Tbilisi Art Fair: curating Georgia's image as a regional art hub

What's behind the lari's recent fluctuations?

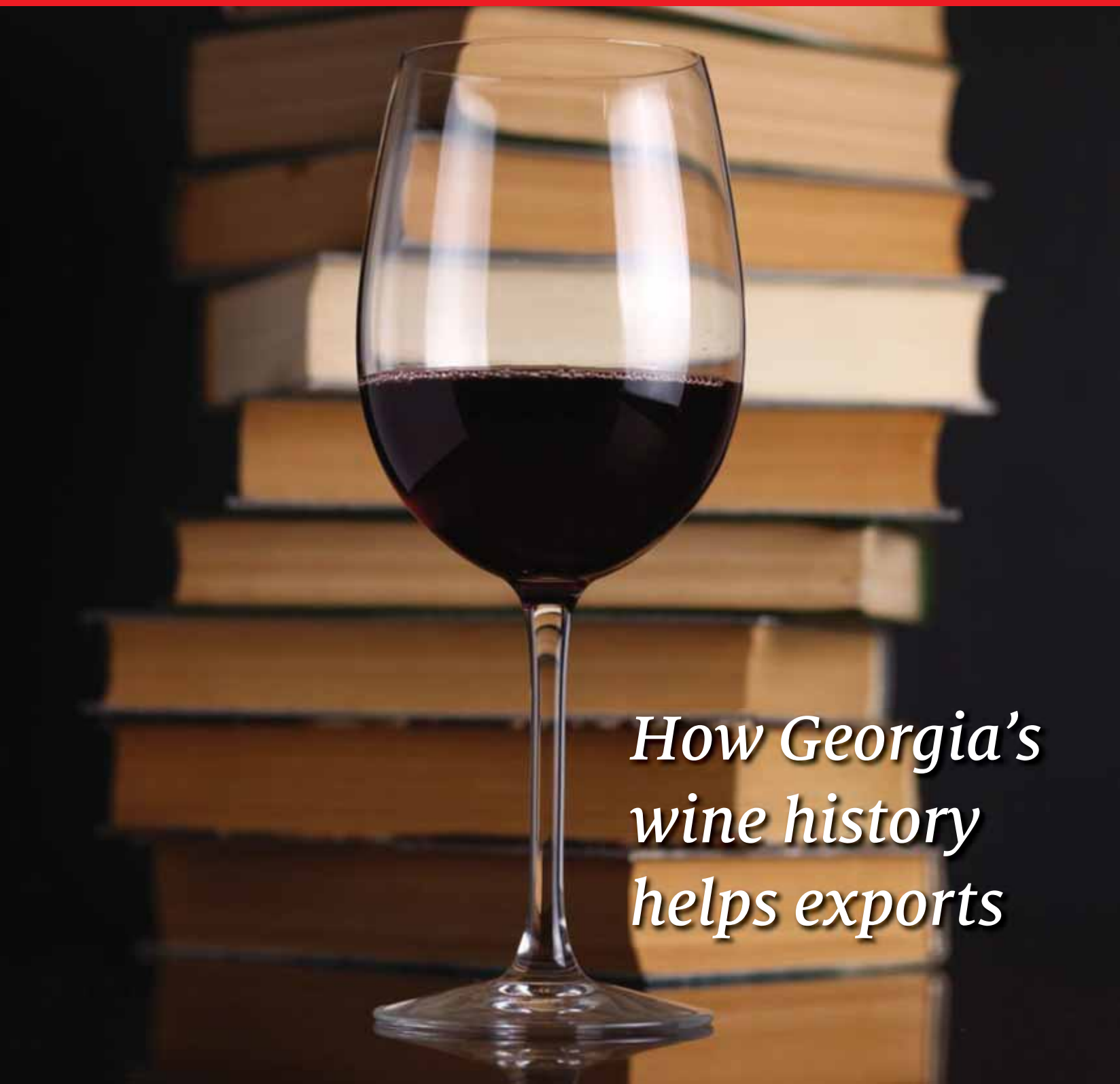
Georgia's airports navigate the post-Covid travel boom

Investor.ge

AMCHAM A Magazine Of The American Chamber Of Commerce In Georgia

ISSUE 86

OCT.-NOV. 2022



How Georgia's wine history helps exports

LEVEL UP YOUR TRAVEL EXPERIENCE

Our company is established by the country's leading pilots, whose experience in this industry, is the airline's greatest pride and driving force. Prior to founding the company, they served to all presidents of Georgia, senior government officials, celebrities, and more. Their experience encompasses passenger, cargo and military aviation. Knowledge of every detail of the aviation industry, love of their profession and vast experience have made the company a leader and innovator in the country. The company's engineering, operational control center and management team is also the pride of the **TCA Airlines** as they are staffed by the leading individuals in their field.

We are all one team, we are not afraid of difficulties and new challenges.
We believe that by our efforts we make the sky safer, more comfortable and attractive.
Our core values are customers and we believe that **TCA Airlines** helps them find Exclusive and Harmonious place in time and space.

www.tca.ge

TCA
YOUR PLACE IN TIME AND SPACE

QUALITY MAKES ~~A~~ THE DIFFERENCE

The unparalleled and uncompromised quality of our legal work is what has made the difference to our clients in their day-to-day operations in the past quarter century

Gvinadze & Partners
QUALITY MAKES DIFFERENCE

Gvinadze & Partners LLC
10 Melikishvili Street, Tbilisi 0179 Georgia
T + 995 322 438 970 / + 995 322 438 971
E info@gvinadzeandpartners.ge
W www.gvinadzeandpartners.ge

CONTENT

16

28

30

35

6. Investment News

10. G&T: Georgian electricity market posts first trade surplus in a decade as global energy prices rise

12. Adapting HR needs amid Georgia's shifting tourist landscape

16. How are Georgia's airports navigating the post-Covid travel boom?

18. Tbilisi Art Fair: curating Georgia's image as a regional art hub

22. BLC: Snail-paced justice in Georgia & the need for procedural reform

24. Georgia's advances toward an innovation economy

28. TBC Capital: a turbulent 2022 for Georgian wine exports, return to growth expected in 2023

30. Georgia's renewable energy opportunity

32. What's behind the lari's recent fluctuations?

35. Tskaltubo: Georgia's next hot (spring) spot

36. How Georgia's wine history helps exports

AmCham NEWS 40

THE BEST CLOUD PLATFORM FOR BUSINESS IN GEORGIA

- UGT Cloud Datacenter with high-level Protection and Reliability
- Microsoft Authorized Cloud Provider (SPLA)
- VMware Authorized Cloud Provider (VCPP)
- ISO / IEC 27001 Certificate for Information Security Management
- ISO / IEC 20000 Certificate for SLA and IT Service Management

UGT Cloud

www.ugtcloud.ge / welcome@ugtcloud.ge

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.

Georgian economy to grow 7% in 2022, 6% in 2023 - ADB

The Asian Development Bank projects the Georgian economy will grow 7% in 2022, "driven by higher export and tourism revenue, a large inflow of money transfers, and strong private consumption," the bank said in a report released on September 21.

The ADB also forecasts Georgia's real GDP growth to be 6% in 2023, an increase from previous estimates in April, which projected growth of 3.5% in 2022 and 5% in 2023. Inflation is projected to hit 11% in 2022 before slowing to 5% next year.

"Georgia has seen significant growth in tourism and exports which indicates that the country is overcoming the adverse effects of the pandemic," said ADB Country Director for Georgia Shane Rosenthal.

National bank applies to join euro payments system

The National Bank of Georgia on September 20 applied for the country's membership in the single euro payments area, which would make cross-border payments in the currency as simple as national payments.

"Georgia is the first country in the [South Caucasus] region to apply to join SEPA," the bank announced, noting that membership would benefit the credibility of Georgia's financial sector in the international arena, simplify trade relations with the European Economic Area, and provide Georgian citizens with cheaper services. The NBG also stressed the significance of the latter point considering the "growing trend of remittances from EU countries."

The application for membership will be reviewed by the European Payments Council at its next session scheduled for November.

Jobs, rising prices, poverty top national concerns - NDI

Jobs, rising prices, and poverty were named as the top national concerns in a new survey released in mid-September by the National Democratic Institute and CRRC Georgia.

When asked about the most important national issues facing citizens, 36% of respondents named jobs, 35% noted rising prices and inflation, and 32% highlighted poverty.

The majority of respondents said the situation regarding territorial integrity, poverty, and crime had worsened over the last 10 years. The survey also noted that ethnic minorities were more likely than others to name poverty as their most pressing concern.

The nationwide survey was conducted between July 14 and August 15 through face-to-face interviews with a nationwide representative sample of Georgia's adult population, excluding the occupied territories.

Domestic exports up 36.9% January-August

Georgia exported locally produced goods worth $3.57 billion between January-August, which is a 36.9% increase YoY, preliminary data from Geostat

shows.

Georgia's top trading partners in the first eight months of the year were China ($472.2 million), Russia ($350.6 million), and Turkey ($295.6 million). The five largest domestic export goods of Georgia were: copper ores and concentrates (27.5% of total exports); ferro-alloys (14.7%); nitrogenous fertilizers (7.7%); wine from fresh grapes (5.9%); and electrical energy (3%).

Fitch affirms Georgia's BB rating

Fitch Ratings, a global financial ratings firm, has affirmed Georgia's credit rating at a BB level, with a "stable" outlook for the country's financial developments.

The international credit rating agency said Georgia's rating was underpinned by "a credible and effective policy framework and stronger governance indicators" relative to peers with the BB rating, as placed on a spectrum from AAA to D rating assessments.

In an update on July 29, Fitch underscored that the Russian invasion of Ukraine had so far been a "large positive economic shock" with high levels of Russians, Belarusians, and Ukrainians entering Georgia, resulting in a surge of remittances by 65% YoY in the first half of the year.

The global credit rating agency also noted that the increase in remittances would facilitate the decrease in the current account deficit to around 5.1% of GDP in Georgia in 2022, meaning it would remain "well above the current BB median of 3.5%." The report also said foreign exchange reserve coverage would average 4.5 months of current account payments in 2021-2024, noting a $280 million stand-by arrangement of the IMF for Georgia was "positive for external liquidity risks," although authorities are currently treating the deal as a "precautionary facility."

Freight income highest in 7 years - Georgian Railway

Georgian Railway made over GEL 191 million ($70.4 million) in income from freight in the first six months of 2022, the highest figure over the last seven years, the company announced in early August.

The company transported a total of 6.8 million tons of cargo in the first two quarters of the year, marking a 13.3% increase compared to the previous year. The statement also noted that Georgian Railway had maintained an increasing trend in freight transportation since 2018, with figures increasing in all directions, including China, Kazakhstan, the Middle Corridor, and the Baku-Tbilisi-Kars route.

Additionally, freight increased for the following types of cargo: fuel oil from Kazakhstan; crude oil from Kazakhstan; methanol from Azerbaijan; carbide from Turkmenistan, Uzbekistan, and Azerbaijan; and raw sugar from Central Asia. In his comments, Georgian Railway Director General Davit Peradze said the main challenge of the company remained unchanged in attracting new loads to the freight corridor and maintaining them in the long term.

Average salary in Georgia up 16% in Q2

Average monthly nominal earnings in Georgia increased by GEL 213 ($75) to GEL 1,541 ($544) in the second quarter of 2022 compared to the same period of the previous year, marking a 16% increase, Geostat reported on September 15.

The highest monthly earnings were observed in the following sectors: information and communication – GEL 3,109 (+43.1%); financial and insurance activities – GEL 2,671 (+13.4%); construction – GEL 2,178 (+8.5%); and mining and quarrying – GEL 1,026 (+16.6%).

Average earnings for women reached GEL 1,241 (about $438), while men, on average, earned GEL 1,828 (about $645).

In the second quarter of the year, average monthly earnings of hired employees in the business sector increased by GEL 236 (about $83), or 17%, and equaled GEL 1,626 (about $574). Average monthly earnings of hired employees in the non-business and financial sectors increased by GEL 170 (about $60), or 13.9%, and reached GEL 1,397 (about $493).

Revenue service announces electronic customs declaration

The revenue service of the Ministry of Finance of Georgia recently announced that preliminary declarations of goods in customs procedures across the country would be moving to electronic forms starting from September 26.

The agency said preliminary decla- ▸▸

rations would be facilitated through the official website of the revenue service. It noted that free zone procedures would be an exception, and declarations could also still be presented in physical form.

EBRD vows "continued support" for Georgia

President of the European Bank for Reconstruction and Development Odile Renaud-Basso pledged the institution's "continued support" for Georgia's economic advancement in the wake of the bank's investment of €4.9 billion in 270 projects, she said during a visit to the country in September.

After a meeting with Georgian economy and finance ministers and the deputy minister of regional development and infrastructure in Tbilisi, Renaud-Basso said 79% of the overall investments had been used for funding the Georgian private sector.

Expressing support for further development of small, medium, and large energy projects in Georgia, Renaud-Basso said the bank was also interested in the development of Georgian transport infrastructure. In a separate interview, Renaud-Basso also pledged support for the Georgian government to turn the country into a logistics hub by strengthening intra-regional connections amid increased demands for alternative routes connecting Europe with Asia after Russia's invasion of Ukraine.

Finance Ministry, KfW sign loan to upgrade Tbilisi transport

The Ministry of Finance of Georgia and the German Development Bank signed a €47 million loan and €1.5 million grant agreement to develop a smart transport system and transit corridor in the Georgian capital of Tbilisi, the Ministry of Finance of Georgia announced in September.

A statement by Tbilisi Mayor Kakha Kaladze noted that the system will include a data platform, road sensors, and flow management technology that will enable real-time traffic and parking management in Tbilisi. He added that it will also facilitate the movement of public transport and emergency crews.

The project will be implemented by Tbilisi City Hall's Municipal Transport and Urban Development Agency.

142,000 tons of grape processed in Kakheti harvest

Factories have processed 142,000 tons of grapes from the ongoing harvest in Georgia's eastern winemaking region of Kakheti, with about 13,000 growers generating GEL 141 million ($48.45 million) in income so far, the National Wine Agency announced on September 22.

This figure is slightly lower than the 164,000 tons of grapes that had been harvested by this date during the previous year; however, this is, in part, due to the early start of the harvest in August 2021 as growers responded to heavy hailstorms that damaged their crops.

The Georgian government announced in August that it has allocated GEL 150 million (about $53 million) in subsidies for the 2022 seasonal harvest due to expectations of a "record-high grape yield." Prime Minister Irakli Garibashvili pledged at the time that "not a single kilogram of grapes will be left behind" in accepting produce from farmers.

August tourism revenue hits record $523 million

Georgia's revenues from tourism reached $523 million in August, a 26.7% increase from the same month in 2019 and a 163% increase over August 2021, the country's tourism administration said in September.

The administration said that August revenues had surpassed pre-pandemic figures for the second time, adding the country had received $2.1 billion in income from tourism between January and August.

Responding to the data, Deputy Economy Minister Mariam Kvrivishvili said "we can be proud of the figures. We welcome that the tourism industry continues to develop and recover with positive dynamics."

500 Global to train Georgian startups

The Georgian Innovation and Technology Agency announced in early August it had signed a $6.4 million deal

with 500 Global, a venture capital firm, to train startups in Georgia over the next four years.

Held twice a year, the global acceleration program will provide an opportunity for Georgian startups to undergo an intensive training course, with the winning startup of each cohort to participate in an international program organized by the global firm. Georgian Economy Minister Levan Davitashvili said that local startup companies were given the opportunity to be "more successful and competitive" with the participation of a "professional and experienced" accelerator in Georgia.

He also said a total of 28 startups were trained in Georgia since 2020, when the firm first entered the country, noting that the startups were able to grow by 212%, create a value of about $100 million, and attract multi-million dollar investments, which resulted in the creation of "successful companies" in the field of innovation.

In 2020-2021, Global 500 conducted two acceleration programs in Georgia, which were attended by 30 Georgian and international tech startups, with four of the startups (CARDEAL, Cargon, Payze, and Agrolabs) traveling to Silicon Valley and participating in the final component of the program. Founded in 2010, Global 500's portfolio includes 45 companies valued at over $1 billion and more than 130 companies valued at over $100 million.

