem, and can prove that our method works consistently and reliably better than our competitors'."

The second hurdle to overcome is that of how to commercialize the product abroad. Establishing service centers and providers in other countries is an expensive and time-consuming process. Instead, BioCure wants to focus on perfecting the technology and establishing partnerships abroad with service providers who will be licensed to apply BioCure products. To this end, the company is looking for partners that can help the business grow not just with investments, but that will help the firm continue to carry out pilot projects and demonstrate the efficacy of the product to the industry.

...AND WHAT ABOUT COVID-19?

BioCure didn't avoid the global COVID-19 slowdown either.

"Things are crawling along. We were working with one company to complete a project that would have taken a month, this was back in the beginning of the year. Now, things are just inching along," Rukhaia says.

BioCure had also planned a three-month period of travelling to attend industry-specific events and expand the firm's network.

"We needed this because our industry is very traditional when it comes to marketing, it's done through people – not

digital marketing. For the general public, it might be a huge, even sexy, story that there is a technology that finds bacteria that eats oil," Rukhaia jokes.

"But for the industry, it's old news – they're used to it. That's why we need to meet with other businesses in the sector, and explain to them that we are offering something entirely different."

But Rukhaia is optimistic about both the near and short term: despite the turndown, the future is still teeming with possibilities and opportunities for BioCure. When asked how BioCure views the global trend of the turn towards renewable energies, he notes the team can only cheer the introduction of green technologies.

"But the fact is the world cannot wean itself off hydrocarbons in a day. They will be around for a long time. And with the introduction of green alternatives, we see the prices for hydrocarbon products coming down. This in turn will affect a number of aspects of its production and costs will be cut. That is to say – we still have plenty of work ahead of us."

But there's a life after oil, too, Rukhaia notes. The company already has the technology to leech out precious metals from residual soils from mining operations, and is also ahead of its competitors in this regard.

"The other current methods on the market can retrieve up to 70-80% of precious metals that are left over in residual piles from mining. But our technology, a two-step process that again uses a targeting and propagation mechanism, can retrieve up to 99% of residual metals."

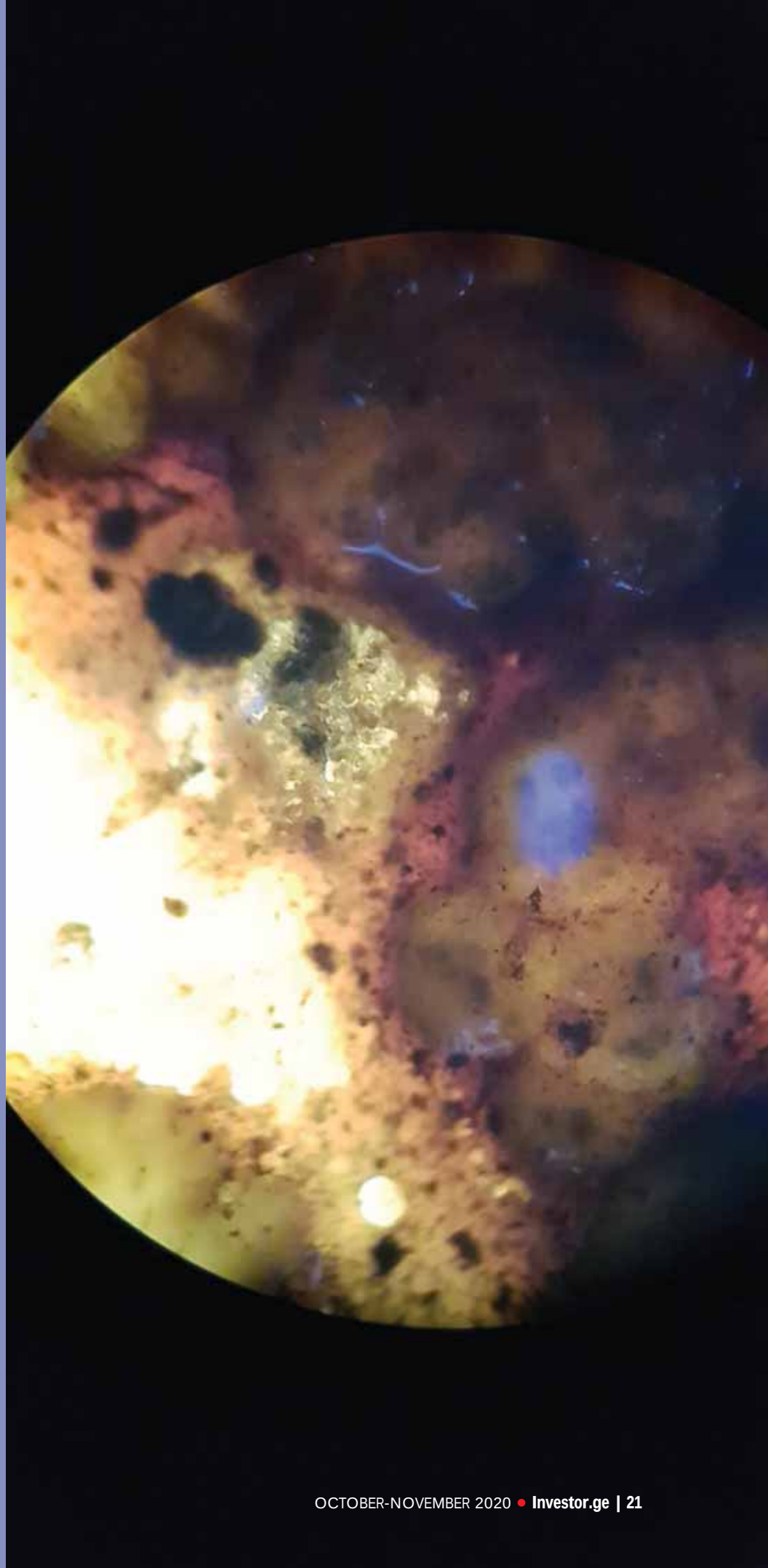
And there are plenty of other applications out there into which BioCure may consider branching in the future, including degrading pesticides and enriching depleted soils – something Georgia's many abandoned acres of wine vineyards are already thirsting for...

BioCure's story goes back to 2004, when an oil well blew in Ninotsminda (Kakheti, Sagarejo municipality), contaminating 350 acres of land. The area in need of remediation was hilly and perched above a village: traditional, invasive methods could have caused a landslide and serious damage to the livelihoods of the people living below.

The company responsible, Canargo, announced a tender in search of the best solution. Researchers and scientists from what would become BioCure some 15 years later were chosen to deal with the problem after offering to use their microbiological approach to remediation. The soil was back to normal within 18 months.

In 2005, the Scientific Practical Center of Eco-Technologies Ltd. was formed, and a patent filed for the procedure. In the same year, the company got its second big break, and the opportunity to clean up a 9-kilometer segment of railway in Adjara allowed the company to prove itself yet again and to further develop the technology.

Finally in May 2019, BioCure was incorporated, bootstrapped itself off its initial successes, won a 100,000 GEL grant from Georgia's Innovation and Technology Agency (GITA) and began offering local commercial services.





Georgian pharmaceuticals seek entry to markets further afield with introduction of GMP standards

UNTIL NOW, GEORGIAN PHARMACEUTICALS HAVE BEEN LIMITED IN EXPORT TO THE MARKETS OF THE STATES OF THE FORMER SOVIET UNION. THE INTRODUCTION OF GOOD MANUFACTURING PRACTICES IN THE COUNTRY MAY ALLOW THE COUNTRY'S PHARMACEUTICAL PRODUCERS TO BEGIN TARGETING NEW EXPORT MARKETS, WHILE THE PUBLIC WILL BENEFIT FROM MORE SUPERVISION OF PHARMACEUTICAL MANUFACTURING AT HOME.

ANA MEZVRISHVILI

Georgia has a surprisingly long history of excellence in medicine, which is well-reflected by the fact Georgian pharmaceuticals made for an approximate 5% (\$142 million) share of total exports in January-September 2019, GeoStat data show.

Considering the medication export market has been traditionally limited in its reach to post-Soviet countries, that's not bad for a country like Georgia, for whom doors to the EU medication market have been closed because of the absence of a state-backed Good Manufacturing Practices (GMP) standard in the country.

The issue of introducing GMP standards

has long been on the agenda, and was being discussed at least as early as 2014. Now, however, the deadline for pharmaceutical companies to abide by the standard has been set for 2022. This may offer Georgian producers the chance to grow further afield, while the public will stand to benefit from quality-controlled medicines produced and consumed in the country.

Like many vitamins, the obligations will produce a series of changes in the industry and a degree of discomfort for some producers, many of whom are asking for an extension of the deadline to comply with the standards.

WHAT IS GMP?

Good Manufacturing Practices (GMP) "describes the minimum standard that

a medicines manufacturer must meet in their production processes", the European Medicines Agency notes. Any manufacturer of medicines intended for the EU market, no matter where in the world it is located, "must comply with GMP, which requires that medicines: are of consistent high quality, are appropriate for their intended use and meet the requirements of the marketing authorisation or clinical trial authorisation."

The guiding principle behind GMP is that it is impossible to monitor the quality of pharmaceutical products without violating their integrity, thus making them unsuitable for medical use. Thus, GMP focuses on a quality assurance mechanism.

Only the State Inspectorate, established in June 2019, can issue a GMP

Total Georgian exports of medications in millions of USD by destination for January-September 2019.
Data from Geostat



Uzbekistan:	\$49.8
Azerbaijan:	\$21.8
Ukraine:	\$15
Russia:	\$14.2
Kyrgyzstan:	\$13.4
Turkmenistan:	\$5.8
Armenia:	\$5
Belarus:	\$4.3
Tajikistan:	\$3.7
Other countries:	\$5.8

certificate in the country, and acts as the guarantor that a local manufacturer has been inspected and issued a certificate to verify the quality and reliability of its product. In former years, Georgian pharmaceutical companies have had to invite private companies from the West to issue certifications, but health experts say this is not the right approach, and that GMP certification should be administered by the state.