Georgia, UAE strengthen economic ties

Georgian Prime Minister Irakli Garibashvili and Ahmed Ali Al Sayegh, the State Minister of the United Arab Emirates for Economy and Trade, announced talks on a free trade agreement between the two countries following their meeting in Tbilisi on September 13.

The talks started in September in a bid to upgrade the current trade and economic ties, the government administration said, with Al Sayegh praising Georgia's "favorable business environment" and noting a number of projects were being implemented in the country with UAE investments. "The interest to invest in Georgia from the UAE is increasing," the administration cited Al Sayegh as saying.

During the visit, Georgia and the United Arab Emirates also signed a memorandum to establish a joint business council. Georgian Economy Minister Levan Davitashvili noted that the UAE represents an "important prospective economic partner" for Georgia amid increasing interest in cooperation in the fields of energy, transport, real estate, and hotel infrastructure.

This news follows the recent announcement in March 2022 that Georgian citizens may now enjoy visa free travel to the UAE.

New program helps Georgian agriculture export to high-value markets

The USAID Agriculture Program, Enterprise Georgia, and Georgia's Rural Development Agency have launched a new program to establish export market connections for Georgian companies involved in agriculture business.

Enterprise Georgia announced the initiative at the end of August, saying it would aim to connect Georgian producers with interested buyers in Germany and Persian Gulf countries. It also noted about 80 export-oriented enterprises producing blueberry and walnut crops and processing food were selected for the program. As part of the move, a "large international consulting company" will work closely with the Georgian companies to help them formulate their export offer, the agency noted.

In addition, the program aims to help Georgian companies find buyers in target export markets and establish business deals. "The program will support dozens of Georgian companies and give them the opportunity to start exporting their products to high-value export markets," Enterprise Georgia said.

Government to hire consulting group for Anaklia port

The Georgian government has plans to hire a consulting group, which will ensure aid in selection of investors and other mandatory procedures for facilitating the construction of the deep sea port in Georgia's Black Sea town of Anaklia, Georgian Economy Minister Levan Davitashvili said on September 12.

Speaking to media following the government cabinet meeting, Davitashvili said the previous 2014 tender for selecting investors for the project and completion of several mandatory procedures over five years until 2019 meant authorities could skip several stages and "speed up" the construction process by selecting new partners with the help of consultants.

"Now the government is in need of a consulting group or groups which will draft conditions for selection of investors very professionally," Davitashvili said, noting the government "already has sufficient information" to correctly formulate the conditions and choose the "right partners." ■

G&T: Georgian electricity market posts first trade surplus in a decade as global energy prices rise

The global energy crisis has caused pain at the pump for consumers worldwide and left many in Europe wondering how they will be able to keep the lights on this winter. And while Georgians have certainly felt the pinch of rising petrol prices, electricity consumers have felt less cause for concern amid minimal price increases. So, how has Georgia's electricity m arket fared amid the current crisis? G&T's latest *Electricity Market Watch* breaks down the most notable trends from the first half of 2022.

Electricity supply, demand, and local consumption

The Georgian grid received 8.2 TWh of power in 1H22, of which 7.3 TWh was consumed domestically. Of the 8.2TWh supplied, 14% was imported, while 67% was produced through hydro generation, 18% through thermal production, and .5% through wind generation.

Domestic consumption grew substantially by 9.8% y/y (6.6% in Abkhazia and 10.7% for the rest of Georgia), which G&T's Senior Research Associate Mariam Chakhvashvili says was largely due to increased industrial production. "Some industries, like metallurgy, are heavily dependent on global prices, and their production slowed in 2021," she notes. "However, export prices have increased, and as a result, so has production, making it one of the main drivers of higher consumption in the first half of 2022."

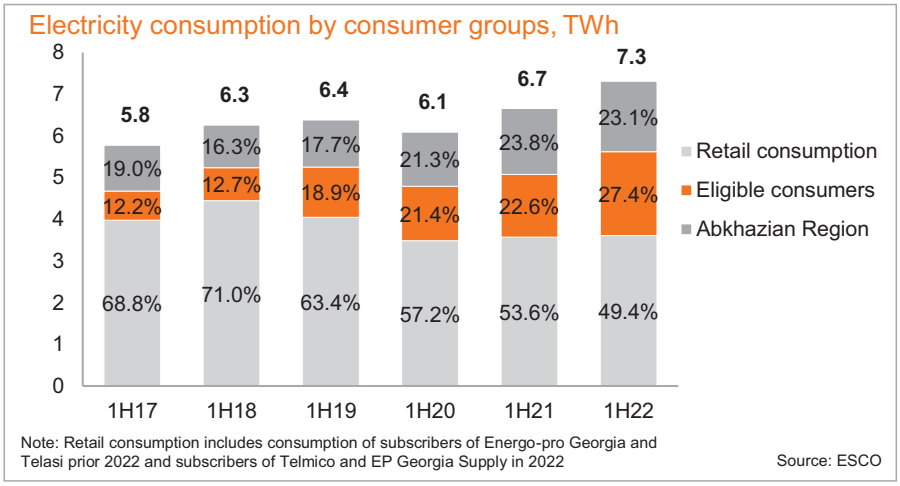
The rise in consumption, according to G&T analysts, was largely compensated for by higher levels of hydro generation, which increased 21.1% y/y. This significant growth was, in part, due to more favorable hydrological conditions and a low baseline of production from 1H21 when the Enguri Dam was closed for maintenance work.

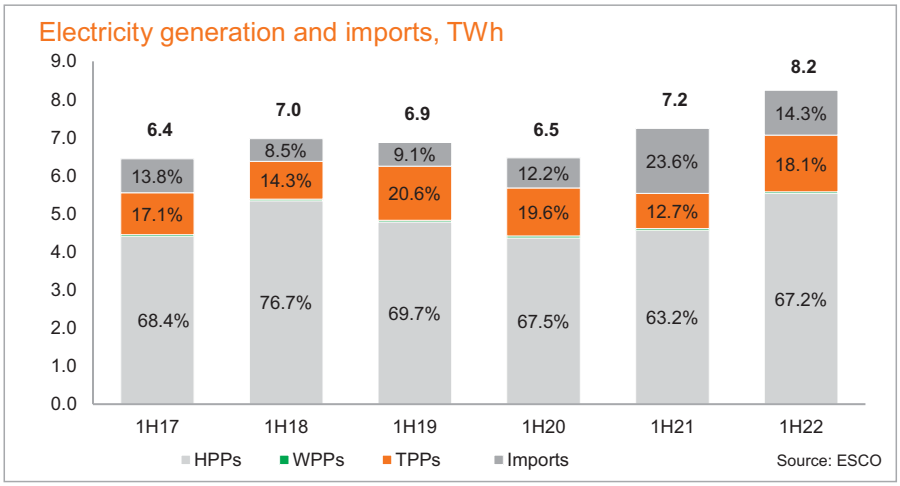
International trade

A glance at trade statistics from 1H22 would seemingly indicate that Georgia's electricity market had a banner first half of 2022. And in some respects, it did. With the market posting a positive trade balance in USD terms ($21.1 million) for the first time in more than a decade and electricity coming in at number six in the list of top exports, it is evident that the market benefited from rising electricity prices in its export markets.

Electricity prices in Turkey almost tripled from USc 4.2/kWh in 1H21 to USc 11.6/kWh in 1H22 as the country's dependence on thermal production left it vulnerable to surging global natural gas prices.

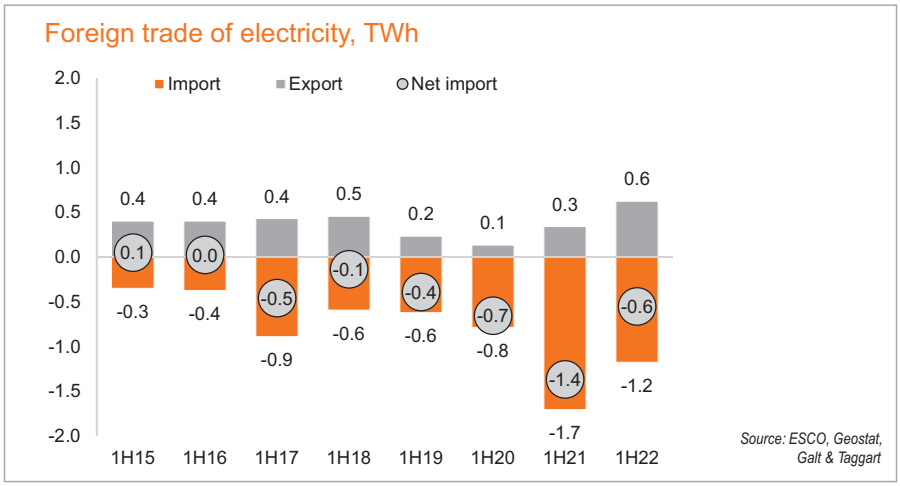
At the same time, Georgia's source markets for imports were marginally impacted by the energy crisis due to their





SPONSORED CONTENT

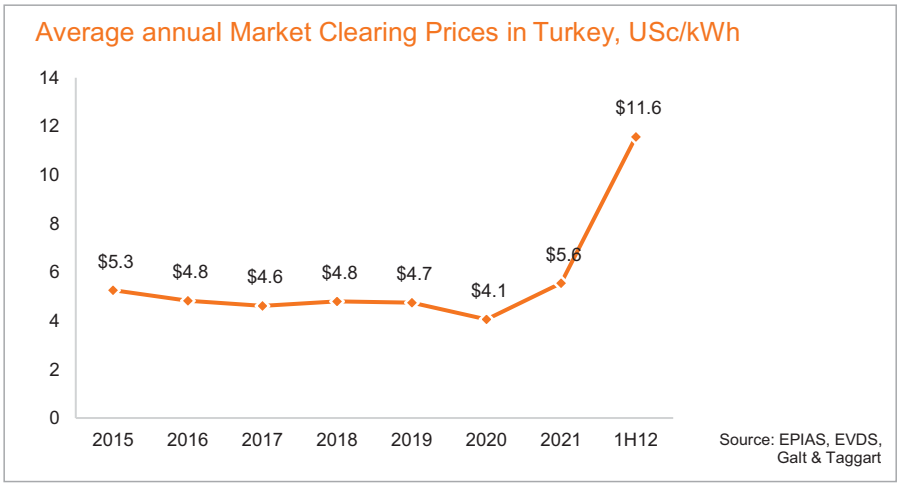
roles as price setters in the global market. While electricity import prices from Russia and Azerbaijan did increase in 1H22, the change was minimal for Georgia's domestic market. In the case of energy imported from Azerbaijan, for instance, the average import price increased from USc 4.6/kWh in 1H21 to USc 7.5/kWh in 1H22, while the average export price stood at USc 14.5/kWh. This left the Georgian market in a prime position to supply its surplus of electricity to Turkey at high margins.



But a deeper look into the numbers offers less cause for optimism. For one, analysts at G&T see this boost in exports as temporary. "We cannot depend on electricity prices in Turkey to stay this high, meaning that the current trade surplus is probably a short-term phenomenon," says G&T's Chakhvashvili. "We see the situation as a temporary gain brought about by the current global energy crisis."

Further to that, this positive trade balance does not indicate any decrease in Georgia's energy dependency. Instead, it is more related to the price of importing electricity versus natural gas. In 1H22, the average price to import electricity stood at USc 7.5/kWh, while the price of thermal generation ranged between USc 3.3/kWh and USc 4.5/kWh. As a result, Georgia ramped up thermal power production, which relies on natural gas, by 62.4% y/y and decreased its electricity imports by 31.1% y/y. This shift from electricity imports to natural gas imports shifted the trade balance sheets but is not indicative of an increase in Georgia's electricity production capabilities, nor does it denote a decrease in energy dependency.

"It doesn't really matter if you are importing electricity or creating it thermally – both methods are reliant on energy imports," says Chakhvashvili. "Data shows that Georgia remained a net importer in kWh terms in the first half of the year, and Georgia's dependence on energy imports has continued to increase in recent years. Given the current global crisis and the security implications involved, it is certainly a concern that should be addressed."



Market reforms

One key element of increasing energy independence is a competitive domestic market, which is a goal the Georgian government has been working towards with its upcoming introduction of a day ahead market and reforms to its balancing market. These new markets, which were most recently slated to open on September 1 but have been postponed due to regulatory issues, are now set to launch on March 31, 2023.

G&T's Chakhvashvili says she is optimistic that the markets will not be delayed past March and that they will be an important part of creating confidence for investors in Georgia's electricity market. "These reforms aim to increase the transparency of pricing and move it from a model based on regulation to one that is more in line with supply and demand. If the market defines the price, then the hope is that down the line, investors will be able to look at the market's record and say, 'we understand what drives the market and we are confident enough to invest without government support and subsidies.' This is how the European markets work, and it is an important part of creating a competitive electricity market for Georgia in the long term."

Adapting HR needs amid Georgia's shifting tourist landscape

Tourism in Georgia is back in a big way, according to record revenue numbers posted at the end of the summer season. But HR managers at some of the sector's biggest employers say they are struggling now more than ever to hire staff amid growing competition in the labor market and shifting trends in the tourism sector.

The Great Resignation and, more recently, an epidemic of "quiet quitting," have regularly featured in news headlines over the last two years. They describe a phenomenon in which workers have leveraged the current labor market conditions to make career changes and demand a stronger work-life balance, higher pay, or better benefits from their employers.

This movement, which was spurred on by a shift in workers' priorities during the pandemic, has seemingly been a trend reserved for the West - particularly in the U.S., where unemployment currently sits at 3.7% . In fact, Georgia's experience with Covid-19 was quite contrary to more developed economies, with levels of unemployment continuing to rise (20.6% in 2021, up from 17.6% in 2019) as layoffs swept through several industries - tourism the worst among them.

But a talk with any of the HR managers at Georgia's international branded hotel groups provides a picture more akin to that of the 'Great Resignation'. As businesses reopened, the Georgian economy continued to grow (10.3% GDP growth in the first seven months of 2022), and the summer tourism season surpassed all expectations in terms of revenue recovery; hiring needs have gone up, too.

But these managers say they are facing major recruitment challenges. The main issue they face? A lack of applicants.

Three of Georgia's internationally branded hotel groups (GMT Group [Marriott Hotels], Silk Hospitality [Radisson Hotels], and the Sheraton Grand Metechi Palace) have all reported that they expect to be back at pre-Covid occupancy and daily rates in 2023. And all three say they are ready for a full operating staff – if they could only find qualified applicants to fill the vacant positions.

Silk Hospitality HR Generalist Liza Gejadze says that for some open positions, they have received only one or two applications. Before the pandemic, she says, "It of course depends on the position, but we may have received 50 CVs for the same role." Director of Human Resources at the Sheraton Grand Tbilisi Metechi Palace Tiko Paradashvili says

they are facing similar issues. "We have held job fairs, implemented a referral system – often, we have to re-post a position multiple times. Still, we just aren't receiving enough applications," she says.

Recruitment challenges

So why exactly are these hotels facing so many challenges in recruiting new staff? For one, HR managers say they are struggling to compete with the other available entry level positions on the market – particularly those that offer a higher level of flexibility or pay.

All three hotel groups report having difficulties primarily in filling operations positions, like housekeeping, food and beverage, and the front office. According to Silk Hospitality's Gejadze, this has to do, in part, with the changing trends brought on by the pandemic and the rise of work-from-home culture. "Working from home is a very new idea in Georgia. Before the pandemic, no one really studied or worked remotely. But people have gotten used to it, and now many are seeking out positions that allow them that kind of flexibility. This has affected the number of people who are willing to perform physical work and are interested in these types of jobs."

Cluster Director of Human Resources for Tbilisi Marriott, Courtyard, and Moxy Hotels Baia Rukhadze says that she also sees a change in the time horizons of those applying. "A lot of the applications we get seem to be from people who are looking for a job that can offer them the best pay right now instead of looking from the perspective of building a career. Many applicants are candid that they are applying for any job available and choosing the best paying option. This is quite a change from when I entered hospitality 20 years ago. Back then, I joined the industry because it offered stability and a chance to grow – this does not seem to be as much of a consideration for the applicants we are seeing now."

But a chance at upward progression and career development, notes Rukhadze, is one of the biggest selling points for a career in hospitality. While starting salaries may be less competitive than other entry level positions in banking or call centers, she says that hospitality offers unparalleled opportunities for advancement. "The opportunities for growth in hospitality are quite unique, particularly for Georgia," she says. "I would say that more than 90% of our high-level managers at this hotel started out working in different departments before they eventually moved to the roles they are in now."

"We, as an organization, have a strong practice of internal promotions and career development," echoes the Sheraton's Paradashvili. "Those who work in operations positions and show a willingness to progress - they are the first to be considered for administrative or managerial positions when they become available."

Despite these opportunities, stability in hospitality, she says, is becoming a harder sell. "After the pandemic, a lot of our former employees – around 80% of those let go - didn't come back. Once you lose people's trust, it is difficult to regain. So, it's been a big task trying to recruit an entirely new staff and bring the level of service back to where it was pre-pandemic."

Raising standards – and awareness

To help overcome this Herculean task, the hotel groups have teamed up with AmCham, and with the support of the USAID Economic Security Program, are implementing a hospitality skills training program to raise awareness about career opportunities in hospitality.

The program, which is part of a wider effort to introduce international standards of service to the hospitality sector and revitalize the industry's workforce as it emerges from the pandemic, offers trainees a five-month internship at one of the partner hotels. There, they will receive more than 800 hours of on-the-job instruction from internationally certified trainers, with a focus on topics like hospitality basics, housekeeping, food and beverage service, human resources, health and safety, and sales and PR.

And four months into the first cohort, the HR managers are seeing promising results. "When they started, many of the trainees expressed an interest in administrative positions. They did not ▸▸

Trainee Salome Paghava learns to make sushi during a rotation in the kitchen department.

Photo credit: Silk Hospitality

Program participants Ia Murmanishvili and Tamar Tserediani train in the HR department.

Photo credit: Silk Hospitality

understand why they needed to train for a month as a housekeeper," says Marriott's Rukhadze. "However, after rotating through various departments, they now understand what it takes to be successful in those positions, and that will make them a better hotelier in the future. Some have also expressed interest in moving to different areas in operations, which is exciting because they wouldn't have known that was an area of interest for them had they not been able to explore the various roles."

Silk Hospitality's Gejadze says the program is also helping to get the word out about the opportunities available. "Four months in, many of our trainees are now telling their family and friends about the program, and we've already had requests and inquiries about applying to be in the next cohort. This is exactly what we were hoping for – that the program would raise awareness about all the benefits of working in the hospitality sector, which in turn could raise recruitment and, down the line, the level of service we are able to provide."

Adjusting to a new tourist landscape

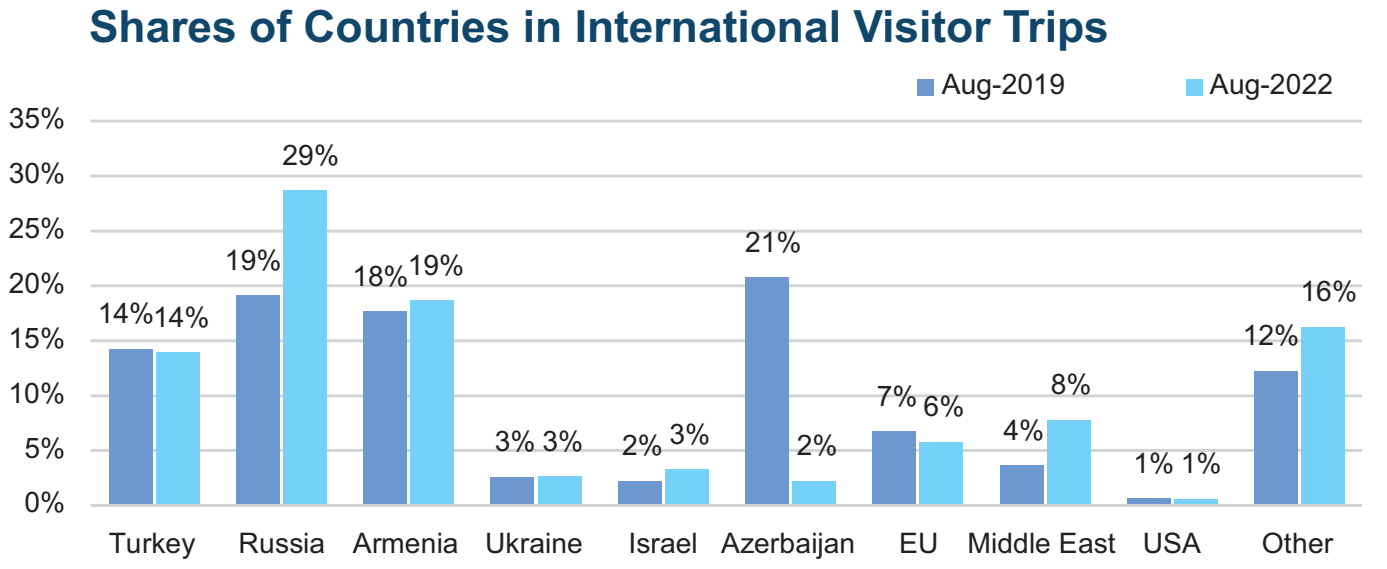
But a post-Covid travel boom and a lack of qualified applicants are not the only challenges these HR managers are up against. They also face a changing landscape of Georgian tourism and new source markets.

As the most recent tourism report released by TBC Capital revealed, tourism revenue in August 2022 reached a record $523 million, up 27% compared to 2019. And guests are, on average, spending more money per visit.

The number of guests hailing from non-traditional source markets has also continued to rise since 2020, with the number of visitors from the Middle East, for instance, up 47% compared to two years prior. Cluster Operations Manager for Tbilisi Marriott, Courtyard Tbilisi, and Moxy Tbilisi Nano Urushadze says she does not expect this to change. "We have certainly observed an increase in guests coming from the Middle East and Gulf States, which I think is a trend that will continue as the effects of the pandemic fade away."

In response to these shifts, one of the hospitality skill training project's objectives is to support the development of high-value tourism through the promotion of internationally recognized levels of service. Asked if they have any changing HR needs in light of this shifting tourism landscape, all three HR representatives echo a similar response.

"We as a hotel always strive to make our guests comfortable, and we are certainly adapting to the changing demographics. We can accommodate dietary changes; for instance, offering halal or vegetarian meal options," says the Sheraton's Paradashvili. "However, in terms of HR, we are in no place now to start raising the requirements for potential employees, like requiring them to speak Arabic or Russian. Right now, we are focused on the fundamentals, which means having the right attitude. We are prepared to train them in everything else – including English – but a good attitude, you can't train that."



Source: TBC Capital

The Marriott's Rukhadze concurs. "Every skill can be taught – except attitude. To be successful, you must have the right attitude towards service. Other than that, we are prepared to train our staff on 95% of what they need to know."

In the future, however, they all have expressed a hope that there will be higher interest in working in the sector and that as a result, more TVET schools and hospitality colleges will implement programs that prepare students more comprehensively for a career in hospitality.

"It is, at times, difficult to do all of the training in house as we are still running a hotel," says Silk Hospitality's Gejadze. Cluster Operations Manager for Tbilisi Marriott, Courtyard Tbilisi, and Moxy Tbilisi Urushadze agrees: "during the unprecedented situation of the pandemic, we had a lot of understanding from guests if service was not always at its usual standard. As we have emerged from that period, guests once again expect our service to be top notch. To maintain that level and accommodate even more high value tourists traveling to Georgia, we will need a workforce that is trained and ready to provide the highest level of service."

This article was written with the support of the USAID Economic Security Program. ■

Program participant Keso Vachadze puts her training to use for the front office department.

Photo credit: Silk Hospitality

How are Georgia's airports navigating the post-Covid travel boom?

Canceled flights, fewer routes, and staff shortages were enough to make any traveler reach for the aspirin this summer as airlines in the EU canceled over 15,000 flights in August alone. But as major shortages of airport personnel in Europe had many waiting in hours-long security queues and flight disruptions left mounds of unclaimed luggage piling up, a visit to one of Georgia's main airports provided a calmer – and noticeably less disrupted – travel experience.

Braden Bjella

As recovery from the pandemic's travel fallout languished this summer, Tbilisi became an unexpected bright spot in the travel landscape. It faced far fewer cancellations than its European neighbors, and while traveler numbers are still below what they once were, the country is well on track to make a full recovery.

Data analyzed by TBC Capital indicates that Georgian tourist arrivals ended the summer at 68% of their 2019 levels, but arrivals by air, they note, have already fully recovered.

"In August of 2022, we served 363,830 passengers at Tbilisi International Airport, which is 92% of the passengers for the same month of 2019," a spokesperson for TAV Georgia, which operates the Tbilisi and Batumi airports, recently told *Investor.ge*. Always a favored summer destination, the draw of the seaside put Batumi International Airport's "passenger figures up by 7% in comparison to 2019."

A look at Kutaisi International Airport's passenger figures provides even greater cause for optimism. In August, the airport, which was opened in 2012 and has attracted numerous low-cost airlines in the years since, boasted a 27% increase in travelers compared to the same period in 2019.

Part of this rapid and impressive recovery across Georgia's airports can be, according to representatives of the airport operators, attributed to both preparation and continued expansion throughout the pandemic.

"Covid-19 difficulties continue, but we now know better how to manage these challenges," a TAV Georgia spokesperson told *Investor.ge*. When Covid-19 and the resulting loss in tourism hit Georgia, the country was already in the process of expanding its tourism industry. But rather than making sudden, panicked decisions based on the current tumult, the TAV spokesperson says they took a long-term view, investing in what they knew worked to ensure they would again see success as tourism resumed.

"Regarding staff shortages, we can say proudly that maybe we are among those very few companies who didn't have any staff reduction," notes the TAV Georgia spokesperson. "We did not lay off a single employee, because we think that our staff is our main investment."

And that gamble seems to have paid off. While TAV Georgia declined to provide their exact level of revenue recovery, they did note that "according to IATA, airports and air companies will be able to recover pre-pandemic figures in 2023," intimating that the current trend of traveler numbers meeting and exceeding previous years' figures had put their airports on a similar trajectory. To that end, despite various travel issues, Unit-

ed Airports of Georgia, the state-owned enterprise that owns all of Georgia's airports and manages Kutaisi International Airport, ended 2021 with a profit of 19 million GEL.

New routes and renovations

Alongside staff preparations came physical renovations to Georgia's airports.

Last year, $17 million was spent on Batumi's airport to open a new terminal capable of serving 1.2 million passengers, with more renovations planned for the coming years. Also in 2021, Kutaisi airport completed a major overhaul, increasing its size by six times and equipping it to accommodate 2.5 million passengers per year. The total investment in this project was 110 million GEL, or around $39 million.

Across Georgian airports, renovations carried into the new year. In May of 2022, a new taxiway opened at Tbilisi International Airport to be primarily used for cargo. The airport also invested an additional million euros into expanding its food offerings, adding a new restaurant and introducing Georgia's first installment of the popular British coffee chain Costa, which is slated to open in the departures terminal this autumn. Kutaisi airport took on further renovations, repairing runways and renovating its train station to allow greater access to other areas of Georgia.

Pushes like these have led Skytrax to rate Tbilisi International Airport among the 10 most improved and passenger-oriented airports of the year; Tbilisi and Batumi airports were also ranked 5th and 6th respectively in the category of "Best Airports in Eastern Europe 2022."

Further to these renovations and upgrades, routes have also expanded, with numerous airlines announcing their intentions to begin offering service into Georgia.

Currently, the top five airlines flying into Georgia in terms of ridership are Turkish Airlines, Wizz Air Hungary, Pegasus, Belavia, and FlyDubai. Soon, these airlines may face competition from the likes of Saudi airline Flyadeal, which made its inaugural Tbilisi flight in July—or Thai airline AirAsia X, which announced in September that it will begin direct charter flights from Bangkok to Tbilisi two times a week in early October.

Other carriers, such as Condor Airlines, Air Moldova, and Southwind Airlines, will soon have a lasting place on the Georgian travel market, with the airlines announcing routes from Frankfurt, Chisinau, and Antalya, respectively.

These new airlines, and growing efforts of established airlines like Wizz Air, means that there are more pathways to enter the country than ever before.

"Starting in January 2022 we have opened some new routes, including Frankfurt-Tbilisi, Riga-Batumi during the summer season, [and] Tashkent-Batumi," stated the TAV Georgia spokesperson. "Saudi Arabian low-cost carrier Flyadeal is performing direct flights from Riyadh-Tbilisi. Eurowings is performing direct flights on the route Stuttgart-Tbilisi. Also, Air Astana resumed its regular flights from Nur-Sultan to Tbilisi."

For Kutaisi, Wizz Air recently restored its flights from Kutaisi to Paris and Tallinn, began new flights to Abu Dhabi and Berlin, added a new aircraft to its Kutaisi base, and recently met with Mariam Kvrivishvili, the Georgian Deputy Minister of Economy and Sustainable Development, to discuss introducing more routes to the country.

Looking ahead

As growth continues, TAV Georgia has its eyes set on the future. Though its contract with the Georgian government expires in 2027, the company is making plans for airport renovations and expansions well beyond that date.

"We are working on Tbilisi International Airport's master plan for the next 20 years," explained the TAV Georgia spokesperson. "During the master plan preparation process, the managing company of Tbilisi and Batumi international airports TAV Georgia is cooperating with an authoritative international aviation expert and consulting company, ADP Ingénierie (ADPI), which is one of the leading expert and consulting companies in Europe, the Middle East, and Central Asia in terms of airport planning and development."

"Work on the master plan will finish by the end of the ongoing year, and the document will be handed to the state in January 2023," the spokesperson continued.

Outside of the airport, slow strides are being made when it comes to direct US - Georgia flights. While talks have been ongoing for years (initial discussions were called off at the onset of the COVID-19 pandemic), it seems like those talks have begun anew, with some speculating that direct flights between the two countries could be announced soon.

"The first test flights between America and Georgia may be performed at the end of the year or at the beginning of next year," AmCham Vice President Irakli Baidashvili, told Business Formula in May of this year. "As far as I know, there are already some very interesting projects for direct flights from the United States to Georgia. This will give a big stimulus to the growth of tourists in Georgia." ■

Newly renovated Kutaisi International Airport now has the capacity to serve 2.5 million passengers a year

Tbilisi Art Fair: curating Georgia's image as a regional art hub

Collectors, critics, curators, and art lovers from all around the world descended on ExpoGeorgia from September 22-25 for the third edition of the Tbilisi Art Fair - which offered a glimpse into the emerging contemporary art scenes of the Caucasus and Central and Eastern Europe. *Investor.ge* takes a look at this year's lineup and four local galleries being showcased at the event.

SALLY WHITE

Spilling over onto pavements outside galleries across Tbilisi, for days in September crowds of local and international art connoisseurs viewed the best of the region's artists. Art seems to be achieving an ambition of so many sectors in Georgia – it has established a regional hub that is actually working well. The epicenter of the 2022 international Tbilisi Art Fair (TAF) was the ExpoGeorgia Exhibition (ExpoGeorgia) halls on Didube's Tsereteli Avenue, but the event spread to multiple venues in the Art Week of which it was part. The artists and art professionals who have been thronging the events are not only from across the Caucasus and nearby, but truly international - from Europe, the U.S., the Middle East, and Central Asia.

Tbilisi Art Fair, focusing on contemporary art with a large proportion by young artists, is putting Georgia on the map of the global art market. While Tbilisi's many gallerists work hard to make international links, traveling often to present Georgia's artists in galleries and art festivals of the richer and larger cities of Europe and the U.S., TAF reinforces their work with its scale, the number of new artists on view, and by flying the flag for Georgia.