THE MARKET NOW

The latest data show that 80 companies produce pharmaceuticals in Georgia. 90% of the main share of production is divided between two companies: Aversi and GM Pharmaceuticals (PSP). These two companies occupy first place in both imports and exports, of which their combined share is 48%.

Both companies hold certificates that comply with European proper manufacturing practices and are issued by reputable European private consulting firms, although to date, neither company has received a GMP certificate issued by the Georgian state.

Currently, just one company, Aversi, has submitted an application for a GMP quality certificate. Aversi Quality Director Natela Karukhlashvili told Investor.ge that the company has already submitted a large amount of documentation to the National Inspectorate to obtain the certificate and has passed the first stage.

"First of all, obtaining a state GMP quality certificate will further increase the credibility of our company on the export market. When we register for export to another country, we are always asked – how is the state inspection done in Georgia? Or we are asked to provide the latest inspection results. At this point we explain that we have not yet implemented this practice, and we have certificates issued by other countries...but we still meet with distrust that we are not constantly inspected and monitored by the state."

This was the first motivation to submit the application to be certified against GMP, Karukhlashvili says. Aversi is still waiting for inspections to begin. The company voluntarily applied for GMP certification ahead of time, but this process will soon be mandatory.

THE MARKET DOWN THE LINE

Currently, the state has set a deadline of January 1, 2022 for companies in the country to meet GMP standards.

This has been followed by discontent from several companies; a number of experts and industry representatives say that in Georgia, only about ten companies have the real capacity to switch to the GMP, European standard. Meanwhile, other players on the market may be forced to drop out of the industry due to the sizable investments and technical know-how required to meet the standard.

One particular challenge faced by manufacturers is that GMP standards define the requirements they must meet, but exactly how they are to go about fulfilling the demands is not discussed. In many cases, these are technical requirements that have been gained by companies based off their many years of experience.

WHERE DO GMPS COME FROM?

In 1962, the US Congress passed a bill not only increasing safety requirements for medications, but also requiring proof of a product's effectiveness for the first time. This laid the foundation for the statutory regulation of clinical studies. In 1969, the WHO formulated the first guidelines for the production of pharmaceutical products – the first GMP guidelines – with the goal of ensuring the traceability of the production process. Thus began the era of the modern pharmaceutical industry on the global market.

Moreover, those who have already purchased the required equipment still need time to perfect its use.

Several companies have asked the Georgian Ministry of Health to extend the deadline of the introduction of the standard. President of the Pharmacists' Association Levan Gogiberidze is directly involved in negotiations with these businesses. Gogiberidze says many will meet the standards, but not by the deadlines, and they are thus requesting a deferral not to a specific date but in accordance with company development plans they have submitted to the government for examination.

Since at this stage only two enterprises are ready to meet the standard (Aversi and PSP), many of the other enterprises will have to stop their activities, as a result of which as many as 1,500 people could be left without jobs, Gogiberidze says.

"This is unacceptable for either the

business or the country. Because the equivalent of about \$60-70 million a year comes from exports made by these manufacturers."

Executive Director of the Association of Representatives of Pharmaceutical Companies in Georgia, Irakli Margvelashvili, also supports the postponement request, and notes the state could get involved to help the process along. One alternative to the number of relatively small enterprises on the market, he notes, "could be a merger, in which case the state could invest and help bring them closer to the GMP standard." Margvelashvili does say, however, that state aid will only be justifiable if the commercial potential of the enterprises is properly understood.

"It would not be right for the state to invest money if the goal is only to maintain these enterprises. It is important that the investment be justified. Therefore, I think the state should study and analyze the enterprises that have further commercial potential and determine what the maintenance of these enterprises will give us in the short and long term," he said.

Along with the GMP standard, the introduction of the GDP (Good Distribution Practice) standard is also crucial, which governs the storage and transportation of medicines.

"Medicines may work well but spoil due to violation of storage standards. Introducing the GDP standard requires less costs. If a company claims it can't meet the GDP standards, it should be banned from the market, because we run the risk that we will lose quality medicine during transportation," Margvelashvili says.

The introduction of these two standards in tandem, he says, will ensure high quality, safety, and efficiency of pharmaceutical products in circulation in the country, as well as increase the export of medicines produced in Georgia. Moreover, the coronavirus pandemic and closed global borders have clearly shown how important it is for the state to remain strong in isolation, and this includes the capacity for local pharmaceutical production. Moreover, with the introduction of GMP / GDP, Georgia will advance its obligations under the Association Agreement with the European Union in the field of healthcare.



Pardon our dust – work in progress to bring Georgian roads up to EU snuff, reduce accidents

ROAD ACCIDENT LOSSES IN GEORGIA, INJURIES AND DAMAGE COSTS AMOUNT TO 5% OF GEORGIA'S GDP, BUT BETTER ROADS, POLICING AND PUBLIC AWARENESS HAVE SEEN ROAD ACCIDENTS AND FATALITIES FALL 20% IN THE PAST FIVE YEARS.

SALLY WHITE

Georgians across the country have been asked to bear with 'road improvements' for a while now. Motorists have been suffering for years from the seemingly interminable work on Georgia's section of European Route E60, the motorway that will run from France to the borders of China.

Nearer to home and just outside the front door, cities and towns have been torn up, disrupting the Tbilisi districts of Saburtalo and Vake, and central roads in Telavi, Kutaisi, Kashuri, and Rustavi, to name a few.

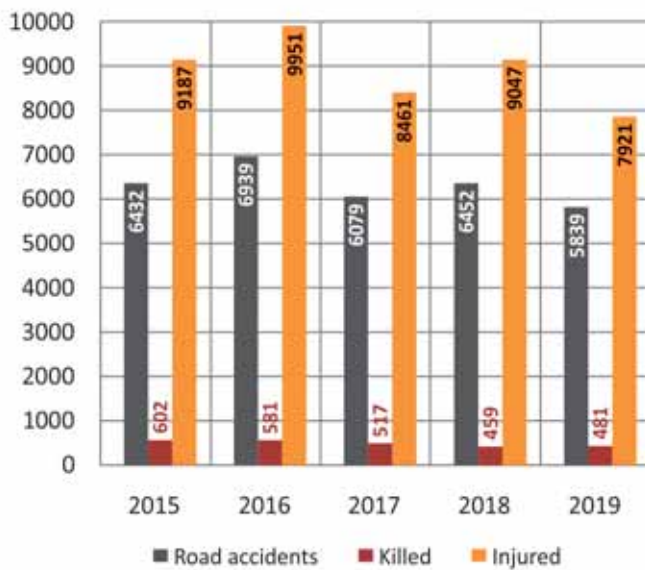
The latest local Eastern Partnership (EaP) report on the European Union's Association Agreement applauds Georgia for success in having "intensified its efforts over the last decade to improve the transport system in the country",

noting more is to come.

Behind all this are huge numbers. Not just the billions of dollars being poured into the construction works by international donors, financial agencies from the World Bank to the European Bank for Reconstruction and Development, the Asian Development Bank, the European Investment Bank et al and the government. While improved international transport networks that help boost economic growth are the major reason for all these agencies to back the new highways, at the heart of this is also the cost-impact of accidents on the Georgian economy.

Road accidents and fatalities in Georgia have been falling for years in Georgia, in spite of a growing fleet of cars, and in the last five yrs, fatalities have fallen 20%, thanks to increased seatbelt use, lower drunk-driving and better policing.

Road accidents per year, killed, injured



However, according to World Bank data, road accident losses, injuries, and damage costs amount to five percent of Georgia's GDP. Another source, the EU's Transport Corridor Europe-Caucasus-Asia (TRACECA) project report of 2016, gave a figure of \$438 million annually, or 3.9 percent of the annual GDP. "The growing numbers of casualties are imposing severe strains on the scarce resources of police, medical, and other agencies that have to cope with the consequences of traffic accidents," states the United Nations Road Safety Review of 2018, Georgia: from Reforming to Performing.

The good news is that road accident numbers for Georgia have been declining, even if those for deaths have risen slightly. Georgia's own National Road Safety Strategy document stated just a couple of years ago that: "Road users in Georgia face significantly higher risks of death and injury than in many other countries in the European and Central Asia region. Georgia has a road death rate (measured by the number of inhabitants) which is substantially higher than

the best in Europe and more than double the average road death rate across all EU countries."

A wide-ranging strategy, incorporating high visibility and tougher policing, speed controls, drunk-driving monitoring; moves to improve the safety of vehicles as well as roads; safety education, and publicity campaigns have all brought improvements. The Georgian Alliance for Safe Roads, based at the Georgian Interior Ministry, said that last year there

were 5,839 accidents, down 9.5 percent, while the number of injured fell by 12.5 percent to 7,921 – but those killed rose by five per cent to 481.

Numbers for Tbilisi show the same pattern, and that 10 per cent more people were killed in road accidents in 2019, at 100, while road accidents fell by eight percent to 2,891 and the injured totalled 3,430 against 2018's 3,155.

The Georgian Patrol Police Department (www.police.ge) provides the following list of the main causes of accidents:

1. Illegal maneuvering and other traffic movement violations
2. Speeding (currently around a third of all accidents)
3. Pedestrian-related dangerous behaviour
4. Drinking and driving (4-5% of all accidents)
5. Poor condition of vehicles

Not much road work is currently being headlined for Tbilisi's streets, the main public focus having moved to getting motorists out of cars and on to cycle lanes and the metro. Tbilisi's major target has become to reduce the horrific air pollution – last year the World Health Organisation said the country ranked ►►





Tbilisi residents awoke to a strange sight on the roads in mid-April 2019: destroyed cars mounted upside down on posts at several locations across the city.