To support the Tbilisi Art Fair, gallery openings launched simultaneously all over Tbilisi, augmenting the central exhibitions at ExpoGeorgia. TAF 2022 follows two successful pre-Covid fairs in 2018 and 2019. Hosting and organizing TAF is ExpoGeorgia, whose owners are also the creators and main sponsors. The last art fair, in 2019, attracted 12,000 visitors, 78 artists, and 29 galleries to present in the spacious halls of ExpoGeorgia's sylvan setting. The figures for this year's event - from September 22 to 25 – are likely to have been not far behind, despite the depredations caused by the Russian invasion of Ukraine, the tailwinds of Covid, and soaring travel costs.

Tbilisi Art Fair's main geographic focus is the area bounded by the Black, Caspian, and Baltic seas - countries offering "rich and vibrant emerging art scenes, under-represented in art fairs," says its founder, Kaha Gvelesiani, the businessman who is chairman of ExpoGeorgia's supervisory board and its chief executive. "TAF is the place for collectors, curators, journalists, and art professionals to discover under one roof selected artists and galleries from Georgia, Armenia, Iran, Turkey, Russia, Poland, Lithuania, Azerbaijan, Estonia, Romania, Belarus, and the world." The roll call of the arts professionals, dealers, and commentators comes from even further afield.

TAF 2022 offered its visitors, among other presentations, a glimpse of the young French art scene, a wide range of different media from Azerbaijan, Spanish photography, art from the Balkans and a large collection of Ukrainian photography, as well as Georgian artists.

How did this happen? Visual attractions Georgia may have many, but, says Kaha, it is short of high-end international cultural events. Since such events are major attractions for well-off international tourists who currently come in only tiny numbers to Georgia, the Tbilisi Art Fair could be a game changer for tourism as well as the arts.

It came about like this: when in conversation with Kaha, one of the east's major contemporary arts event organizers, Sandy Angus of Angus Montgomery Arts (which has created exhibitions across Asia) suggested that Tbilisi was an ideal location for an international contemporary arts fair. Kaha saw the possibilities and lost no time in launching one. Bringing in French arts consultant Eric Schlosser as art director, he set up a team to work with galleries and artists in Georgia and abroad to draw them into Tbilisi.

The attraction of the fair is that it not only covers the spectrum of artists from the established to the yet-to-be-discovered, but it also presents works in a variety of media and with a wide price range. The fair has been attracting a good number of buyers for the art on display, although it is not itself yet a major money spinner. ExpoGeorgia is currently supporting it and bringing in a diverse group of sponsors including the American and French Embassies, the Ministry of Culture, paint group Caparol, TBC Bank Group, and Tbilisi City Hall - among many others. However, its rate of growth and popularity with tourists as well as the art world encourage hopes for its financial future and its establishment on Tbilisi's calendar as a regular annual event.

TAF has Tbilisi's long arts tradition and history to draw on for its international marketing. As one of the city's major gallerists, Sandro Mujiri (who, with his sister Vanda runs the long-established Vanda Gallery in Mtatsminda), describes: "In the beginning of the 20th century, democratic Georgia and Tbilisi became a shelter and real haven for numerous artists from Eastern Europe and Russia: painters, sculptures, poets, writers and musicians - Futurists, Avant-guardists and Constructivists."

Now, he added, "contemporary Georgian art is becoming more and more popular in the world and there are many Georgian names in high demand on the world art market. And TAF gives us the possibilities to tell the world about today's cultural life in Georgia and, at the same time, show our crowd what is going on in other countries, and what the artists are doing abroad."

While Vanda Gallery, like Tbilisi's other major galleries, presents its artists at international fairs abroad - such as ArtExpo in New York, Art Basel Miami, Art Istanbul, Messe Berlin, Art Ankara, Art Manezh and so on - "it boosts market potential to be able to show them against a local Georgian setting," says Sandro.

As part of The Tbilisi Art Fair's strategy to help promote young artists, there is a special low-budget section called The Hive, which hosts artists or collectives which have not as yet secured backing. (The Hive's name references the low-cost studios for young and poor artists which launched in the early 20th century.) This section is well publicized and gives artists a chance to be exhibited and find a gallery, collector, or patron. For the new virtual and pop-up galleries, it helps them gain a wider audience by offering booths at much lower prices than those in TAF's halls.

To add to TAF's attractions and to help build local interest and investment in art, it also offers lectures, master classes, and open forums as well as sections aimed at kids.

Interest in buying art is growing in Georgia, reflecting the increasing number of young professionals who, from banking and financial markets in particular, are joining those in business who can afford to bring art into their homes. While the most popular price range for a picture is around $10,000 - $15,000, prices of up to three or four times that are commonly paid.

Collector interest reflects the vibrant Tbilisi gallery scene, which seems to be dominated by female gallerists – they account for well over half of Tbilisi's gallery population.

While these gallerists come from a variety of backgrounds, from business to commerce, to media and art (with even the odd London Business School MBA up a sleeve), access to family or investor money is, of course, in these days of rising costs, an essential for new galleries. It takes years to achieve net profitability. Even when housed (as a number are) in spartan conditions under the high ceilings of the beautiful but crumbling Baroque and neoclassical 18th and early 19th century mansions of the Mtatsminda historic and cultural district, costs are not small.

Georgian President Salome Zourabichvili attends TAF 2022 Photo credit: TAF

GALLERIES

Rita 's "Cotton Field" and "Cotton branch"

VANDA GALLERY

(https://vandaart.gallery/en/
D. Chonkadze street)

- First established in the dire years of the early 1990s by Vanda, this gallery is a pillar of stability in the Georgian art community. These days joined in partnership by her twin brother, Sandro, Vanda shows in Tbilisi and abroad both established and new artists and has an international client list.

AT TAF - Vanda is represented by two artists widely recognized in Georgia and beyond: Kako Topuria and Rita (Khachaturyan). The art of these two, from different generations, is radically different from one another, both in genre and in style. On display were the large scale oil paintings created by these artists in 2020 - 2022, as well as a selection of small scale sculptures created by Kako Topuria. The names of Rita and Kako are widely recognized in Georgia and beyond and their works are displayed in many museums and private collections across numerous countries.

AT THE GALLERY - and as a part of TAF's cultural program – a solo show "In Between. Between the Sky and the Earth" by the famous Georgian artist Gela Zautashvili, was opened in the gallery. The artist's name is associated with the first abstractionist exhibitions in Paris and Moscow of the second half of the 1980s and the establishment of a non-figurative art group. The show in the gallery consisted of bold and provocative paintings created in the period between the 1980s and 2000, which is unified around one single theme.

Kalo Topuria's "Siberian Shaman" and "Tariel's dream"

Maia Naveriani, What's the Difference Between Me and You, 2021, Neon light, electric chords, size varia

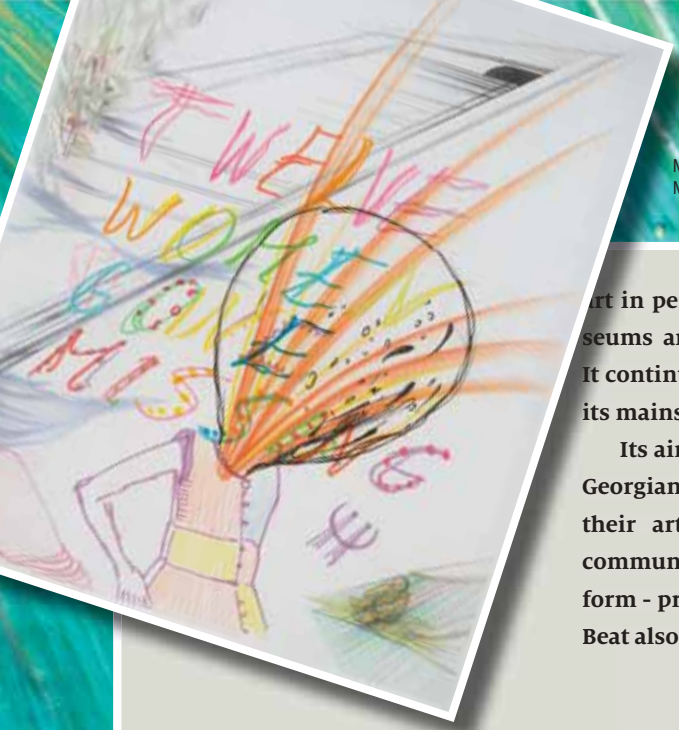
SHARED SPACE GALLERY

(https://easharedspace.ge/en,
Ingorkva str. 10/2)

Shared Space is a project space run by curator Elene Abashidze, which opened in May 2019. The project space's focus is on putting together works by international and local artists in dialogue with the local social, political, and cultural context.

This reflects the interests of its owner. The project space's main field is working with artistic practices with a political dimension. For over a year, between 2021-2020, the project space also ran a small curated bookshop and library and held the first artist book fair with a focus on independent and small publishing houses.

Sophie Jung, mach kein Theater, 2021. Upturned theatre chair from a disused sanatorium, velvet, ink, screenprint, ceramic dog. 90 x 37 x 50.7 cm



Maia Naveriani, Twelve Women Gone Missing, 2020, Coloured Pencils and Mixed Media on Paper, 181x150 cm

ARTBEAT GALLERY

(http://galleryartbeat.com/en
Ingorokva str. 14)

Gallery Art Beat is a pioneering contemporary art gallery representing mid-career and emerging Georgian artists. Founded in 2014 by three women and run by two of them – Natia Bukia and Salome Vakhania - the gallery started its journey as a project space, a moving gallery using a shipping container for site-specific exhibitions to introduce contemporary art in peripheral locations where museums and galleries do not function. It continues in this role, in addition to its mainstream work.

Its aim is to offer carefully selected Georgian and Caucasian artists and their artworks to the international community through an online platform - projectartbeat.com. Project ArtBeat also aims to generate information about the art worlds of Georgia and the Caucasus. The gallery has a significant presence on the international art scene, collaborating with major institutions and museums and taking part in art fairs such as NADA Miami, Untitled Miami, Art Dubai, Artissima, and Art Cologne.

Tamo Jugeli, Untitled, 2020, Oil on Canvas, 150x200 cm

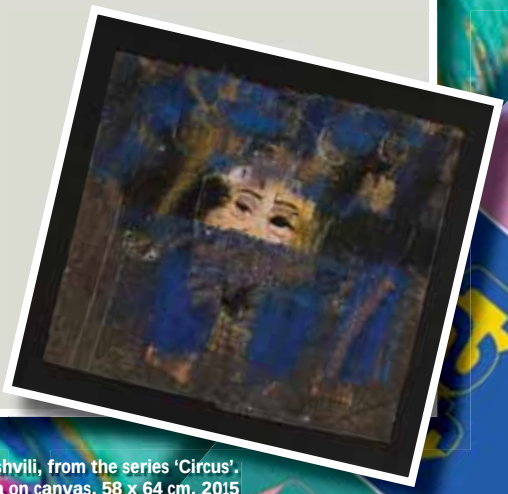
Vakho Bugadze – 'Caucasian Orangery' ShareSpace Gallery

BAIA GALLERY

(https://www.baiagallery.ge,
19A Pavle Ingorokva St. and 68
Razmadze St.)

Baia Gallery is considered one of the first and one of the most popular private galleries in Tbilisi. It was opened in 1992 by Baia Tsikoridze, who is also well-known as an art-critic and has an ambition to build a complete catalog of Georgian art. It has grown with the interest in Georgian art - both at home and internationally. The gallery exhibits works of contemporary Georgian artists, and the collection of the gallery is constantly updated.

Since the opening day, hundreds of exhibitions have been held in the gallery. The Baia Gallery has historically made itself popular as a place for cultural events, presentations, auctions, publishing projects, and more.



Gogi Aleksi-Meskhishvili, from the series 'Circus'. Mixed media on canvas, 58 x 64 cm. 2015

BLC Law Office
Excellence in what we do

Snail-paced justice in GEORGIA & the need for procedural reform

It has long been said that justice delayed is justice denied. An inefficient court system not only ignores the violated rights of plaintiffs but can also aggravate the harm done to them, costing exorbitant amounts of money and time.

In Georgia, inefficiencies in the court system have remained a significant challenge for years. It is not unusual for preliminary hearings to take months (and sometimes years) to be scheduled. Even on the rare occasions when hearings are scheduled promptly, other inefficient procedures make it nearly impossible to obtain a final ruling within statutory deadlines.

These unreasonable delays are particularly problematic for businesses. Most companies seek a speedy resolution to their disputes, and due to the importance of the subject matter and/or the injunctive measures taken by the court, these delays can bring businesses' activities to a standstill until the pending cases are resolved. For local companies as well as foreign investors, the risks of ending up in a quagmire of litigation are a deterrent to doing business. Companies and individuals therefore tend to be risk-adverse when approaching deals, resulting in lost opportunities for businesses and less value added to the economy.

The primary reasons for these inefficiencies are threefold: a shortage of judges and staff in the court, underdeveloped alternative dispute resolution services, and inherently inefficient procedures under the Code of Civil Procedure of Georgia. This article will discuss a few of those procedural inefficiencies.

One notable example of an inefficiently designed procedure within the Georgian judicial system is the absence of summary judgment. Under the current procedure, when a lawsuit is filed after the expiration of the limitation period, a judge is still required to hear the case. The defendant is not able to file a pre-trial motion to dismiss the time-barred lawsuit or request summary judgment at a preliminary stage. Instead, the issue of the limitation period can only be addressed in the final judgment. Because there is no guarantee that the judge will deny the claims due to the expiration of the limitation period, both parties must collect evidence on the disputed issues. Often, the parties obtain

expert reports and testimonies, bring witnesses, and file motions for document production. Only after the judge has heard both parties' arguments can he or she issue a ruling, which in most cases, is to deny the claims on the basis that the limitation period has expired. This results in time and money wasted on evidence collection and related proceedings, harming both sides and adding additional work for an already overburdened court system.

In addition to this, every civil case must go to trial even when it is evident that there is no genuine dispute as to any material fact and the alleged facts do not legally justify the claims. In other words, this means that even if the court were to establish all alleged facts in favor of the claimant, the claim would still fail as a matter of law. Regardless of this, the current procedure requires the judge to hear the case on merits.

This waste of time and resources could be eliminated through the introduction of a procedure under which judges could address the preliminary issues (such as the limitation period) at an initial stage. This would significantly reduce the time commitment for judges in all three instances of the court.

Another procedural inefficiency that is currently burdening the Georgian court system is the lengthy appeals process. The right to appeal is available for virtually any kind of case and can be taken all the way to the Supreme Court. Despite the fact that the number of judges in the Supreme Court doubled from 16 to 28 in 2018, the court sometimes takes more than a year to deliver its decision on the admissibility of a case.

The reason for these delays lie in the fact that the Supreme Court has failed to adopt simple rules that would fill in the existing gaps in the law and make deciding admissibility more efficient, fair, and predictable. The decisions that declare cases inadmissible are often tens of pages long and often address the merits of the case. This defeats the purpose of the admissibility stage, which is designed to relieve the backlog of cases in the Supreme Court. In order to at least partially solve this problem, the relevant qualifications for admissibility should be revisited in the code of Civil Procedure. Also, the court should not be reluctant to adopt standards and factors of admissibility that will be common, clear, and predictable for relevant parties.

In recent years, parties have adopted strategies that exploit these inefficiencies within the system. Knowing that cases often require years of work and heavy resources, some parties have begun intentionally overburdening their opponents with frivolous claims that de facto force them to negotiate a settlement. There are no effective measures against such parties prescribed in the Code of Civil Procedure. Neither the parties nor their lawyers are punished for this abuse of process. However, this practice could be eliminated if the concept of summary judgment is adopted as described above. In addition, it is necessary for some clear, fair, and certain rules to be adopted to prevent future abuses of process.

These procedural inefficiencies are just some of the issues within the Georgian judicial system that are causing excessive delays. While additional large-scale problems require systemic changes, these proposed procedural changes could act as a small but important catalyst to accelerate snail-paced justice in Georgia.

Davit Tabatadze
Head of Litigation

FOR MORE INFORMATION AND ADVISE
PLEASE CONTACT US:
129ª David Aghmashenebeli Ave, Tbilisi, 0102, Georgia
Tel.: +995 32 292 24 91, 292 00 86, 200 04 91
blc@blc.ge blc.ge

SPONSORED CONTENT

Georgia's advances toward an innovation economy

Numerous international studies highlight the role of innovation in the creation of prosperity. This is certainly reinforced by examples such as Estonia, Singapore, and Ireland, which transformed their economic models from largely factor-based to predominantly innovation-based within the span of two decades.

Georgia's journey toward an innovation-based economy began with the creation of Georgia's Innovation and Technology Agency (GITA) in 2014, which laid the cornerstone on which the country's innovation infrastructure could be built. From the outset, USAID played a key role in promoting innovation and the knowledge-economy by engaging with GITA in strategic areas such as acceleration services for Georgian startups. However, in the last year, these efforts have been amplified by a dramatic increase in international donor organizations' support for connecting the elements needed to create an innovation ecosystem.

While there are many elements in the strategy to make innovation a catalyst for high-value job creation, investment, and sales/revenue increases for SMEs, connecting the innovation ecosystem is an important step in laying the foundation for success. The innovation eco-system consists of four primary elements, namely a) early-stage entrepreneurial education, b) acceleration and services to

100 youth entrepreneurs from 11 countries attended the 2022 European Innovation Academy bootcamp in Batumi.

startups, c) investor education, and d) access to finance through a venture capital or other mechanism. Over the last three years, USAID, the European Union, UNDP, the World Bank, and other donors have been involved heavily in these areas.

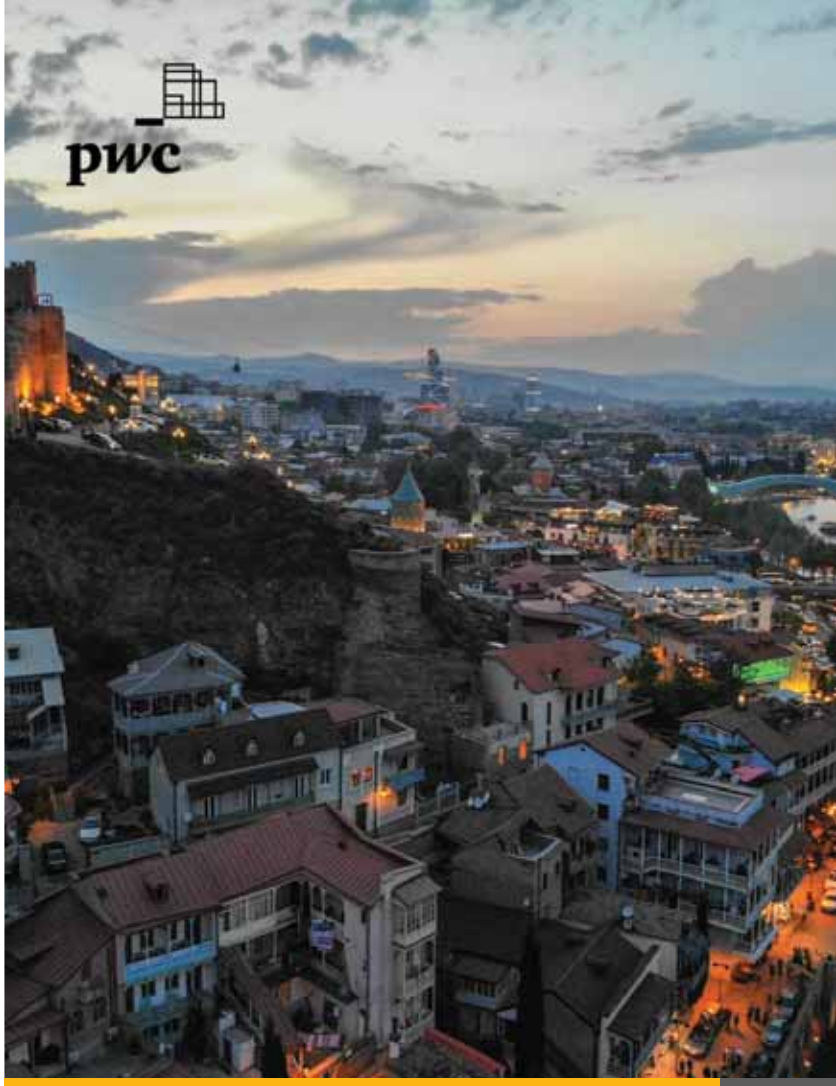
One example of early-stage entrepreneurial education activities in Georgia can be found in the recent introduction of the European Innovation Academy to Batumi. The European Innovation Academy is headquartered in Estonia but conducts innovation-based programming around the world. Through USAID's partnership with the European Innovation Academy, Caucasus University, the Sutardja Center for Entrepreneurship and Technology at the University of California Berkeley, GITA, the Ministry of Education, and the Ministry of Finance and Economy of the Adjara Region, the academy held its first-ever innovation bootcamp this year in Batumi, which was attended by 100 youth entrepreneurs from 11 countries. The bootcamp provided university entrepreneurs from around the world the opportunity to connect with each other, hone their leadership skills, better understand the business aspects of entrepreneurship, and fine-tune their ideas. Following a successful bootcamp in 2022, the full-fledged academy will open in the summer of 2023, hosting up to 200 global entrepreneurs per year on Caucasus University's Batumi Campus.

In recent years, USAID has utilized its connections in the Silicon Valley to form partnerships with the US Market Access Center, Startup Grind, and individual investors to enhance the country's visibility, as well as to provide vital investment connections and practical technical assistance for entrepreneurs. This has led to Georgia's emergence as a connecting point for local entrepreneurs and global investors. USAID has also partnered with global universities such as Oxford, the University of California at Berkeley, and the Massachusetts Institute of Technology (MIT) to enhance innovation and the country's migration to a digital economy. These partnerships have benefitted hundreds of Georgian entrepreneurs by providing them both the skills to succeed and the global connections to scale their ideas.

Another vital element when creating an innovation ecosystem is access to capital. The Government of Georgia and USAID are currently working with investors and other key stakeholders to provide institutional support for the integration of venture capital funds for technology startups to promote Georgia's transition to the innovation economy. The goal is to provide a mechanism for Georgian entrepreneurs to access both early-stage and mezzanine-level capital to facilitate enterprise growth.

Establishment of a viable venture capital fund will send a strong signal to both entrepreneurs and global investors and will likely lead to the creation of additional funds. This has already occurred in Estonia and numerous other countries that began

SPONSORED CONTENT



We help our clients and stakeholders to build trust and achieve sustained outcomes.

Connect at

King David Business Centre,
7th floor, #12 M. Aleksidze Str.
Tbilisi 0171, Georgia
+995 32 250 80 50
ge_office@pwc.com

SWC Georgia winner, Ana Robakidze of Theneo, went on to pitch at the Startup World Cup global competition for the potential of gaining a $1 million investment.

their support for the startup ecosystem with one fund, but now have numerous others. To support establishment of a fund, USAID is developing a guidebook that will not only provide solid information for investors but will also assist other funds in entering the market.

Connecting the innovation ecosystem will benefit early-stage entrepreneurs, such as those vying for GITA grants and/or participating in mechanisms like the European Innovation Academy, by putting in place both investor education and later-stage financing. This, in turn, will greatly benefit the country's standing as an emerging innovation hub. Previous examples have also shown that venture capital funds often act as a catalyst for policy reform measures that strengthen the entire innovation ecosystem.

In parallel with the integration of access to financing opportunities through venture capital funds, there will be an ongoing need for technical assistance/acceleration services for entrepreneurs that hope to access investment, as well as educational opportunities for potential Georgian investors in terms of how to understand and participate in early-stage equity investing. One initiative focused on this is the partnership between Startup Connect, the European Union, UNDP, and USAID for the Startup World Cup Georgia competition, which featured ten finalists who pitched their concepts to a panel of Silicon Valley experts. The SWC Georgia winner, Ana Robakidze of Theneo, went on to pitch at the Startup World Cup global competition for the potential of gaining a $1 million investment. Theneo is an application that addresses one of the most relevant issues in coding, namely the reduction of time needs for generating and maintaining API docs. Theneo is the first company to automate the API document generation and maintenance using machine learning.

The Startup World Cup Georgia competition and a number of other initiatives aimed at enhancing innovation and entrepreneurship are supported by the government, business, and international partners; they are part and parcel of ensuring the success of a venture capital fund as they prepare entrepreneurs to utilize capital wisely and position themselves for additional investment.

Robust partnerships between public and private sector institutions will position Georgia as the nexus for innovation, thus laying the foundation for high-value employment and investment, according to USAID Economic Security Program Chief of Party Mark McCord. "These partnerships are major steps forward in Georgia's transition to an innovation and knowledge-based economy. Estonia was the example of the past in terms of innovation, but we believe that Georgia can be the model for the future. The goal should not be to mirror Estonia, as Georgia has its own unique culture and context, but rather to position the country as one where creativity is supported by a systematized and sustainable innovation ecosystem."

Georgia's transition to an innovation-based economy has been and will continue to be enhanced through support from the Government of Georgia, as well as a plethora of donors, international organizations, and entrepreneurs who will build on the foundation already laid. As such, Georgia has the potential to emerge as not just a regional innovation hub, but a global example of collaboration that leads to impact. ■

AmCham board member and director of Startup Grind Tbilisi Colin Donohue served as a judge at SWC Georgia 2022.

ADVERTISE

your business with

Investor.ge

Copies of our magazine go to

- **17 High-end hotels in Tbilisi and Batumi**
  - Covering 6000 guests in a month
  - Hand-delivered to 393 rooms
  - 16 lobbies
  - 16 meeting areas
  - 12 receptions
- **150 large international companies**
- **Cafés, bookshops & supermarkets**
- **All 74 embassies and diplomatic missions**

www.investor.ge

Your potential clients read us!

TBC CAPITAL

TBC Capital: a turbulent 2022 for Georgian wine exports, return to growth expected in 2023

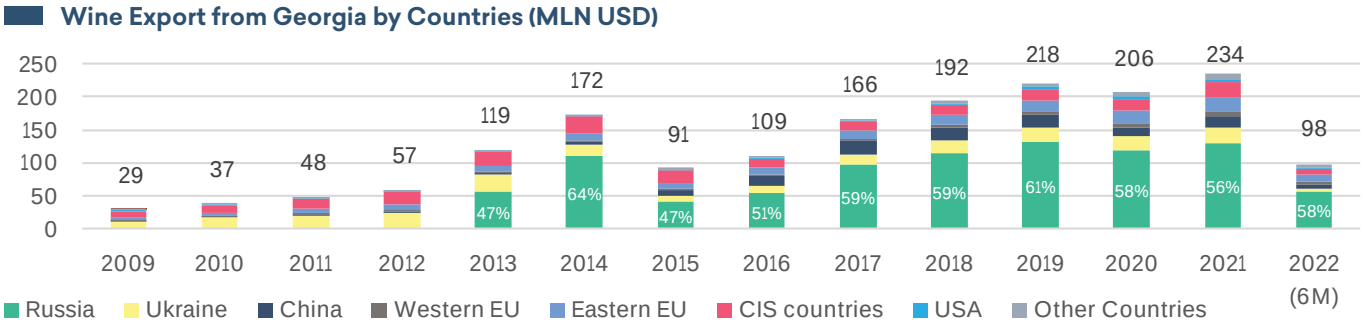
www.tbccapital.ge

Strategic diversification to new export markets for the Georgian wine industry has proved a fruitful - yet slow-paced – venture in recent years. But continued dependency on traditional markets like Russia and the CIS have left the industry vulnerable to regional geopolitical and economic instability. TBC Capital's latest report looks at the industry's tumultuous export market in 2022 and growth expectations for the coming years.

GEORGIAN WINE INDUSTRY: INTERNATIONAL DEMAND

While difficult conditions like hailstorms in Kakheti affected Georgia's grape harvest in 2021 and resulted in decreased yields, it was a banner year for wine exports. With value reaching a record $234 million, Georgian wine exports fully recovered from a 6% dip in 2020 and surpassed 2019 levels.

Despite great efforts by producers and the Georgian government to diversify export destinations, traditional markets continued to make up a significant share of exports in 2021. In addition to Ukraine, the Eastern EU, and CIS countries, which each held a respective 10% of the market last year, Russia remained the top export destination for Georgian wine, representing 56% of all exports.



Source: Geostat.
Note: export of Wine = Export of still Wine, <2L, excluding Sparkling wine.

The level of Russian market share in Georgian wine exports has hovered between 56% and 61% since 2017, which TBC Capital's Vice President of Research Irina Kvakhadze says represents both a sign of progress and an opportunity for improvement. "Georgia's wine exports are highly vulnerable to global economic and political factors. This is evidenced by the current war in Ukraine, which had a major impact on wine exports for two of the industry's largest markets," she notes. "However, if you look at historic trends, we do see progress. Before Russia's embargo in 2006, the country was almost completely dependent on Russia as an export market. Since then, diversification has gradually decreased dependency on those traditional markets."

And in lieu of traditional markets, Georgian producers have set their sights on several new target markets, including Poland, the Baltic countries, China, Japan, Germany, the UK, and the U.S. In 2021, exports to these target markets reached an all-time high of $49 million, which represented 26% of the total wine export market and a 20% increase compared to 2019.

With diversified export markets has come diversified consumer preferences. Red wine accounted for 75% of exports in 2021, a favorite of traditional export markets like Russia and the CIS. However, data from 2021 shows that new target markets exhibit more diverse preferences; white dry wine made up almost one-third of wine exported to the U.S. and 43% of wine sent to Western EU markets.

SPONSORED CONTENT

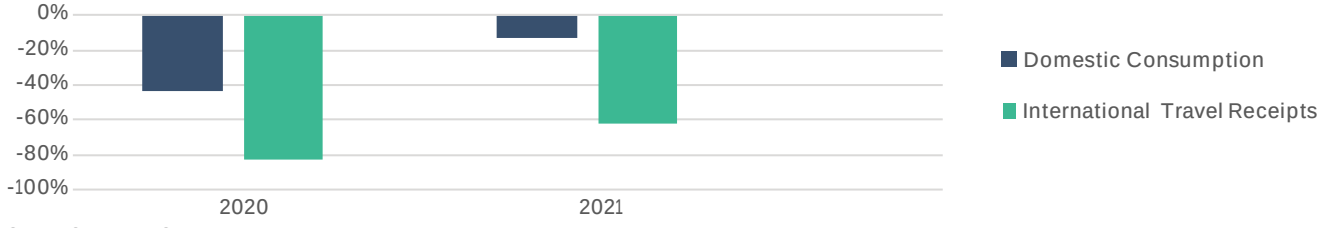
Georgian Wine Exports in Top Export Markets by Type of Wine, 2021 (Liters)

Source: GWA, TBC Capital.
Note: export of still wine (0.75L), excluding Sparkling Wine.

LOCAL WINE MARKET

Domestic consumption accounted for 24% of revenue for the Georgian wine industry in 2021. However, tourism remains a significant driver of demand in the local market, which is evidenced by the 43% YoY decline in domestic consumption seen in 2020 as tourism came to a screeching halt. "There is a direct correlation between tourism statistics and domestic consumption of wine," says Kvakhadze. "We saw this when domestic consumption plummeted in 2020 and began to rise again in 2021 as tourism slowly returned."