- 70 out of 194 countries by indicator of mortality due to air pollution, down from a 2012 ranking of No.1, according to Agenda.ge.

Mzevar Gogilava, Head of Traffic Management Department at Tbilisi City Hall, told a press conference a few months ago that: “Tbilisi City Hall is building a new bicycle infrastructure to promote active mobility and promote cycling as a means of transportation. Our goal is to reduce the use of private vehicles when citizens travel short distances.” However, central Tbilisi has yet to be given the same pedestrian and cyclist friendly treatment as one of the city’s main arteries, Chavchavadze Avenue. For highways, still to come, according to the EaP’s 2020 report assessing Georgia’s progress against Association Agreement commitments, are many major roadworks which currently are still works in progress: construction of the €101 million Grigoleti-Kobuleti highway has been postponed for two years, construction of the Batumi bypass-Sarpi road is set for 2021-2024, the Chumateliti-Argveta highway should be finalised by 2022, work on the €115 million Rustavi-Red Bridge highway is undated and the €90 million Algeti-Sadakhlo road is at the stage of techni-

cal development. Major road works are seemingly continuous in tourist mountain areas as post-climate extreme weather brings torrential rains, causing floods and landslides that have eroded roads and even washed them away, such as the Oni road in Racha-Lechkhumi in July.

Dangerously narrow roads, such as the Dusheti municipality site of August’s tragic minibus accident which killed 17, are also being restructured. Following the tragedy, news website Euronews put out a story stating “Traffic accidents in Georgia are commonplace, and the country ranks among the deadliest, according to statistics from the Organisation for Economic Co-operation and Development”.

Georgian government spending on roads in 2016 and 2017 was over 1.36 billion GEL and in 2018 it was 1.2 billion GEL. Highway spending was 751.5 million GEL in 2016 and 2017 and in 2018 it was 687.9 million GEL. Georgia’s National Road Safety Strategy report acknowledges that “the cost-benefit ratio of investment in road safety engineering treatments is high, commonly around 5 times on major schemes and even 2 to 3 times on improved networks.”

The demands of the EU Association Agreement are, however, for far more than just spending on road infrastruc-

ture to bring down Georgia’s incidence of road accidents. In January 2020, the Georgian parliament amended the Law on Roads to comply with the obligation to identify all ‘black spots’, equip them with signs, and take preventive measures, including information campaigns, to avoid further accidents. The latest EaP report states that Action Plan 2020 also envisages installing cameras, safety barriers and warning signs at ‘black spots’ with GIS-controlled systems to collect information and to prevent car clustering and keep them distanced.

Road safety awareness, especially of young drivers, the report points out, is “still at a low level and the government needs to implement a wide-reaching communication campaign” such as the recent road safety awareness campaign ‘For more lives’. Plus, there is the need to reduce drunk-driving and to improve the competence of Georgian drivers. To cover just some of this, Georgia has been spending several million dollars annually on road safety.

A National Accidents Data Electronic Platform (NADEP) is being developed to fully record the details of car accidents for analysis and to monitor the impact of measures to improve safety. The EaP report continues that while technical inspection of cars has been introduced gradually since 2017 and since 2019 is compulsory for all types of cars, “the inspection does not fully match Association Agreement commitments. The impact analyses in 2016 showed that Georgian society was not prepared to comply with EU-compatible high-cost inspection of cars.”

Meanwhile, the web commentary on Georgian roads and driving for foreign drivers remains distinctly wary. Or, as one travel blog put it - “Georgia is a very special country with quite special traffic!”



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Simetria Park – harmony inside and out, and a new concept for the Tbilisi real estate market

Located just eight minutes from the heart of Tbilisi’s iconic Freedom Square and towering above the Georgian capital in the quiet suburb of Okrokana in the Mtatsminda district, development company Simetria is building a residential project the likes of which



Simetria CEO Taniel Gabunia

Georgia has yet to see – Simetria Park.

When completed, \$14 million dollars will have gone into the project, which is located on 20,000 square meters of land and comprises 39 apartments and 31 individual townhouses, occupying an ideal plot of real estate near the Tbilisi Funicular, Mtatsminda Park, and the Botanical Gardens with foot paths to Turtle Lake.

Simetria Park is a city within a city, a neighborhood unto itself, with all the necessary infrastructure and services for city living, while affording residents the calm and serenity of life in nature. The complex will include a gym, spa, garden services, a playground, bike paths, a co-working space, and recreation and commercial areas.

Investor.ge sat down with Simetria CEO Taniel Gabunia to talk more about Simetria Park, how the project is unique in Georgia, and in what way it offers a new take on city living and community building.

What was the inspiration for this project?

In recent years, Tbilisi has become more a place for cars and vehicles than for people. The infrastructure caters to machines, not individuals. That’s why our principle inspiration for this project – and it’s the first thing we mention when we talk about Simetria Park – is the concept and importance of ‘harmony inside and out.’

Home is a place where you should be able to find harmony with everything else going on in your life – the people around you, the city, your surroundings, your ideas and emotions, your business, and your future.

Simetria Park is just that sort of place: a closed residential area adapted to the requirements of the city, where you can both interact with your surroundings, but also find shelter from hectic urban life.

However, the harmony of your home doesn’t end within your walls – it continues into the space that surrounds the

home. This concept of the home as the location where all of these things come together, the prism through which you approach all other aspects of your life, was at the very heart of Simetria Park.

Envisioning the desires and aspirations of a modern professional was our guiding tenet as we designed the project. Some of the other important pillars include an individual's link to their environment, the desire to share, and to both retain privacy and be part of a community simultaneously.

You note the importance of one's surroundings and its connection to quality living. In what way did such considerations go into the development of the project?

Home buyers these days pay attention not only to financial factors, but to the quality of construction and the infrastructure, the reputation of a developer, and the availability of various services within the complex and the surrounding area as well.

In addition to the developers and architects, we have brought in landscape designers and dendrologists to weigh in on the development of the project.

Even minor details such as courtyard plants and trees have been thoroughly thought out to green up the area. The seasons were also taken into account,

with the surrounding greenery changing according to a well thought-out plan to keep the area fresh and alive and incorporated into the diversity of the flower and fauna, the fresh air of the Kojori forest, and the balanced climate.

We have also paid great attention to the environment in the sense of how well, how seamlessly, the residential area blends into its surroundings. As a result, Simetria Park achieves both isolation and inter-connectivity.

In what way does Simetria Park offer something new to the Georgian development market?

The development of Simetria Park has been in the making for years. The idea was born long ago, but surveys of the development sector and real estate market revealed that customers still needed time to become accustomed to the idea of this new living experience.

Simetria Park is not a series of individual homes and cottages, sprawled out and out of sync with one another. Instead, it represents an adaptation to a global trend, and more closely resembles European or North American townhouses which have become very popular in recent times, and are beginning to take off in Georgia as well. This is partly because many people would like to have their own house, but they do not have the time

to design it themselves – that's just more stress. That's why these townhouses are so popular.

Moreover, the history of Georgian housing is rich and diverse, representing a blend of various cultural and historic influences. The Soviet period was the most unnatural one, dramatically changing the urban matrix and introducing residential buildings, blocks of houses, and micro-districts.

Evidence for the fact that the Soviet approach was 'unnatural' is the fast pace of change within the urban matrix in Georgia since the collapse of the Soviet Union. The city seems to be in a painful process of self-determination and transformation, which is now resulting in housing being adapted to the needs of modern inhabitants.

This is what Simetria Park is about. The well-planned set of townhouses offer enough space and opportunity to have both the benefits of socialization, neighborhood, and community, but also preserves the intimacy and individual approach of each house.

We believe the timing of the introduction of Simetria Park onto the Georgian real estate market is perfect. While the idea itself may not be unique, the moment is – our city and customers are now ready for it.





The mortgage subsidies – an effective tool during the corona slump?

AS OF EARLY SEPTEMBER, THE MORTGAGE SUBSIDY PROGRAM HAD ALREADY MOBILIZED 90 MILLION GEL IN MORTGAGE LOANS. BENEFICIARIES SAY THE RESULTS OF THE ANTI-CORONAVIRUS CRISIS MEASURE IN THE REAL ESTATE AND DEVELOPMENT SECTOR HAVE BEEN SUBSTANTIAL, HOWEVER OTHERS RAISE CONCERNS OVER THE TARGETS OF THE ASSISTANCE AND POTENTIAL NEGATIVE EXTERNALITIES

NAZI BERIDZE

The Georgian government's mortgage subsidy plan announced in June 2020 as part of a series of relief packages to offset the economic consequence of the coronavirus crisis generated the most public discussion and apprehension of any of the other state response programs.

The program offered to subsidise 4% of the interest rate on certain mortgages taken out between June 2020 – January 2021, and for which 70 million GEL [around \$23 million] was allocated with the aim of both helping homebuyers and stimulating the construction and development sector.

Several months have passed since the introduction of the initiative. How effective has the subsidy program been for consumers? How have the financial and development sector fared? And what objections have been raised about the program itself?

PRELIMINARY RESULTS

As of early September, the subsidy program had already mobilized 90 million GEL worth of mortgages since the program's introduction in late May, and the number of subsidized mortgages stood at 1,000 by mid-August.

The beneficiaries of the subsidiary program say the results have been tangible. The banking sector has recorded serious gains thanks to the subsidy, and been encouraged to continue lending even in these risky times thanks to the fact that loans provided under the subsidy are guaranteed by the state, thus decreasing the risk banks would be flooded by risky loans.

TBC Bank has been involved in the subsidy program since July 1, 2020. The bank's press service notes the demand for mortgage loans increased significantly compared to previous months once the subsidy program was put in place.