Change of Domestic Wine Consumption and International Travel Receipts, compared to 2019



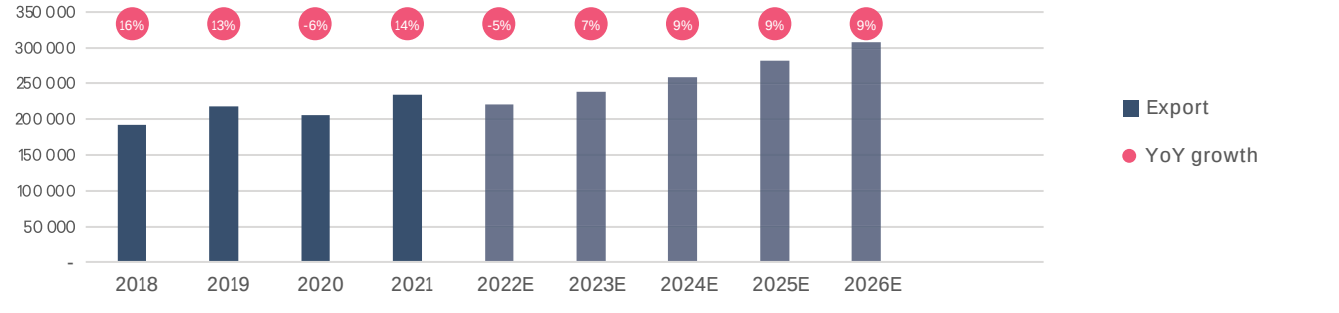
Source: Geostat, NBG

This correlation is, in part, related to the downward trend in Georgians' wine consumption. While wine remains the most popular alcoholic drink among Georgians, data from 2021 showed that the share of Georgian households that consume wine was down 13% compared to 2019. Of those who do drink wine, 99% of Georgian wine consumption comes from homemade wine, meaning Georgian consumers represent a small portion of the Georgian wine industry's customer base.

MARKET PROJECTIONS

The first half of 2022 represented a tumultuous period for the Georgian wine industry's export market. The Russian invasion of Ukraine decimated exports to Ukraine and left high levels of uncertainty around future trade with Russia, causing a marginal decline in total exports of wine in 1H22. Despite this geopolitical uncertainty, TBC Capital's Kvakhadze says losing the Ukrainian market should not substantially impact the industry. "At the beginning of the war, our predictions for the industry were quite pessimistic," she notes. "However, tourism levels have recovered faster than expected and increasing demand from diversified target markets and Russia have compensated partially for the loss of the Ukrainian market. Thus, we believe the wine export market will, at most, see a 5% decline in 2022 and be back to 7% YoY growth (in USD value) in 2023."

Georgian Wine Exports Market Forecast, YoY Growth (USD, %)



Source: Geostat, TBC Capital

Georgia's renewable energy opportunity

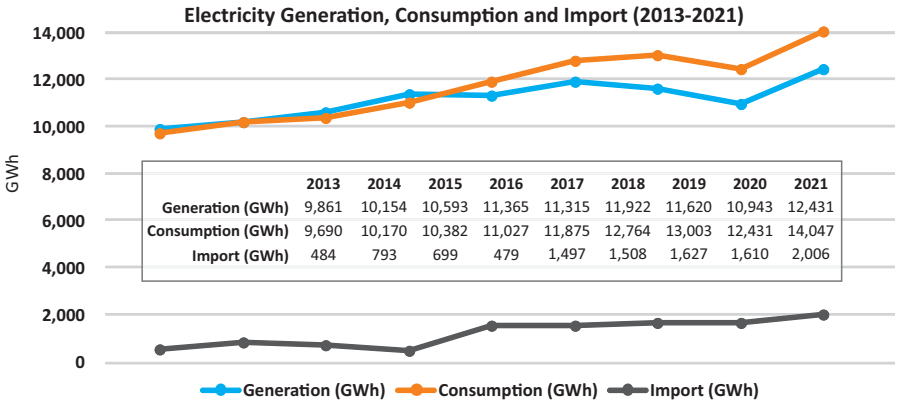
Georgia's tremendous potential for diverse, climate-friendly, renewable energy generation is demonstrated by its many hydropower projects, the Gori wind farm's proven high capacity, and its growing number of solar installations. This potential translates into significant opportunities for investing in Georgia's renewable energy resources at the industrial, commercial, and residential scales. U.S. government support to this sector, and its cooperation with the Government of Georgia, have offered expanding climate-friendly investment opportunities that will increase Georgia's energy capacity and diversify its energy sources.

With the World Bank forecasting GDP growth rate of 5.5% for 2022, Georgia's economy and its demand for energy are rapidly expanding. Rebounding economic growth is expected to drive a similar increase in Georgia's electricity demand to serve the needs of heating, air-conditioning, increased economic activity, and the country's expanding fleet of electric vehicles. Electricity consumption in Georgia has grown at an average of 4.2% y/y over the last decade, while annual domestic generation during the same period only grew by an average of 2.3%, according to GNERC.

That leaves Georgia vulnerable to international market risk. Domestic energy production covers less than one-fourth of Georgia's total energy demand, with the country importing all its natural gas and most of its oil. Energy imports from Russia include 5 to 10% of its gas–reaching up to 20% during winter months. Russia accounted for 13% of Georgia's electricity imports in 2021 (not including imports to Abkhazia). Russia's invasion of Ukraine, and the associated turmoil in European gas markets, have reinforced the inherent risks to such supplier relationships. It is time for Georgia, and international investors, to invest in clean, resilient energy production and minimize dependency on foreign sources of fossil fuels and power.

Georgia's 2030 Climate Change Strategy and Mitigation Action Plan and the long-term National Energy Policy both prioritize international and domestic investments in new renewable energy infrastructure. The Climate Change Strategy includes a vision to support renewable energy so that its share of electricity production reaches 87% by 2030, up from 72% today. Accomplishing this goal requires significant private sector investment in renewable energy projects to realize the additional 1,054 MW of renewable energy capacity.

Georgia is building on the solid progress made in attracting renewable energy investments by developing a new National Energy Policy, increasing regional energy trade, and introducing market-based incentive mechanisms that pave the way for further investment. Total foreign direct investment inflow in Georgia was $1.2 billion in 2021, with the energy sector exceeding $157 million, or 14%, making it the second highest source for foreign direct investment after the fi-



	2013	2014	2015	2016	2017	2018	2019	2020	2021
Generation (GWh)	9,861	10,154	10,593	11,365	11,315	11,922	11,620	10,943	12,431
Consumption (GWh)	9,690	10,170	10,382	11,027	11,875	12,764	13,003	12,431	14,047
Import (GWh)	484	793	699	479	1,497	1,508	1,627	1,610	2,006

nancial sector. Expected forthcoming market-based incentive schemes should increase opportunities for investment.

Georgia's focus on energy resilience aligns with its longstanding interest in developing renewable resources, deploying cleaner sources of energy, improving energy efficiency, and tackling climate change. While hydropower is a very developed sector in Georgia, the country also has immense untapped potential in solar, wind, and energy efficiency. Successful clean energy installations, such as the Gori wind farm, have demonstrated that Georgia can build efficient clean energy installations to increase its energy security.

Small and medium-size renewable energy projects have emerged as the principal near-term opportunities to quickly tap Georgia's proven clean energy potential and offset energy imports. This will contribute greatly to Georgia's energy security all while making a positive contribution to addressing global climate change. Due to their short development period, small and medium renewable energy projects, particularly hydropower, can be online quicker than larger, industrial-scale initiatives. These can also take advantage of new transmission infrastructure being added in remote areas.

The U.S. government, through its various agencies and in close cooperation with other donors and financial institutions, has been supporting Georgia's advances to improve its clean energy investment climate. Thanks to USAID's technical and advisory assistance, private sector investors recently committed to nearly 260 MW of new generation capacity, including four wind projects—representing the mobilization of over $358 million of new investment.

Pending developments in the governance sphere, the United States Development Finance Corporation (DFC) will resume consideration of multiple renewable energy projects, including Georgian Renewable Power Company's (GRPC) 54 MW wind power project in Kaspi, which is estimated to cost up to $71.5 million. GRPC and DFC are also negotiating U.S. support for a 54 MW wind power project near Tbilisi at a project cost of up to $66.5 million.

International investors, such as the Caucasus Clean Energy Holding (CCEH), that bring EU and U.S. investments in small and medium hydropower projects provide powerful examples of successful investment in Georgia's renewable energy. To date, CCEH has invested in five hydropower plants including Bakhvi 3, Lakhami, Achi, Intsoba, and Akhalkalaki with a total installed capacity of 37.7 MW. It is now developing additional hydropower plants with a total installed capacity of 43 MW.

Tbilisi's hosting of the Energy Regulators Regional Association's Renewable Energy Investment Conference from October 26 to 28 is another indication of international recognition of Georgia's renewable energy investment potential. To move the investment climate forward, USAID is partnering with the private and public sector to finalize the implementation of a competitive wholesale electricity market in the medium term. In the coming year, the developments in Georgia's power and renewables markets should provide the foundation for successful investment and the construction of new generation capacity that will propel Georgia ahead toward meeting its energy security and climate change goals. ■

Gori Wind Farm has demonstrated the possibility for other high capacity wind generation.

Photo credit: USAID/Georgia

What's behind the lari's recent fluctuations?

For those looking to travel, buy a big ticket item, or just stock up on their FX savings, watching the lari's fluctuating value against the dollar can sometimes feel akin to a game of roulette. For the lari is, as Galt &Taggart's Head of Research Eva Bochorishvili says, a "known volatile currency" that has seen long term devaluation against the dollar over the last decade.

But the lari's value in 2022 has seemed to many a bigger gamble than usual. From its seasonal strengthening around the new year to grim predictions and plummeting value at the onset of Russia's war against Ukraine, to unexpected levels of growth again in the late spring and summer, the market has certainly kept people on their toes. So, what has caused these major fluctuations? *Investor.ge* examines the GEL-USD market and what major factors are impacting its value.

ELEANOR MYERS

Recent fluctuations

The inconstant value of the lari has become, for many in Georgia, a constant over the last decade. In addition to seasonality effects brought on by annual tourism peaks, on which Georgia's economy relies heavily, the last two years saw Covid-19 bring its value against the dollar to historic lows amid a long term trend of depreciation.

But the first eight months of 2022 have seen unprecedented volatility in the lari. From June through August, the lari continued to strengthen against the dollar, albeit with some minor fluctuations - an occurrence that is not uncommon for the peak tourism season that runs through the summer months. Since mid-May, the lari has maintained a value of 3 GEL / USD or stronger, reaching a top value of 2.72 GEL / USD in early August - the strongest it has been since May 2019.

This recent appreciation of the lari comes on the back of drastic depreciation between late February and early March, owing to the war in Ukraine. Between February 22 and March 3, the lari did a dive from 2.98 GEL / USD to a (near) record low of 3.38 GEL / USD. This was only slightly lower than the all-time low of the lari during the height of the Covid-19 pandemic, when it fell to 3.44 GEL / USD.

And while it may seem unsurprising that the declaration of war between two of Georgia's largest trade partners had a negative impact on its currency, what is surprising is the rate at which it has bounced back, performing significantly better than was predicted by most economists in the spring. In its initial reactions to the onset of war in late February, Galt & Taggart estimated that the war's impact

USD/GEL Exchange Rate September 2021 - September 2022

Source: Trading Economics

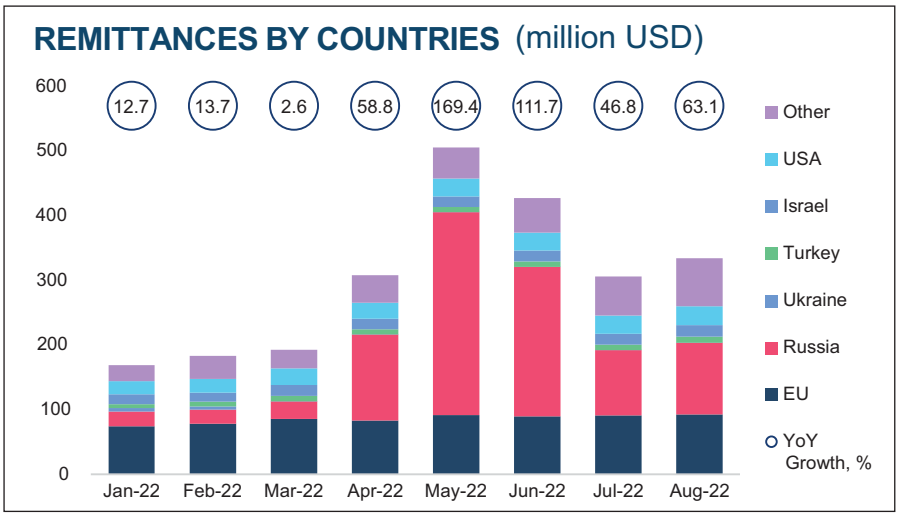
on tourism, remittances, and trade could push the lari to a new low of 3.5 GEL / USD, an outcome that now seems unlikely given the record numbers posted in all of these areas over the last few months.

So what factors are currently having an impact on the value of the lari?

Tourism

One reason for the recent appreciation of the lari is the seasonality effect brought on by the summer tourism season. In August, revenue from tourism reached a record $523 million, up 163% y/y and 27% higher than in 2019. This followed strong numbers in July, which registered $476 million, a 20% increase on the revenues earned two years prior. In total, between January and August 2022, Georgian tourism revenue registered just over $2.1 billion, a more than 200% increase compared to the same period in 2021.

However, while tourism has certainly seen an impressive rebound since the pandemic, this figure does not represent just holiday-makers: much of the increase in tourism revenue is due to the increase in the number of migrants from Russia, Belarus, and Ukraine who moved to Tbilisi after Russia's invasion of Ukraine. As analysts have noted, revenue from those migrating and those visiting for tourism is not reported separately, meaning it is hard to distinguish how much of this revenue is from the rebound of tourism and how much is derived from the (most recently estimated by G&T) 100,000 - 120,000 migrants who have settled in Georgia for the medium term.



SOURCE: TBC CAPITAL

Exports

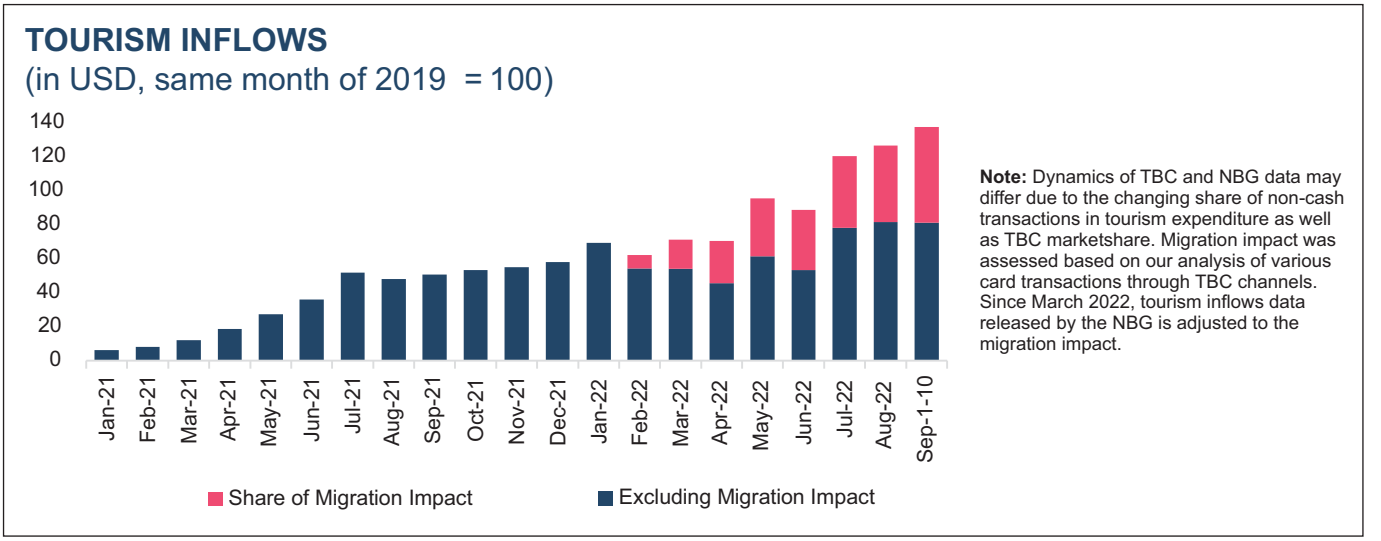
Increases in exports have driven demand for the lari and resulted in appreciation. Demand for exports from Georgia has been particularly high in recent months. In May 2022, Georgian monthly exports reached a record-high value of $504 million, according to the National Office of Statistics of Georgia, which is a 48% increase from the previous year. Between January and August 2022, Georgia exported $3.57 billion of locally produced goods, which was a 36.9% increase compared to 2021.

Booming commodity prices are also impacting the value of the lari, as Georgia's main exports tend to be commodities. According to Geostat, Georgia's largest export category was metal ores ($861 million, 20% of total exports), followed by iron and steel ($555 million).

Remittances and inflows

Georgia's economy has long relied on remittances, which represented 13.3% of the country's GDP value in 2020. Inflows of remittance also led to an appreciation of the local currency and have thus played a major role in the GEL's strong performance over the last few months. According to the National Bank of Georgia, the volume of remittances in August 2022 reached $334 million. This is a 63.1% increase compared to July 2021, with the largest chunk coming from the Russian Federation at just under $111 million (195% y/y increase).

However, understanding the increased inflows of remittances has been less than straightforward since the onset of Russia's war against Ukraine. As ▸▸



Source: GNERC

the NBG previously told Investor.ge, the large volume of money transfers from Russia could be related to a number of different factors. For one, some of the transfers could be from Georgians who had been living abroad and had chosen to return in light of the war. Some of the transfers could be a result of sanctions levied against financial institutions, which has forced small exporters to turn to fast money transfers through institutions like Western Union.

TBC Capital's chief economist, Otar Nadaraia, also believes some of these funds are from Russian migrants who are using them for everyday living expenses or tourists who cannot access their bank accounts abroad due to sanctions, an assertion supported by recent data published by the NBG. It shows that over 39,000 Russians have opened accounts at commercial banks in Georgia since the last week of February.

A portion of this capital inflow is being denominated in lari accounts, according to the NBG's Head of Macroeconomics Shalva Mkhatrishvili, which has had a positive impact on the currency's value. Adding to that is the country's current tight monetary policy, which offers higher returns on deposits for investors. The interest rate currently stands at 11% - its highest level in over ten years - although it should be noted that volatility of the lari like that seen in 2022 can be a major deterrent for investors to choose GEL deposits.

Expectations for the rest of 2022

By all accounts, the lari is expected to depreciate throughout the autumn and into the end of the year. For one, tourism has historically peaked in August, meaning less tourism revenue is expected in the coming months. Further to that, the lari will likely depreciate due to "a common belief in seasonality," according to TBC Capital's Nadaraia. Evidence for this can be seen in stronger GEL credit and foreign policy deposits: the markets expect the lari to depreciate by the end of the year, so they are already getting rid of it. This is because "market awareness is greater," according to Nadaraia, and "seasonality is already priced in."

Predictions also suggest that the central bank may loosen its monetary policy in the next quarter - albeit slowly, they have cautioned. TBC Capital predicts that by December 2022, inflation is likely to decrease to 7.4% and that it may return to the target level of 3% in the second quarter of 2023.

G&T's Bochorishvili believes that businesses are confident because of economic growth and the current strength of the lari. Yet, she says, uncertainty threatens the current level of business confidence; the war in Ukraine has big implications for Georgia "as it has created a lot of economic uncertainty." EBRD President Odile Reanult-Basso recently echoed this sentiment during a visit to Georgia, noting that "higher-than-expected economic growth in Georgia is due to short-term factors - the high level of remittances from Russia and higher-than-expected income from tourism."

Inflation - and the uncertainty it creates - has impacted many economies, and Georgia is no exception. However, Georgia does have an economic advantage relative to many other European countries because of its energy supply. Much of the price inflation in mainland Europe is being driven by increases in energy costs: yet due to its cheaper access to Azeri gas, Georgia does not face the same threat.

All signs lead to a depreciated lari by year's end - but given the recent higher-than-expected growth, it is hard to say exactly by how much. Yet expectations for the future of the economy remain buoyant: the Georgian economy has weathered many storms. All signs point towards strong growth in the next financial quarters. ■

INVESTMENT SPOTLIGHT

Tskaltubo: Georgia's next hot (spring) spot

Much like the rejuvenating qualities once touted at its many balneological resorts, Tskaltubo is too getting a fresh breath of life, according to government officials who unveiled major development plans for the former resort town in July.

The project, appropriately dubbed "New Life for Tskaltubo," aims to restore the favored former Soviet sanatoriums into a modern spa resort destination. In July, the government announced that that town, which is located just seven kilometers outside of Kutaisi in Georgia's western Imereti region, was expected to receive an estimated 500 million GEL ($170 million) in private investment as well as "tens of millions of GEL" from the government to make Tskaltubo "a modern, European-level, world-class spa resort" similar to the likes of Baden-Baden in Germany and Karlovy Vary in the Czech Republic.

In addition to the unveiling of the new development program in July, the government also announced the auction of 14 sanatoriums at an estimated value of 50 million GEL.

The first auction, which concluded its first round on August 4 with only two of the sanatoriums being purchased, follows the creation of a conceptual master plan commissioned by the Ministry of Regional Development and Infrastructure in late 2020.

Soon after the plan was unveiled in August 2021, Cushman & Wakefield, which conducted the feasibility and economic impact studies, estimated that the new investment could raise the per annum visitor numbers to the resort from the current 25,000 (2019) to more than 350,000 within the next decade. The government has also assessed that in addition to creating a room capacity of more than 6,000 beds, it also anticipates the development will create more than 3,200 local jobs.

While the project is still in its early stages, it represents an important opportunity for the tourism sector in the west of Georgia. With the Black Sea city of Batumi largely deserted outside of its peak tourism season, the revitalization of Tskaltubo and its year-round spa offerings could add to the growing number of ski resorts that will provide a much-needed boost to local economies in the offseason. ■

Sanatoriums steeped in Soviet history

While neglect since the 1990s has left much of its architecture crumbling, Tskaltubo once represented a major tourist attraction, which, at the height of its popularity, attracted more than 400,000 vacationers from around the Soviet Union on an annual basis. In 1931, a decree by the government of the Georgian Soviet Socialist Republic designated Tskaltubo as a premium spa resort and balneotherapy center. Built according to a series of master plans continuously modified and adapted between 1933 and 1983, Tskaltubo rose to prominence as a spa resort for the entire Soviet Union around 1955, reaching its peak popularity in the 1980s. Conforming to Stalin era urban planning and neoclassicist architectural designs, Tskaltubo's 22 sanatoriums form a circle around a large park.

How Georgia's wine history helps exports

In late August, Tbilisi welcomed over 100 wine economists from around the world for the first time as it hosted the annual conference of the Association of American Wine Economists. Among their top recommendations for expanding the cradle of wine's burgeoning export market? Sell your story.

SALLY WHITE

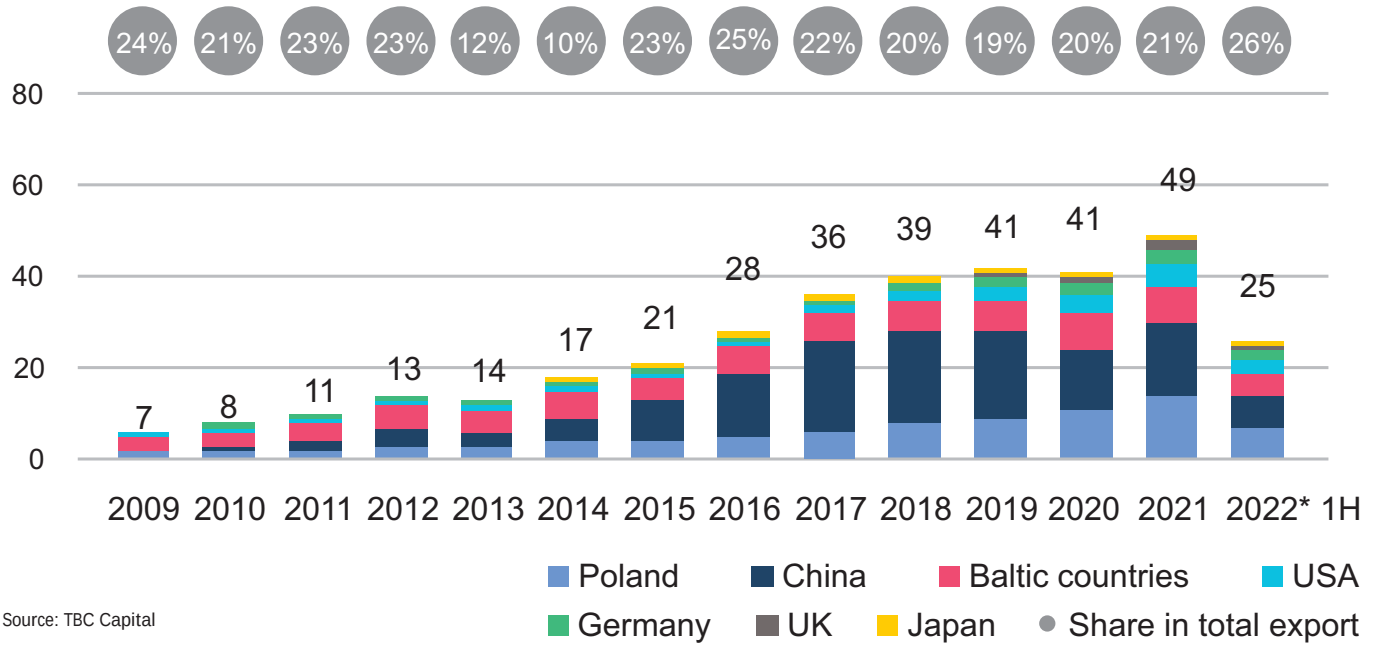
Storytelling can be key in opening new markets, and the Georgian wine industry has "the best plot ever, a history confirmed by science." So states a paper published under the aegis of the Association of American Wine Economists (AAWE), a New York-based organization whose members span the globe and share an interest in encouraging and communicating economic research, analysis, and ideas on the wine industry. Georgia as the "cradle of wine" has always held a fascination, and over 100 of SSWE members from 12 countries assembled in Tbilisi last month for its 14th annual conference. Many of the papers presented held useful "heads-up" messages for Georgia's wine industry.

Karl Storchmann, executive director of the AAWE, explained the choice of Georgia for the conference: "Because Georgia is the homeland of wine. Winemaking [here] is totally different from the mainstream, as are the grape varieties. In addition, Georgia and its wine economy are in the middle of fundamental changes. This refers to higher quality production and the development of new export markets. Exports of Georgian wines to the U.S., its largest Western market, have been surging.

"All these factors make Georgia an excellent location for any wine economics conference. The academic exchange of researchers from over the world is mutually beneficial. In particular, Georgian wine-related research and universities will be tied into the global network."

The multi-faceted purpose of the conference included helping Georgia's

Georgian Wine Export to Target Markets (MLN, USD)



Source: TBC Capital

wine industry increase its geographic reach, raising its profile in the U.S., and familiarizing more drinkers with Georgia's historical wine story. The major focus, however, was on discussion of the well over 50 international papers presented in person and online on everything from wine tourism, the influences on auction prices, branding, training wine staff, sustainability, value creation and capture, quality in wine cooperatives, global warming, logistic services, and bottles (all of which can be accessed on the AAWE website). Appropriately, these discussions took place in Tbilisi State University under images of the creator of modern Georgian winemaking, Alexander Chavchavadze.

Market research

Among the papers important for Georgia was an analysis of what influences the satisfaction of Chinese purchasers of Georgian wine, the subject of a paper from Universite Jean Moulin Lyon and writer Jiajia Pan, who concluded that "the unique packaging of Georgian wine offers satisfaction to Chinese customers." This refers to wines sold in pottery bottles, inferring that "the gift market is an essential target for Georgian wine in China." He also concluded that Chinese customers, instead of being attracted by a low price, were "more likely to focus on the value for money aspect."

Most significant of all in China, however, seemed to be Georgia's culture and the wine's characteristics, with Jiajia's online survey eliciting responses using technical terms such as "sweetness, tannin, and acidity, ruby." A few years ago, she says, Chinese consumers lacked such knowledge, but it appears that customer loyalty to Georgian wine is increasing. Awareness of Georgia was high in the survey, with strongly positive responses. "Some comments show that shoppers are happy with and proud of sharing the originality and uniqueness of Georgian wine with their family and friends." Thus, the ongoing marketing campaign in China seems to be working!

Also good news for Georgian wine were the findings from the testing of wines from 466 Georgian winemakers for sensory evaluation, which indicated an improving trend. Tastings of 5,100 bottles were carried out by the Georgian Wine Guild (GWG), whose paper described finding only 640 as having faults. "The most common microbiological faults were caused by sulfur containing compounds and oxidation," it states. While 17% of the bottles were rated at less than 80 points out of a possible 100, with the tasting notes on them listing "lack of harmony, low acidity, grippy tannins, too astringent, flat, and absence of a primary aroma," the GWG says the numbers with such a low score have been decreasing every year. What helps, it says, is the education coming from this kind of monitoring with its attendant publicity.

No aspect of the wine industry has been neglected by AAWE, and another paper, from a Swiss academic, examined the design of bottles, investigating whether the shape has an impact on perceptions and willingness of young wine consumers to buy. The pattern of results indicated that "respondents by and large react more favorably to traditional bottle shapes (in particular Bordeaux, Burgundian and Rhine shapes), which are evaluated as significantly more traditional but also significantly more elegant and appealing". ▸▸

Researcher Jiajia Pan concluded that Chinese consumers of Georgian wine prefer to buy pottery bottles

The willingness to pay was also appreciably higher for traditional shapes (led by Bordeaux, Rhine, Champagne and the Miraval-shaped bottle), with mean prices ranging from 10.1 to 11.4 euros, whereas the more unconventional bottle shapes (in particular the olive-oil-like bottle and the elliptical Ott-shaped bottle) lagged behind with means of 7.6 and 7.9 euros, respectively. These results, says the writer, were unexpected, and so they anticipated a need for some rethinking of the packaging of bottles designed to attract younger wine consumers.

Given cost pressures across the industry globally, but perhaps particularly in Georgia, which is being advised to tackle Western markets with more upmarket wines, a study of interest to all producers is the paper "Does quality pay off? Superstar wines and the uncertain price premium across quality grades." The authors, from the universities of Milan and Pisa, used data from the leading U.S. magazine Wine Spectator on 266,301 bottles from 12 countries that were sold in the United States. They investigated among these the link between the score awarded by the guide and the price charged.

While many wine producers "pursue quality excellence to obtain greater recognition on the market and a premium on the retail price," they point out the significant effect of wine quality on prices is "only achieved with outstanding scores." Hence it seems, as they suggest, reasonable to wonder whether the potential benefits in terms of price are worth the efforts and the costs required to achieve an excellent quality product. They found that "the price premium attached to higher quality is significant only for 'superstar' wines." Among the broad range of still very good, but lesser quality than these top wines, "prices were not statistically different from each other." So, "pursuing excellence is a risky strategy: the average price is significantly higher only for wines that achieve top scores, and the price premium becomes more volatile."

Highly pertinent, too, at the moment in Georgia, is the topic of female winemakers, as several are at the forefront of Georgian wine marketing. Their appeal (or not) to drinkers was the focus of a paper presented by a team from the French business school Kedge – the subject of which was "How does information about the gender of the winemaker affect the way consumers evaluate a wine (willingness to pay)." Surveying 1,500 consumers in France and Belgium, they used three different models to analyze reactions, with some labels bearing the identity of the makers and traditional ones with no information. Generally, in this study, when a female winemaker was identified, the amount the buyer was prepared to pay was around one to two euros less, and women were found to be even less enthusiastic than male drinkers.

"The wine industry is still a male-dominated industry, and it seems that collective strategies supporting women are not appreciated by consumers," they state. They combined information about the winemaker, including the gender of the respondent, and compared the reactions to those with a neutral label regarding the winemaker (no information). The results were that while male respondents provide a price premium to the wine made by a male winemaker (+1.5 euros), female respondents associate a price discount with the wine made by a female winemaker (-1.8 euros).

"Our result is in line with previous evidence, but (this was based on studies for women respondents only): male products, produced in a male-typed industry, are favored by male consumers; female products, produced in a male-typed industry, are disadvantaged by female consumers. Women judge gender

incongruence more severely than men."