Loans issued were up 16% in July-August year-on-year, TBC Bank said.

58.8 million GEL in subsidized mortgage loans were issued in this period, accounting for 33% of all mortgage lending.

The Bank of Georgia reports similar gains, noting “the interest rate on mortgage loans for customers with state subsidies is quite low, therefore, this initiative and opportunity of the government is used quite actively by consumers, and has proved effective and beneficial for the bank as well.”

BoG notes that after a sharp fall off during the beginning of the pandemic, the initiative quickly revived demand for mortgage loans and significantly increased customer turnover and the number of applications. The bank believes enthusiasm will last until the end of the project – that is, until the end of the year.

Development company m² says the incentive came at a timely moment. m² General Director Nikoloz Medzmariashvili says that following the program launch, a sizable number of m² apartments were sold on subsidized mortgages.

“We’ve a positive view of the subsidy program at m². It was important not only for developers, but also for consumers – many had been unable to buy a home because of the regulation that banks cannot issue non-GEL denominated loans under 200,000 GEL, and the GEL interest rate, significantly higher than for USD or EUR, made it too expensive to take on a mortgage. With the subsidy, people were able to borrow in GEL at a rate very close to the euro and dollar interest rates”, Medzmariashvili says.

He notes some of the other positives of the stimulus program:

“Prices did not plummet, small developers were able to continue to exist and not go bankrupt. Buildings weren’t

left unfinished. The subsidies have saved the industry, to an extent. Many businesses such as repairs, equipment, and furniture are tied to this industry. I think that what the government will pay for the subsidy program is a very small amount, compared to the damage that could have been done during this crisis,” Medzmariashvili says.

CONCERNS ABOUT THE SUBSIDY

There has been some conjecture the subsidy program is not targeting the most vulnerable groups and may result in several negative externalities, though mostly in the short term.

TERMS AND CRITERIA OF THE MORTGAGE SUBSIDY PROGRAM:

VALIDITY PERIOD: loans must be taken out between June 1, 2020 to January 1, 2021

STATE CO-FINANCING: 4% of the interest rate

LOAN CEILING: GEL 200,000

MAXIMUM LOAN MATURITY: 5 years

The state guarantees mortgages up to 20% and acts as a co-borrower

“The subsidies come straight from the taxpayer. Therefore, the entire public is paying for it, but only a portion of society is helped. This puts others in an unequal position who have non-mortgage loans,” Tbilisi Open University Professor Mikheil Tokmazishvili says.

Giorgi Kepuladze, founder of NGO Society and Banks, points out other issues of who is receiving what assistance through the program:

“We have to take into account that mortgages are mainly taken out by middle- and high-income households. With this program, it turns out that the poor and lower middle-class people are helping the wealthier classes.”

He adds: “Subsidizing mortgages is

only smacking a bandaid on the problem. Falling real estate prices are still to be expected. Despite the fact that the banking portfolio grew, despite the fact that we have seen a slight revival in these activities, this still cannot give us the desired economic effect. The subsidy was not justified.”

Cushman & Wakefield’s Real Estate Market Consultant Anna Buyanova says the benefits have been substantial, but that there have been drawbacks for some segments of the real estate market as well.

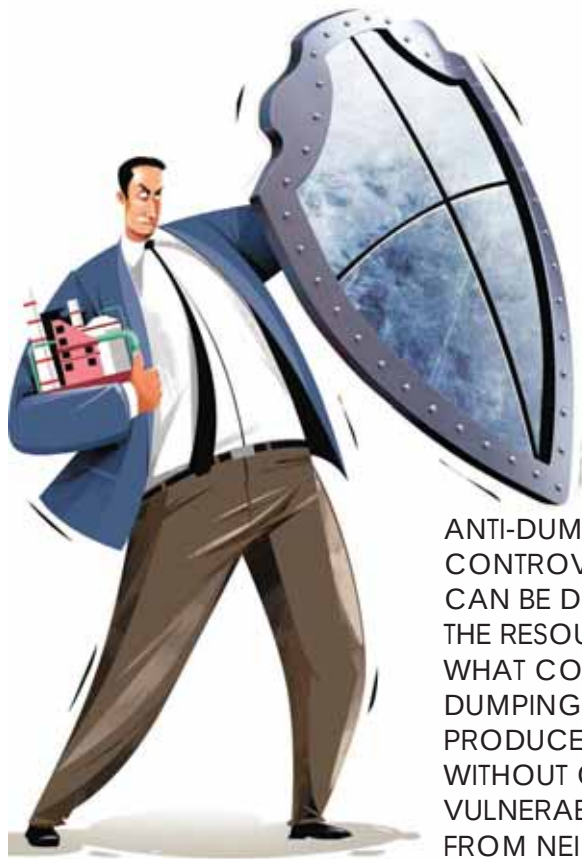
“The subsidy program can be used only by those who buy real estate directly

from developers, which has reduced the sale of second-hand apartments and further increased competition on the market. Owners of used apartments have been forced to reduce their asks, which could lead to an artificial reduction in prices in the short term,” Buyanova notes.

One other issue she points out is that the loan ceiling is 200,000 GEL.

“This may also have a negative impact on the sale of larger and high-priced real estate. Developers who position themselves in the market of premium real estate are unlikely to be unable to take advantage of the existing subsidy.”

Despite the myriad of arguments for and against the validity of the subsidy program, there’s one fact that can’t be denied: quantifying the results of the subsidy will take time. Again, Professor Tokmazishvili: “The only way to somewhat answer this question will be to look, in the future, at how many business owners went bankrupt, in what fields, and how many were able to continue their activities. Only then will we have something of a clearer picture...”



Anti-dumping law – discrimination against imports, or a lifeline for local production?

ANTI-DUMPING MECHANISMS, FOUND CONTROVERSIAL BY SOME ECONOMISTS, CAN BE DIFFICULT TO ENACT DUE TO THE RESOURCES NEEDED TO DETERMINE WHAT CONSTITUTES THE ACT OF DUMPING. BUT MANY GEORGIAN PRODUCERS AND EXPERTS SAY THAT WITHOUT ONE, THE ECONOMY REMAINS VULNERABLE TO DUMPING PRACTICES FROM NEIGHBORING MANUFACTURERS

ZURAB KHACHAPURIDZE

Georgia is making new moves to protect its domestic producers, responding to pleas for help from many sectors of Georgia's beleaguered manufacturing industry and moving in line with international trade laws.

The country has passed an anti-dumping law after seven years of deliberation and lengthy discussions due to strongly divided opinions over the possible consequences of enacting such a mechanism. The law goes into effect on January 1, 2021.

Preceding this move and several competition laws brought in last year to protect domestic markets, Georgia's legal framework for trade was described in a 2018 OECD report as 'seriously undeveloped.'

However, the report did note the Georgian Competition Agency (GCA) is highly regarded in EU circles because of its 'track record', which suggested 'it would make good and responsible use of

the proper tools if it had them.'

NOW THAT IT DOES – HOW WILL THE ANTI-DUMPING MECHANISM BE USED?

Between January 1 and June 1, 2021 a new department will be created in the Georgian Competition Agency, which will receive and consider appeals on possible dumping activities.

Head of the Competition Agency Irakli Lekvinadze explains how the department will function: "We will look into a case only if more than 50% of the representatives of the local industry will put this problem on the agenda. However, their combined market share must not be less than 25%. We will then study the issue raised, and determine if the case is one of dumping. Finally, we will prepare a report, which we will send to the government for a response."

An anti-dumping measure may then be passed by the government if the GCA finds that the product is sold to Georgia at below market value of the same product

in the country in which it is produced, and if the practice is harming the local industry. A second condition that needs to be filled is that the share of the volume of dumped products exceed 5% of sales on the local market.

The point of the anti-dumping legislation is not to protect the country from cheap imports, but it is intended to stop foreign producers from selling their products at below cost price, in order to harm local companies and grab market share. In this way, it is a branch of competition policy, like anti-monopoly legislation.

Deputy Minister of Economy and Sustainable Development Genadi Arveladze notes that the law is in full compliance with the norms of the World Trade Organization and international standards, and that the law had been reached by consensus with all stakeholders, including businesses, and that it will not play a restrictive role in international trade.

WHO STANDS TO BENEFIT

"In the absence of an anti-dumping legal framework, [it has been possible] to import products from foreign countries at dumping prices. In some cases, dumped imports hinder the development of local production and reduce the number of employees. The law will protect local production from dumped imports and promote the development of local production," said Deputy Minister of Economy and Sustainable Development Genadi Arveladze.

Professor Vakhtang Charaia, head of the Tbilisi State University Center for Analysis and Forecasting, says the anti-dumping law will protect local businesses from the unfair practices of foreign manufacturers, and lists a number of the potential benefits:

"If we are able to protect local producers with an anti-dumping law – and

here we only intend fair support – then we will have to import less as well. This will also help us solve the trade balance problem. Less foreign currency will leave the country. The national currency will be more stable. Local enterprises employ more people than importing products and pays more taxes to the budget. In short, the anti-dumping law creates a series of positive events”, Charaia said.

Dumping has caused problems for Heidelberg Cement, one of the largest producers of cement and concrete in Georgia. Company lawyer Ketevan Tsereteli told Investor.ge that there are often cases of state-subsidised products coming in from Iran, Azerbaijan and Turkey – countries that, unlike Georgia, effectively protect themselves from such imports, and as a result, much of the pressure falls on Georgia and local production.

“The local industry is in a difficult situation due to unfair trade conditions imposed by foreign producers. Such trade conditions are imposed by importers unfairly to gain significant market share, often with the help of state subsidies. Jobs are lost, and the country loses existing and potential investors. Then, the consumer becomes dependent on the importer, who raises the price after the competition has been eliminated. In addition, there are numerous restrictions imposed by neighboring countries on the borders, which make it almost impossible to export Georgian products,” said Tsereteli.