A lesson for local producers

Storytelling in the Georgian wine market, one report quoted, is in the excellent library of papers on the AAWC site, reading of which is generously offered for free. Georgian wine producers could do well to explore it as it discusses the challenge of establishing Georgian wines' status internationally as coming not from the "Old World" or the "New World" but from the new category of "Historical Wines." Storytelling is integral to this.

"The Georgian efforts to open a new market niche for historical wines is an entrepreneurial action. It represents both the discovery and the exploitation of a market opportunity," say the authors of "Tales of Georgian Wine: storytelling in the Georgian Wine Industry." Storytelling is being employed by Georgian wine companies as "stories can communicate a large amount of information in a readily acceptable manner: easy to understand, easy to receive the message, and instrumental in creating a positive relationship between the consumer and the product." Storytelling is both old and digital media friendly, written and oral.

Georgia's overarching story, as described in the paper, is "8000 vintages," referring to the archeological findings dated to the Neolithic Era. Then come stories around the central artifact, the qvevri, and Georgia's place as the Noah's Ark of viticulture, with 535 endemic grape varieties.

The second story centers around religion and is composed of the relationship between the Christianization of Georgia, the creation of a nation, and includes the key elements of St. Nino and the Alaverdi Monastery.

Next comes the story of the 19th century modernization of Georgia's wine industry and the adoption of state-of-the art French technology. Following that came the Soviet period, comprising negative elements as well as industrial progress. Lastly, there is the emergence of Georgia's commercial modern wine industry, ranging from large company exporters to small producers catering for their own guest houses.

Storytelling, says the paper, is a form of content marketing that is working domestically in tourism, for some export markets, and particularly in China. Former Soviet countries are already familiar with the history. In the unfamiliar markets of Europe and the U.S., "storytelling is especially important." While exports to these destinations are increasing, it is "not to the volumes that the industry wants," note the authors.

They add that "change is still in the making," and that this marketing strategy is still relatively new. Meanwhile, the stories selected are helping package the idea of Georgian wine "by offering Georgian culture in a bottle" and their circulation is increasing – such as via this conference. ■

Tbilisi State University hosted the conference for more than 100 wine economists from around the world.

AmCham

CONTENT

43 Social: Cocktail receptions at the Biltmore and Vinotel

41. AmCham hosts sponsors' appreciation cocktail reception
42. AmCham holds members only luncheon
43. Social: Cocktail receptions at the Biltmore and Vinotel
44. AmCham members enjoy rafting excursion
45. NDI presents national survey results to AmCham members
46. New Members
48. Member Directory
52. Board of Directors

AmCham hosts sponsors' appreciation cocktail reception

AmCham Georgia hosted a cocktail reception and networking event on July 8 in appreciation of the generous sponsors for the 4th of July picnic. The event was held at the Barmaglot Bar Tbilisi. AmCham First Vice President Irakli Baidashvili greeted the guests and expressed his gratitude towards the sponsors and the AmCham team for making such a wonderful event. Guests were welcome to enjoy cocktails, Chateau Mukhrani, Mosmieri, and Vinotel wines along with a delicious buffet and opportunities to reconnect with friends, colleagues and fellow representatives of member companies.

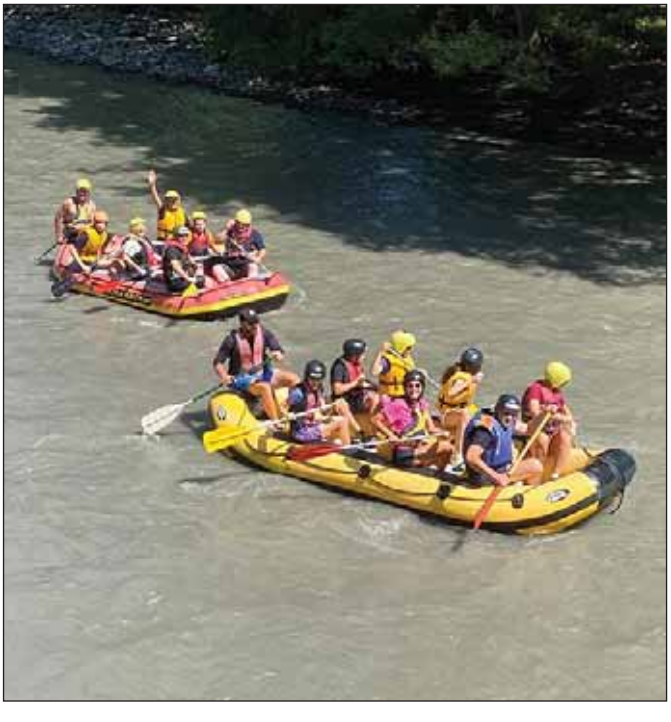
AmCham holds members' only luncheon

AmCham First Vice President Irakli Baidashvili hosted a members' only luncheon on July 13 with Kenneth Angell, the Managing Director of the Office of Development Credit at the U.S. Development Finance Corporation (DFC). Mr. Angell is a long-time friend of Georgia and has developed projects for DFC/OPIC for many years. At the event, he presented the profile of DFC and its future areas of interest. The presentation was followed by an opportunity for Q&A.

Cocktail receptions at the Biltmore and Vinotel

AmCham Georgia hosted a Cocktail Reception on the 30th floor of The Biltmore Hotel on July 31. AmCham First Vice President Irakli Baidashvili greeted the guests and informed them of AmCham's upcoming events.

On August 3, AmCham Georgia hosted a Cocktail Reception at the Vinotel. AmCham First Vice President Irakli Baidashvili greeted the guests, and members used the opportunity to reconnect with friends, colleagues, and fellow representatives of member companies while enjoying delicious wine and food provided by Vinotel.



AmCham members enjoy rafting excursion

On August 13, AmCham Georgia organized a rafting excursion for 80 member company representatives, their families, and friends. After an invigorating rafting trip on the Aragvi river, guests had the opportunity to network and enjoy lunch at the Jomardi Adventure Camp facility by the river. The kids made use of the high-wire tree climbing and a great time was had by all.

NDI presents national survey results to AmCham members

On September 22, the National Democratic Institute's Senior Program Manager, Diana Chachua, presented the results of their public opinion poll conducted in July and August. The poll focused on European and Euro-Atlantic Integration, Russia, economy and other national issues. Following the presentation, members enjoyed a back to business cocktail reception at the Funicular Restaurant.

NEW MEMBERS

Adigeni LLC
Copr A

Adigeni delivers digital marketing, social media management and graphic design services tailored to the needs of United States government agencies. Our team is led by US military veterans and contracting specialists who understand the US government's expectations for contract quality standards, performance expectations, and communication requirements. Our team includes internationally recognized media and graphic design professionals who have expert knowledge in cultural, societal, and governmental marketing efforts.

adigenigroup.com

GSS Car Rental
Copr A

GSS Car Rental is a local car rental company located in Tbilisi, founded years ago and ahead of most of the competition in Georgia, the company was established to provide tourists with a car to fit most needs and budgets, the team of native Georgians has the necessary skills and experience to run a great car rental company in this beautiful country. GSS Car Rental has 24/7 customer service and pickup and drop-off at the location of your choice. There are options to pick up and drop off your rental car at Tbilisi airport, hotel or even another city in Georgia, the company will deliver it to Kutaisi or Batumi Airports.

www.gsscarrental.com

WarecorpGeo LLC
Corp A

WarecorpGeo LLC is roviding dedicated software engineering for various American and international companies like Nvidia, Pantheon, SureHarvest and many yet. Their development centers are located in the US, Poland and Georgia. WarecorpGeo LLC invites local talented developers with good skills to be part of it's success.

www.warecorp.com

Willis Towers Watson Ltd.
Copr A

Willis Towers Watson in Georgia provides a broad range of risk advice and insurance broking services to clients ranging from small businesses to international corporations. Services include: risk management, creating insurance products on the basis of complex analysis, getting the terms and prices from insurance companies, analyzing offers and choosing the best option working on reinsurance, offering international health insurance, providing services after insurance. Willis Towers Watson is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path of growth.

www.willistowerswatson.com

Wolt Georgia
Corp A

Wolt is a technology company known for its delivery platform for food and merchandise. On Wolt's apps (iOS and Android) or website, customers can order food and other items from the platform's restaurant and merchant partners, and either pick up their order or have it delivered by the platform's courier partners.

www.wolt.com

NEW MEMBERS

Dariali Energy JSC
Corp B

Dariali Energy JSC is a hydropower company established in Georgia that owns and operates Dariali HPP (a run-of-river hydro power plant with 108 MW installed capacity and annual generation of 500 GWh) located on Tergi River in Kazbegi region, generating approximately 4% of annual domestic electricity consumption. EBRD finance: a senior A/B loan up to USD 80 million; Project cost: USD 123 million. The first project financing and first successful public-private partnership project in energy sector in Georgia. The project has the potential to be the first energy project to deliver carbon neutral constructon in Georgia. The project includes a reforestation component which would target the full compensation of all greenhouse emissions associated with the project over its lifecycle (construction and operation), through the capture of carbon in vegetation.

www.darialienergy.ge

SOCAR Midstream Operations
Corp B

SOCAR Midstream Operations on behalf of SOCAR is providing shareholder governance of the South Caucasus Pipeline (SCP), Baku Tbilisi Ceyhan pipeline (BTC), Trans Anatolian Natural Gas Pipeline (TANAP) and Trans Adriatic Pipeline (TAP). At the same time fulfills the role of Commercial and Technical Operator of SCP pipeline of international importance supplying gas to Georgia, Turkey, and Europe, whereas SOCAR Midstream Georgia Branch is responsible for technical aspect of operations of Georgian section of the SCP gas pipeline.

www.socarmidstream.ge

Giggles Ltd.
Corp B

In 2010 IZIPIZI was created by 3 Friends in France. At first, it was designed for far-sighted people, but now it's one of the trendiest eyewear brand in the whole of Europe. IZIPIZI is a colorful, light and high quality glasses that are designed for people of all tastes and ages. IZIPIZI IS made for everyone: big or small, sporty or not, you will find the right glasses for your face! It's been 4 years already since Giggles is the official distributor of the IZIPIZI eyewear Georgia. Their glasses are to be used in all moments of life, even the most complicated ones; it is committed as a company but also as individuals to communities that protect the planet and humans. The company is committed to continually improving our business, reducing the impact on the planet, improving the quality of materials used, and strengthening social actions.

www.giggles.ge

Treimax Georgia LLC
Corp B

Treimax Georgia holds a leading position in the construction and manufacturing industry as an importer of ventilation, air conditioning and heating systems in Georgia to further their sales and maintenance. The company is an authorized distributor of brands - Trane, Eurapo, Hiref. The company works in many construction verticals, but mostly in Hotels and Towers, Business Centers and Offices, Public Service Buildings, Banks and Factories. Among the completed and ongoing projects by Treimax Georgia are some of the largest and most impressive construction projects in the country, including Paragraph, Radisson, Welmond Hotels in Adjara Region, Hilton Garden Inn Hotel in Tbilisi, ACT Boing Factory and many more.

www.treimax.ge

Med-Diagnostics
Corp B

Med-Diagnostics is the most prominent molecular genetic Laboratory in Georgia. The company established a demonstration place in practically implementing high-quality, reliable and innovative medical laboratory approaches in the Caucasus. Med-diagnostics provides scientifically proven, effective, high-quality medical services to the population that consistently exceeds stakeholders' expectations. The company implements medical laboratory research methods following European standards and manage laboratory procedures with competent, professional practitioners.

www.md.ge

Board Of Directors 2022

SARAH WILLIAMSON
President

IRAKLI BAIDASHVILI
First Vice President

R. MICHAEL COWGILL
Vice President AND Treasurer

RADOSLAV DUDOLENSKI
Director

COLIN DONOHUE
Director

OTAR KIPSHIDZE
Director

SERGI KOBAKHIDZE
Director

AmCham Executive Director
GEORGE WELTON
Editor
MACKENZIE BALDINGER
Marketing & Promotion
NINI KAPANADZE
Promotional Design
LEVAN BARATASHVILI
Magazine Design and Layout
GIORGI MEGRELISHVILI

Writers
SALLY WHITE, MACKENZIE BALDINGER, BRADEN BJELLA, GIORGI JANGIANI, ELEANOR MYERS.

SPECIAL THANKS TO ALL THE CONTRIBUTORS TO THE MAGAZINE, ESPECIALLY OUR MEMBER COMPANIES FOR THEIR CONTRIBUTIONS, AMCHAM GEORGIA STAFF AND ALL OUR CONTRIBUTORS.

THIS MAGAZINE WOULD NOT BE POSSIBLE WITHOUT YOUR HELP.

JORDI KUIJT
Director

KETTI KVARTSKHAVA
Director

SANDRO SHELIA
Director

GOGA TKHELIDZE
Director

GEORGE WELTON
Exec. Director

BETSY HASKELL
Ex-Officio Advisor

AmCham Georgia Patron Members:

© The American Chamber of Commerce in Georgia, 2018
All rights reserved. No part of this magazine may be re-printed, or reproduced or utilized in any form or by electronic, mechanical or other means now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system without permission.
The opinions expressed in this magazine do not reflect the opinion of the American Chamber of Commerce in Georgia nor its Board Members or staff, unless otherwise stated. AmCham Georgia neither endorses, nor can be held liable for any eventuality arising from the use of any product or service advertised within the pages of this issue.

Investor.ge is printed by CEZANNE

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

Foresight
INVESTMENT GROUP

NEWSLETTER 2022Q3

Opening New Horizons for Georgia's Investors

ABOUT FORESIGHT

Foresight Investment Group is an Asset Management Company licensed by the National Bank of Georgia (NBG).

Foresight thus has an exclusive right to set up investment funds, raise capital from local and foreign investors, and manage fund assets.

FORESIGHT CAPITAL

Foresight Capital is the first investment fund set up and managed by **Foresight Investment Group**.

$30m	5yrs	5%
Fund Size	Fund Term	Minimum Net Return in USD

By investing in **Foresight Capital**, you become a shareholder in a fund with a real estate-backed* and diversified portfolio of income-producing assets, providing monthly income for you as an investor.

***Fund's investments are 100% secured by Real Estate.**

2022Q3 RESULTS*

Fund Gross Yield	Annualized %	**6.8%**
Net Realized Investor Yield**	Annualized %	**5.0%**

**Based on unaudited results for the Quarter-end 30/09/22.*
***Based on the actual dividend payouts to the Fund's investors net of taxes.*

2022Q3 YIELDS ON BANK USD TERM DEPOSITS

1.6%	1.4%	1.2%
TBC	BGEO	Liberty

EXPERTISE EXPERIENCE EFFICIENCY

BGI is Georgia's leading independent full-service law firm, top-ranked in every service area, by every international legal directory that covers Georgia (Chambers Global, Chambers Europe, PLC, Legal 500 and IFLR1000). Our practice offers unparalleled diversity and breadth in its ability to handle multiple major mandates at the same time as well as to guide clients through Georgia's fast-paced economic transition and increasingly regulated statutory framework.

LASHA GOGIBERIDZE | ZAZA BIBILASHVILI | SANDRO BIBILASHVILI | UNANA GOGOKHIA | TAMARA TEVDORADZE | GIORGI SARAJISHVILI

BGI LEGAL
EXPERTISE. EXPERIENCE. EFFICIENCY.

For more information contact BGI partners
Sandro Bibilashvili (sandro.bibilashvili@bgi.ge) or
Lasha Gogiberidze (lasha.gogiberidze@bgi.ge)
18, Rustaveli Avenue, 0108 Tbilisi, Georgia
Tel.: (+995 322) 47 07 47

WWW.BGI.GE

大成 DENTONS

The global Energy practice of the future.

Otar Kipshidze
Georgia Managing Partner
otar.kipshidze@dentons.com

Avto Svanidze
Partner
avto.svanidze@dentons.com

Dentons Georgia
8a Melikishvili street, Tbilisi 0179, Georgia
T: +995 32 2509300 F: +995 32 2509301

Grow | Protect | Operate | Finance

dentons.com

© 2022 Dentons. Dentons is a global legal practice providing client services worldwide through its member firms and affiliates.
Please see dentons.com for Legal Notices.