Levan Silagava, the head of the Georgian Producers’ Federation, confirms that dumping has been an issue for local production for a long time. The federation unites about 150 companies and was created to protect local producers and to some extent to combat dumping.

Silagava says there has been resistance to the idea of an anti-dumping

law because of an opinion that if the opportunity to buy a product disappears at the dumping price, then it is consumers who will suffer in the end. In his opinion, this argument doesn’t hold much water: “Those who operate at dumping prices will eventually increase prices and hurt consumers after eliminating competitors and establishing a monopoly.” This, he says, will damage the consumer and the local manufacturer goes out of business.

The law has been constructed with a balanced approach, Silagava says, given that almost all business associations interested in this issue were involved in the discussion of the anti-dumping law.

“A balance has been struck here so that there is a common vision between importers and local producers on how the anti-dumping law will work. There are many checks and balances that have been placed in the law that will protect importers from harm, because the process of filing an anti-dumping appeal, launching a case and making a conclusion are not easy processes. Both importers and local producers have their own protection mechanisms,” Silagava said.

OPPONENTS

Not everyone agrees with Silagava, and many fear the anti-dumping law will increase prices, make the activities of importers more difficult, and increase prices for consumers.

Economist Irakli Makalatia says the anti-dumping law will place local producers in a ‘greenhouse environment’ and afford them too much protection. He notes Georgia is an import-dependent country (the share of imports in the total trade turnover is 71%), and that the solution to such a problem is promoting competition amongst imports, not stifling them. In creating artificial price barriers, this competition is hurt, and so is the consumer’s ability to buy products at a

lower price.

Makalatia points out that every coin has two sides – trade barriers could lead to the formation of undesirable externalities, such as local monopolies, and a rise in the share of smuggling and the black market.

Giorgi Papava, a leading economist at the ISET Policy Institute, also believes that the adoption of the anti-dumping law is premature and misguided. He says Georgia is trying to develop economically, promote free trade agreements and create a healthy business atmosphere. Thus, he says, the timing of the anti-dumping law at this time is ‘eyebrow raising.’

Papava says the risk of creating additional trade barriers is too high, and though he concedes an anti-dumping law may give local businesses the opportunity to enter international competition at some point, it would be better for the competitiveness of local production to be increased by other means.

“It is very difficult to determine what constitutes dumping. Whether Georgia has the relevant research resources is also a separate issue. It is important that such a law support local production, but not ultimately increase its competitiveness,” Papava said.

According to Papava, despite the fact that a number of EU countries have anti-dumping laws, Georgia has no international obligation to adopt this law.

Therefore, he says, even without this law, there will be no serious problems in Georgia’s expansion of international trade.

On the contrary – in his opinion, if Georgia actively starts applying the anti-dumping law, its image as a free trade-oriented country may be significantly damaged, which could in turn negatively impact the country’s economic development prospects.



Georgian waters flowing towards new export markets

WATER IS NOW VERY MUCH ON GEORGIA'S MIND AFTER A YEAR OF WEATHER EXTREMES, WITH LITTLE SNOWFALL IN WINTER AND POOR RAINFALL IN THE SPRING. HOWEVER, NEW EXPORT MARKETS IN THE MIDDLE EAST ARE THIRSTY FOR GEORGIAN WATER AND GREEN-BOND FUNDED INFRASTRUCTURE PROJECTS AIM TO HELP BETTER MANAGE THE COUNTRY'S WATERWAY RESOURCES.

SALLY WHITE

With its 26,000 rivers, over 2,000 mineral water springs, 800 lakes, 734 glaciers, and two huge snow-covered mountain ranges, water is something that until recently Georgia has largely taken for granted. But in a world of rapid climate

change, water-related issues are rapidly coming to the fore, presenting both new opportunities and new challenges.

At one extreme, exports of mineral water are climbing, with drought-hit countries in the Middle East slowly emerging as new markets in addition to the traditional former FSU buyers of Georgian brands, and they and Georgia's

water utility businesses are attracting millions of dollars of investment.

At the other, the Caucasus glaciers are melting, causing floods, landslides and erosion and exacerbating the devastation from rain, which now seems to come in torrents of monsoon dimensions – a trend forecast to worsen, as witnessed this summer in Racha.

However, when it comes to Georgia's mineral waters the story seems to be undiluted good news.

Fresh names are appearing on supermarket shelves and there is plenty of potential for more as Georgia has no less than 730 kinds of mineral waters suitable for balneological purposes and industrial bottling – even more than its grape varieties.

Just a tiny number of these are used either commercially or recreationally – eleven are listed in the National Standard of Georgia "Bottled Natural Mineral Waters". Only five of these are fully exploiting their potential – Borjomi, Nabeghlavi,

Sairme, Mitarbi and Phlate, according to a journal on Georgian mineral water by nine specialists at Ivane Javakhishvili Tbilisi State University's Alexander Janelidze Institute of Geology, who are promoting the possibilities for Uraveli, a mineral water deposit near Akhaltsikhe.

Assessing the Georgian mineral water market, research group Euromonitor states that "while Borjomi no longer leads brand sales in bottled water, strong awareness and trust in its quality have supported the expansion of other brands, making the company's product portfolio the widest on offer. Although Borjomi Georgia leads overall bottled water sales, the most popular brand in current value terms in the category is Nabeghlavi carbonated bottled water by Healthy Water. Initially positioned as a cheaper brand, Nabeghlavi managed to gain popularity within a category where competition

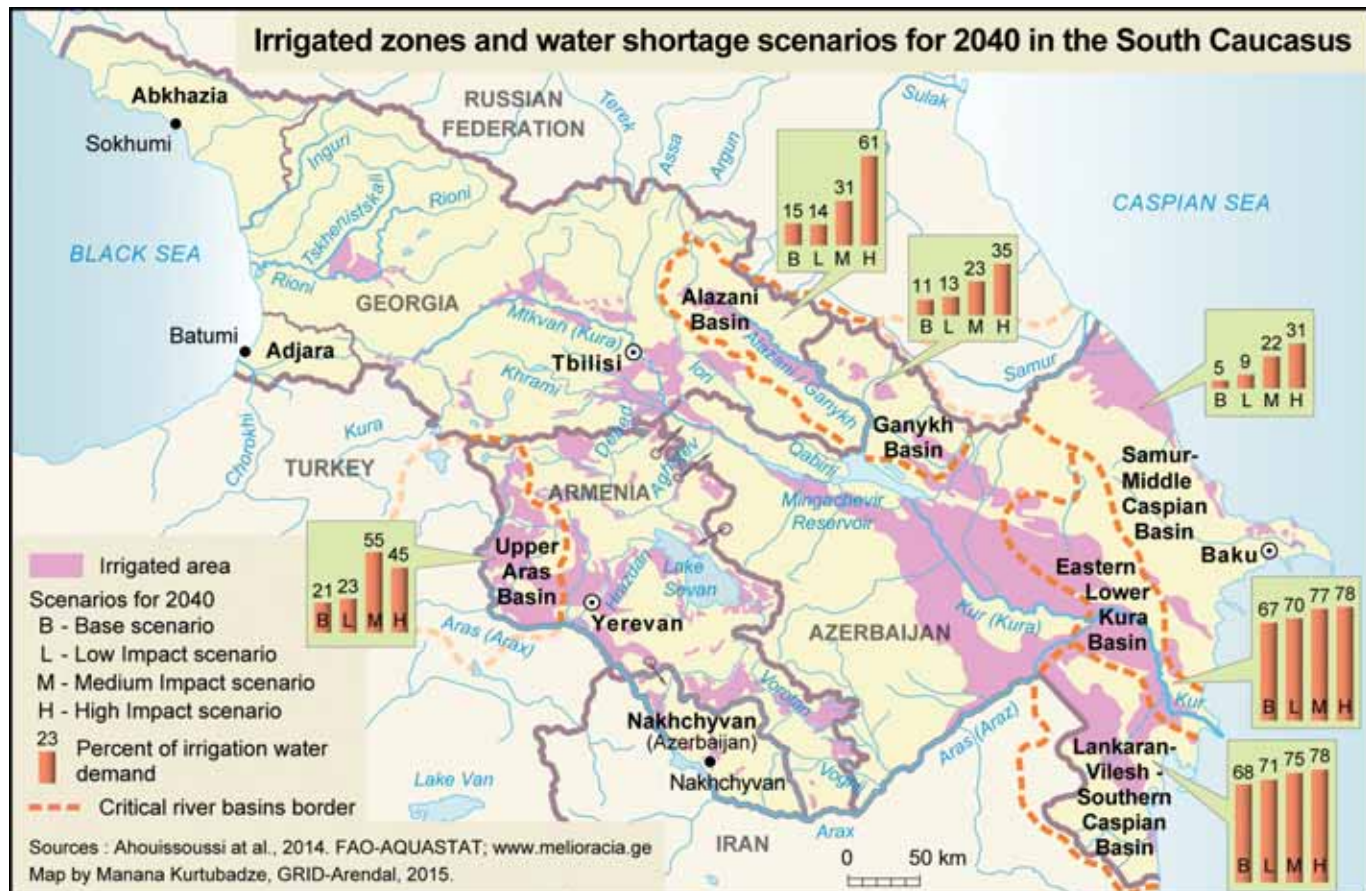
remains quite limited."

The Georgian tour company - Geofit Travel - is marketing most of the country's main mineral springs and spas as destinations and finding others barely heard of. Of course, it starts with Borjomi then continues with Nabeghlavi, whose water comes from the Gubaseuli River Gorge in Guria's Chokhatauri District; there is Sairme, sited 55 kilometers from Kutaisi in Baghdati district; the Gurian resort of Bakuriani deposits are producing low-mineralized water; Lugela mineral waters are located in the Chkhorotsku region near the village of Mukhuri in the Samegrelo-Zemo Svaneti resort of the same name; Zvare's deposit, which is rich in iodine, is located in Imereti; Tskhaltubo, seven kilometers from Kutaisi is famous for its thermal radon mineral waters; Shovi, from the mineral springs of the village of Shovi in

Racha, has water of several types; Likani is in the Borjomi valley at an altitude of 810 meters above sea level; Mitarbi comes from near the village of Patara Mitarbi in the Borjomi region; Bakhmaro is sourced from the mountainous resort in the Chokhatauri district of Guria, and lastly there is Sno, from southern slopes of the central part of the Greater Caucasus.

Newer on the market is Gudaauri mineral water, which, according to its press releases, started exporting last November, targeting the Russian market. However, its ambitions are for the Arab countries like Saudi Arabia, Kuwait, and the United Arab Emirates.

Mineral water exports last year, according to Geostat, totalled \$132.6 million and bottled fresh water neared \$1 million, together achieving a rise of 17.6 per cent. This went mainly to ►



Because of Georgia's complex geography, there are also predictions for some parts of the country to experience more droughts. In Shida Kartli, Kakheti and Upper Imereti, the frequency of droughts has already increased, "almost threefold in recent years" says a report on the outlook of climate change adaptation in the South Caucasus mountains, published last year with the support of the United Nations Environment Programme.

A Swiss funded paper from Focal Point Climate Change and Environment Network, also recently published, states that "the Caucasus will likely no longer rely on sufficient rainfall to meet summer demand by late century with increased dependence on depleted snow and glacier meltwater resources."

Georgia's average temperature rose 1.3°C, and the level of precipitation by 60 mm between 1990-2015, and is expected to increase by 3.5 °C by the end of the century, forecasters suggest.

On rainfall, the paper says: "precipitation is expected to increase in nearly all the territory up to 2050, but then drastically decline towards 2100", adding that "increases in heavy precipitation are expected with a concomitant risk of increasing floods, flash floods, mudflows and landslides in the mountain areas."

► Russia (\$60 million), then Ukraine (\$23 million), Lithuania (\$15 million), and Kazakhstan (\$14 million). Following were Belarus, Uzbekistan, Moldova, Azerbaijan, Kyrgyzstan, Tajikistan, Turkmenistan, China, Japan, Armenia, and Turkey.

Western markets included Japan, Israel, Greece, Germany, the US, and Canada. Figures for 2020's first quarter reflect the impact of COVID-19 on this business, with sales down 11 percent at \$30 million.

Water-based trouble with their neighbours is another dimension raised in various regional reports on water and security, pressing for agreements on sustainable management for transborder river systems as competition for water increases. Such agreements have yet to be reached in the South Caucasus.

As Conflict and Cooperation in the South Caucasus: the Kura-Araks Basin of Armenia, Azerbaijan, and Georgia, a report discussing the views of the OSCE, USAID/DAI, TACIS and NATO, pointed out: "In general terms, Georgia has an oversupply of water,

Armenia has some shortages based on poor management, and Azerbaijan has a lack of water. The main use of Kura-Araks water in Georgia is agriculture, and in Armenia, it is agriculture and industry. In Azerbaijan, Kura-Araks water is the primary source of fresh water and is used for drinking water. Almost 80% of the countries' wastewater loads are discharged into the surface waters of the Kura-Araks Basin."

In Azerbaijan, Eurasianet reported over the summer, the state of water supplies in Azerbaijan was reflected in the fact that residents of Baku's Ramana district have "for several years only had water for two or three hours a night." They add that the country's state television reported in June that the Kura's level

had dropped 2.5 meters in some places in recent months, causing water from the Caspian Sea to flow back into the river rather than – as usual – the other way around. The level of the Mingachevir reservoir, which is fed by the Kura, had dropped by 16 meters." The government said in July that it is examining the water situation 'urgently'.

Water's potential as a source of regional conflict, as well as of environmental damage, has not been lost on the EU, which has been pushing for the introduction of monitoring and co-management.

The European Union Water Initiative Plus for Eastern Partnership (EaP) Countries, which is the biggest commitment of the EU to the water sector in the EaP countries, has been helping Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine to harmonise river management and bring their water legislation closer to EU policies. It also addresses the challenges of developing efficient operational controls and cost efficiency.

While overall Georgia has plenty of water, poor access and sanitation is still a problem, especially in rural areas, according to a WGO/UNICEF paper which cites 2018's Geostat figures that 51 per cent of Georgians had no direct access to modern toilet facilities.

While progress is being made, it added, some of the infrastructure was outdated or had been destroyed, while in other places it has never existed. The government has made improving the situation a national priority, but online magazine Caucasus Voices commented that the problem was complex and extremely costly and time-consuming to solve. Indeed, work has been going on for years with the help of the EU and international organisations, and in 2019 alone the government put 300 million GEL towards repairing water supply and sewerage systems.

Investment has continued this year. The United Water Supply Company announced 202 million GEL to be spent on 67 water and sewerage infrastructure projects throughout Georgia in 2020. Also, as part of the on-going EU programme the French Development Agency agreed to provide €58 million in July for a project to finance the reconstruction of water and sanitation utilities in Khashuri.

In the same month, in a first for Georgia, “green bonds” to finance the upgrading of Georgia’s water and sanitation were announced by the Asian Development Bank (ADB) for modernizing Georgia Global Utilities (GGU)

infrastructure. GGU is owned by London stock-market-quoted Georgian Capital (which was formed by The Bank of Georgia).

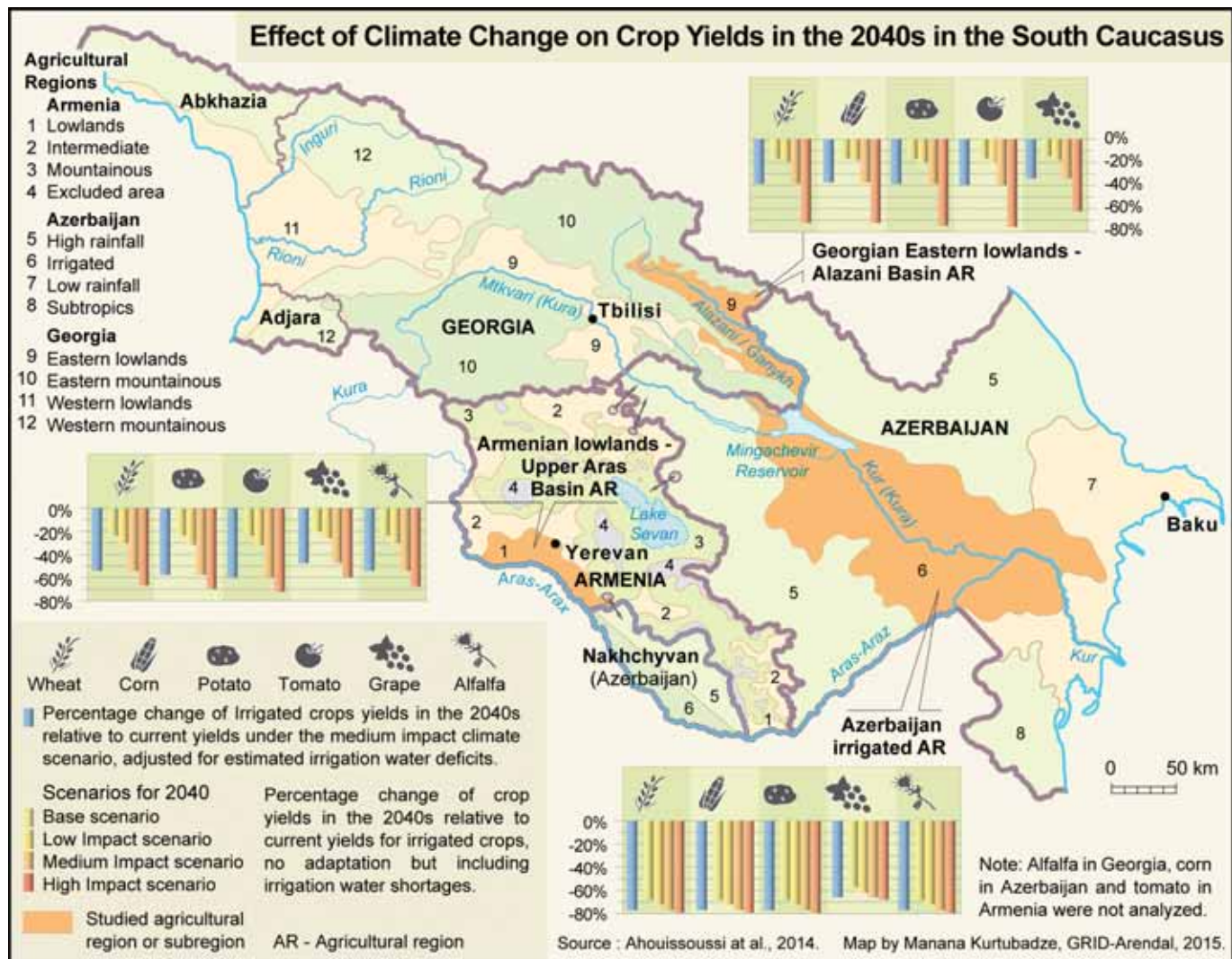
The ADB itself is putting up \$20 million and a further \$20 million will come from Asia’s Leading Private Infrastructure Fund and be administered by the ADB. The director of the ADB’s Private Sector Operations Department, Shantanu Chakraborty, said: “ADB’s assistance will help ensure that communities in and around Tbilisi are supplied with water 24 hours per day, and that water supply and sanitation systems in those urban centers function properly.”

Funding is also being sought to re-

pair and restore Georgia’s balneological infrastructure, as mineral waters are such an important feature of the country’s tourism.

While Likani and Borjomi have been given restoration treatment, the former luxurious Soviet spa town of Tskaltubo is now a museum of decaying splendor, most of its elegant sanatoriums abandoned, roofs open to the sky, and home only to refugees.

Invest in Georgia’s dream has been that Tskaltubo, so famous between the 1930s – 1950s, should once again be a prestigious international water playground, and “the 2nd largest Medical and Wellness SPA destination in Europe”.



TBC Capital: checking in on the recovery's macroeconomic vital signs

IN ITS MACRO-SECTORAL OVERVIEW PUBLISHED IN MID-SEPTEMBER, TBC CAPITAL TAKES A LOOK AT SOME OF THE MOST IMPORTANT VITAL SIGNS OF THE GEORGIAN ECONOMY AND CHECKS IN ON SOME OF THE FINANCIAL TENDENCIES OF THE RECOVERY FOLLOWING THE INITIAL SHOCK OF THE CORONAVIRUS PANDEMIC. INVESTOR.GE, IN PARTNERSHIP WITH TBC CAPITAL, PRESENTS SOME OF THE MAIN HIGHLIGHTS OF THE REPORT.

COVID-19 SPREAD DYNAMICS, TOURISM EXPECTATIONS

After an initial summer lull, the spread of the virus has accelerated in Georgia as it has in a number of other countries, the report notes.

On the flip side, improved treatment methods have led to lower fatality ratios in developed countries, and the **vaccine** is expected to become available in the coming months, with nine candidates in the final stages of development in phase-III human trials, and the vaccine is expected to be widely available in late 2020 or early 2021, with the US CDC having already notified local officials in all states to prepare for vaccine distribution for high-priority groups as early as November 1, 2020. Meanwhile Georgia has already registered to receive as many as 700,000 doses from the Global Vaccine Alliance once a vaccine is approved.

These events point to a likely significant recovery in tourism sometime in the second quarter of 2021, TBC Capital forecasts, though notes inflows will remain around 50% down compared to 2019; a return to pre-crisis levels of passenger flows is forecast only for the beginning of 2022.

By the end of 2020, TBC Capital expects tourism will have dropped year on year as much as 83%, noting that while **Remotely from Georgia** – a government program meant to attract freelancers to travel and work from Georgia – may provide some cushioning if the global situation further deteriorates, it will likely have a limited immediate impact.

KEY MACRO PARAMETERS

GDP growth is expected to drop within the range of 5.0-5.5% in 2020, however given increasing infection numbers, without an additional fiscal stimulus the growth outlook for the year is moving towards the lower end of the range, though the economy is still expected to recover in 2021. Fiscal stimulus will remain a major driver until the recovery of tourism.

But there's quite a bit of good news this month too: TBC Capital has revised upwards a number of macro parameters

towards positive trends.

The labor market has proved more resilient than expected, with the number of employees decreasing by just 2% YoY in Q2 2020. Among the more affected sectors are arts and entertainment, professional services and HORECA. Overall, **employment** is recovering, having posted 1% QoQ growth in Q2 2020.

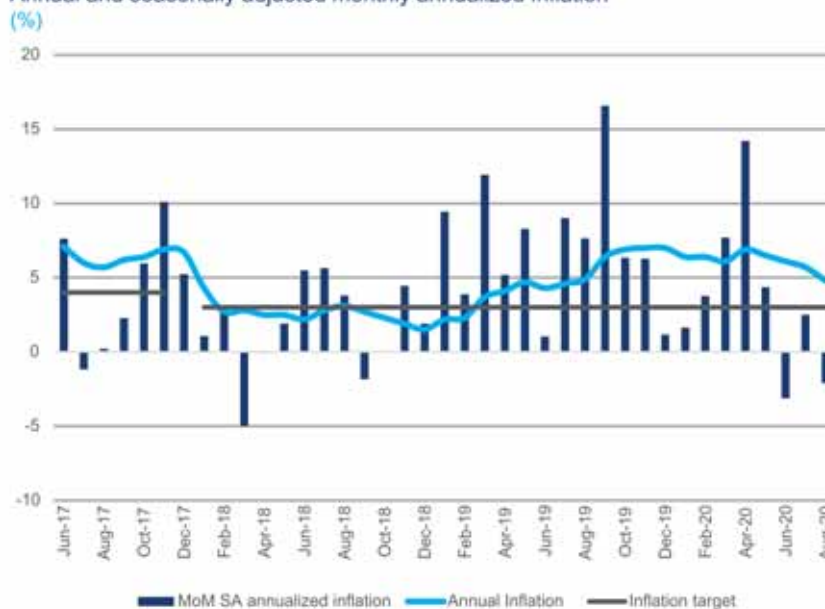
In its August report, TBC Capital previously forecasted a decrease in **FDIs** for 2020 as low as -55%; while in September, this number has been revised upwards to -35%.

Credit growth has been stronger than earlier expected with increased GEL lending, and **inflation** is also decreasing more strongly than expected, with an expected return to the 3% target by the end of 2020.

However, the report notes, inflationary pressures can build up again quickly if there should be further depreciation in the GEL.

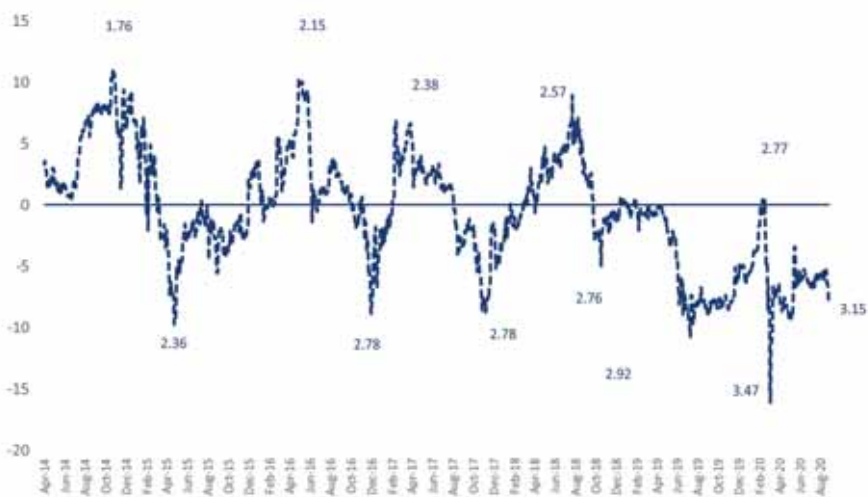
By December 2020, given the relative stability of the currencies of Georgia's main economic partners against the USD,

Annual and seasonally adjusted monthly annualized Inflation



Source: NBG, TBC Capital

Daily estimates of the GELREER; deviation from the period average
(as of 15th of September, 2020; increase indicates appreciation of the GEL)



Source: NBG, TBC Capital

the USD/GEL **exchange rate** is expected to stand at around \$1/3.15 GEL.

EXPECTED IMPACT ON THE BUSINESS ENVIRONMENT

The recovery in the hospitality sector continued in August, with growth more visible in the regions (-49% YoY in August, compared to -59% in July).

Large and medium size hotels display dynamics that are more positive; turnover in Adjara hotels improved significantly in August (-45% YoY, compared to -54% in July), while performance was more modest in all other regions. The recovery has been the smallest in Tbilisi and Kvemo & Shida Kartli.

YoY change in transactions in the residential real estate sector stood at -17.4% in August, up by circa 1pp compared to July. New apartment sales were down just 12% YoY in August, a significant improvement compared to the 22% decline in July. Prices in USD continue to decline for old apartments (-4.1% YoY) and increasing for new properties (+1.0% YoY), as demand started to shift to new units. As of 8M 2020, real estate sales have decreased

by -35% YoY.

The government's mortgage subsidy program has been of assistance here: since July 6, 38% of mortgages were ben-

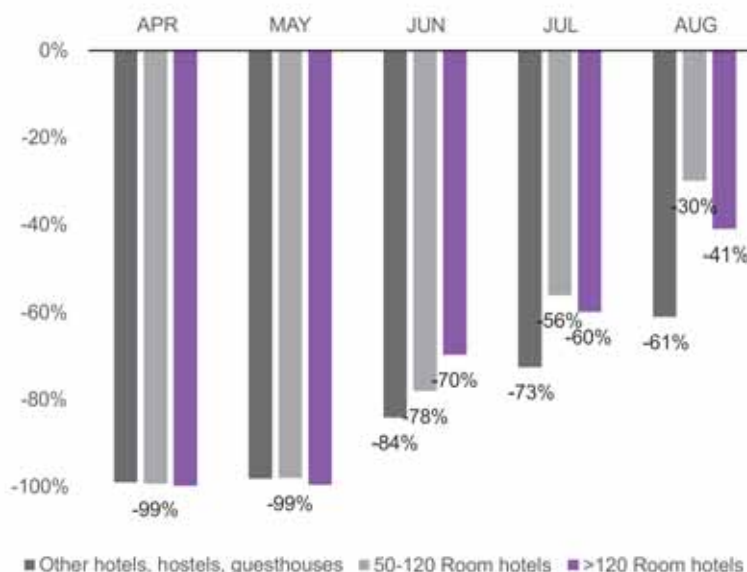
eficiaries of the state subsidy program, according to TBC internal data.

Among surveyed companies in the commercial real estate sector, shopping malls continue to face more declining revenues than street retailers. In the sector the overall rent income is expected to decrease by 20-25% in USD throughout the year.

In construction, in Q2 2020, a sharp decline has been observed in the construction turnover of residential and non-residential buildings (-34% YoY). Infrastructural construction remains more resilient (2020 6M +1%). Total construction turnover is expected to decrease by -15% YoY throughout the year.

Meanwhile, the FMCG sector is expected to sustain 2019 levels in 2020 in nominal terms, with a growing share of the organized market. Revenue is expected to remain broadly the same in 2020, with losses from tourism (570 million GEL) and restaurants (180 million GEL) compensated by increased consumer spending (750 million GEL).

Change in service revenue in the regions
(YoY, %) in 2020: By size



TBC CAPITAL

www.tbccapital.ge



New FX market reforms, Bloomberg trading platform seek to bolster lari liquidity

ANA MEZVRISHVILI

Georgia's National Bank is taking an adventurous step in response to encouragement from international financial institutions (IFIs) to develop the local financial markets and increase international interest in the lari.

Signing up as client of international financial and media services provider Bloomberg's Bmatch platform, the bank hopes to strengthen major reforms coming into force on October 1 to implement the FX Global Code – principles of good practice followed in markets world-wide to promote effective functioning of the wholesale foreign exchange market and to increase liquidity and transparency.

At a time when the lari is under pressure, the NBG believes that these moves will give confidence in Georgian finance markets and widen international as well as domestic participation by making them more competitive, and in doing so comply with IFI advice.

Action to "further develop the local capital market" was called for by International Monetary Fund managing director Christine Lagarde on her visit

last year; the World Bank's website states on its Georgia page that it is working to "foster financial diversification and build up foundations for more competitive, transparent...markets"; for the European Bank for Reconstruction and Development a major focus is "developing local currency and capital markets to enable the private sector to have better access to finance."

The NBG has been working for some months with support from the United States Agency for International Development (USAID) to ensure Georgia's foreign exchange market users understand the FX Global Code. USAID brought in international experts to help in training. The Bmatch platform has been trialled since March and is being actively used by 15 banks, four microfinance organizations and one large corporation in Georgia, with about \$200 million already having been traded.

Guidance from NBG on the new procedures is that the trading terminal will be used not only by commercial banks, microfinance organisations and brokerage companies, but also by non-resident and resident investment funds and com-

panies engaged in import-export.

This means that entities who want to buy and sell currency should find it easier to connect and to deal at more favorable rates. With the potential to attract hundreds of participants the platform, it is hoped, will increase liquidity and reduce spreads (the difference between selling and buying bids).

Companies will be able to trade on the platform independently, without the mediation of banks. This last point should be attractive to companies with large foreign exchange turnovers, and for whom the monthly cost of signing onto the terminal would be commercially justified.

The Bmatch platform will allow users to deal by indicating the amount of the currency they wish to trade and their target exchange rate.

When buying and selling rates coincide, the system automatically completes the transaction anonymously. Only once the deal is done will the parties to the trade be revealed.

So far there have been mixed responses to these reforms, but among those pro is Levan Surguladze, chair-

man of the Supervisory Board of the Caucasus Business Group, who has had wide experience of international capital markets when running leading US and European-based investment funds.

He believes the platform will promote more effective pricing, thanks to the increased liquidity.

“The foreign exchange market will become more efficient, which means that prices will be more properly regulated. The information that is available in the market will be more quickly and fully reflected in the relevant prices. Consequently, this is a step forward. In addition, the Bmatch platform is an additional comfort for investors”, said Surguladze.

Also, in favor is Levan Vepkhvadze, executive director of the Business Association of Georgia, who said: “After the publication of the Code for the FX

market, the National Bank of Georgia started working to introduce it on the Georgian market.

As a result, procedural rules for foreign exchange market participants have been developed, which aim to increase transparency and competition and establish fair, equal conditions for market participants and better protect the interests of their clients.”

However, at Thales Investment Group, Vasil Revishvili is skeptical how much these moves will help the lari. “Sure, this may increase the number of players on the exchange. But this will not affect the GEL exchange rate, nor will it have the effect of stabilizing it, because demand and supply will not change. What is positive is that there will be less risk of potential manipulations on the market”, financier Revishvili says.

More doubt is cast by financial analyst Lia Eliava, who believes the platform will have an unfavorable impact on the national currency: “This is not a fundamental change. It will simply make it easier for the National Bank to keep track of how commercial banks operate in the foreign exchange market. As for the involvement of other foreign companies in trade, I think it will further increase the volatility of our national currency,” says Eliava.

However, the NBG says it will monitor potential risks, and will periodically make transactions on the platform if needed. Such transactions, the NBG says, are particularly effective when there is reduced liquidity in the market. In addition, the National Bank has set trading rules for Bmatch participants and will monitor their compliance.

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New law on investment funds

Historically, access to finance has been a major challenge for businesses in Georgia.

In response to the above problem, in recent years the National Bank of Georgia (NBG) has championed a number of reforms to strengthen capital markets in the country and create alternative sources of funds. Setting up a functional legislative framework for investment funds has long been declared part of this agenda. Although the previous law was around for almost 7 years, it fell short of any modern standard.

investment funds without first obtaining authorization or registration with the NBG.

From the standpoint of a target investor base, the new law differentiates between authorized investment funds (which have the authority to raise funds from retail investors through public offerings) and registered funds (aimed primarily at qualified investors and authorized to raise funds through private offerings only). Following best international practice, the registration requirements, as well as the scrutiny of regulation, is much more extensive for authorized funds since retail investors are considered more vulnerable due to the lack of experience and funds required to bear risks associated with investment activities.

The law defines public offering as an offering of securities to more than 20 retail investors. It is worth noting that this is a stricter standard since, under general circumstances, the Law on Securities Market considers offering of securities as public if the offering is made to more than 100 persons or unidentified pool of addressees.

When it comes to legal form, an investment fund can be registered in the form of an incorporated entity such as a limited liability company, a joint stock company or a limited partnership (investment company) or a contractual scheme (common fund). Investment companies are not obliged to contract an asset manager, while common funds have such obligation. Both investment companies and common funds can obtain the status of registered fund or an authorized fund and thus, they will be subject to the relevant level of regulatory oversight. Regardless of the opted legal form, the law provides for limitation of liability of the investors for the activities of the investment fund and vice versa.

The law also differentiates open and closed funds. Investors in open funds have the ability to exit the fund any time through exercising their redemption rights, while no such right exists in close funds until the latter is liquidated. The valuation and financial reporting requirements are thus different for open and closed funds. As a mixture of these two sub-categories, the law also regulates interval funds, which periodically offer investors the possibility to buy back a percentage of outstanding shares at net asset value.

A special procedure is introduced for the recognition of foreign investment funds. For such recognition to be obtained, the following conditions must be satisfied: the country of origin must allow public offering of units; it must not be categorized as non-cooperative by the FATF (Financial Action Task Force), and it must have a legislative framework comparable to the one established for authorized funds in Georgia.

As mentioned above, among other actors, the new law sets regulatory requirements for two entities instrumental to the functioning of the investment fund: (1) asset manager companies, which are entrusted with the competence to manage the fund's portfolio and risks; and (2) special depository, which has the obligation of safekeeping the fund's assets and exercising oversight over the asset manager's activities. To exclude any potential conflict of interest, asset manager and special depository cannot be the same person. Only the authorized funds have the obligation to contract special depository.

Certainly, the structure of investment funds cannot be functional without a proper tax framework.

This is why related amendments were also introduced to the Tax Code of Georgia. According to these amendments, activities related to the management and administration of investment funds is categorized as financial services and thus, exempt from VAT. As regards corporate income tax, the tax code attempts to treat an investment fund as a pass through entity to ensure that the tax burden of the investors is not increased due to involvement of intermediary into the structure rather than investing directly.

The sophistication of the Law on Investment Funds creates high hopes for the sector, while it is also understood that much will be dependent on how the law is administered, interpreted and enforced. Meanwhile, we remain hopeful that it will prove to be what every enthusiast of the field hopes for – a new breath for development and innovation of otherwise quite stagnant financial markets of Georgia.



Giga Batlidze
Partner



Tamta Ivanishvili
Partner

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CONTENT



45

TOGETHER AGAIN AFTER SO LONG

45 AMCHAM HOLDS FIRST COCKTAIL RECEPTION SINCE LOCKDOWN

46 AMCHAM ORGANIZES DAY TRIP RAFTING TOUR

47 NEW MEMBERS

48 MEMBERSHIP DIRECTORY

52 BOARD OF DIRECTORS

AMCHAM HOSTS FIRST COCKTAIL RECEPTION FOLLOWING LOCKDOWN



AmCham Georgia hosted a cocktail reception on July 17 at the beautiful outdoor space of Stamba Hotel. AmCham President Mr. Michael Cowgill greeted guests and noted how pleasing it is to be able to safely meet again in person, after these difficult times.



CLT COMMITTEE MEETING DISCUSSES LAW ON ENTREPRENEURS



AMCHAM ORGANIZED A CLT COMMITTEE MEETING ON JULY 24 TO DISCUSS THE DRAFT LAW ON ENTREPRENEURS WITH THE INVOLVEMENT OF CO-DRAFTERS OF THE LAW - GIORGI JUGELI OF THE INVESTORS COUNCIL AND SHALVA PAPUASHVILI OF GIZ.

AMCHAM GOES RAFTING

AmCham Georgia organized a day rafting tour on August 15 for member company representatives, their families and friends. There were around 60 attendees. After rafting on the Aragvi river, guests had lunch and mingled at the Jomardi Adventure Camp facility by the river, and the kids made use of the high-wire tree climbing! AmCham members were joined by US Ambassador Kelly Degnan and a number of other members of the Embassy team. A great time was had by all.





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Mondelēz International empowers people to snack right in over 150 countries around the world. The company is leading the future of snacking with iconic global and local brands such as Oreo, belVita and LU biscuits; Cadbury Dairy Milk, Milka and Toblerone chocolate; Sour Patch Kids candy and Trident gum.

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The company operates in more than 80 countries and employs around 80,000 in its factories, offices, research & development facilities and distribution activities around the world.

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