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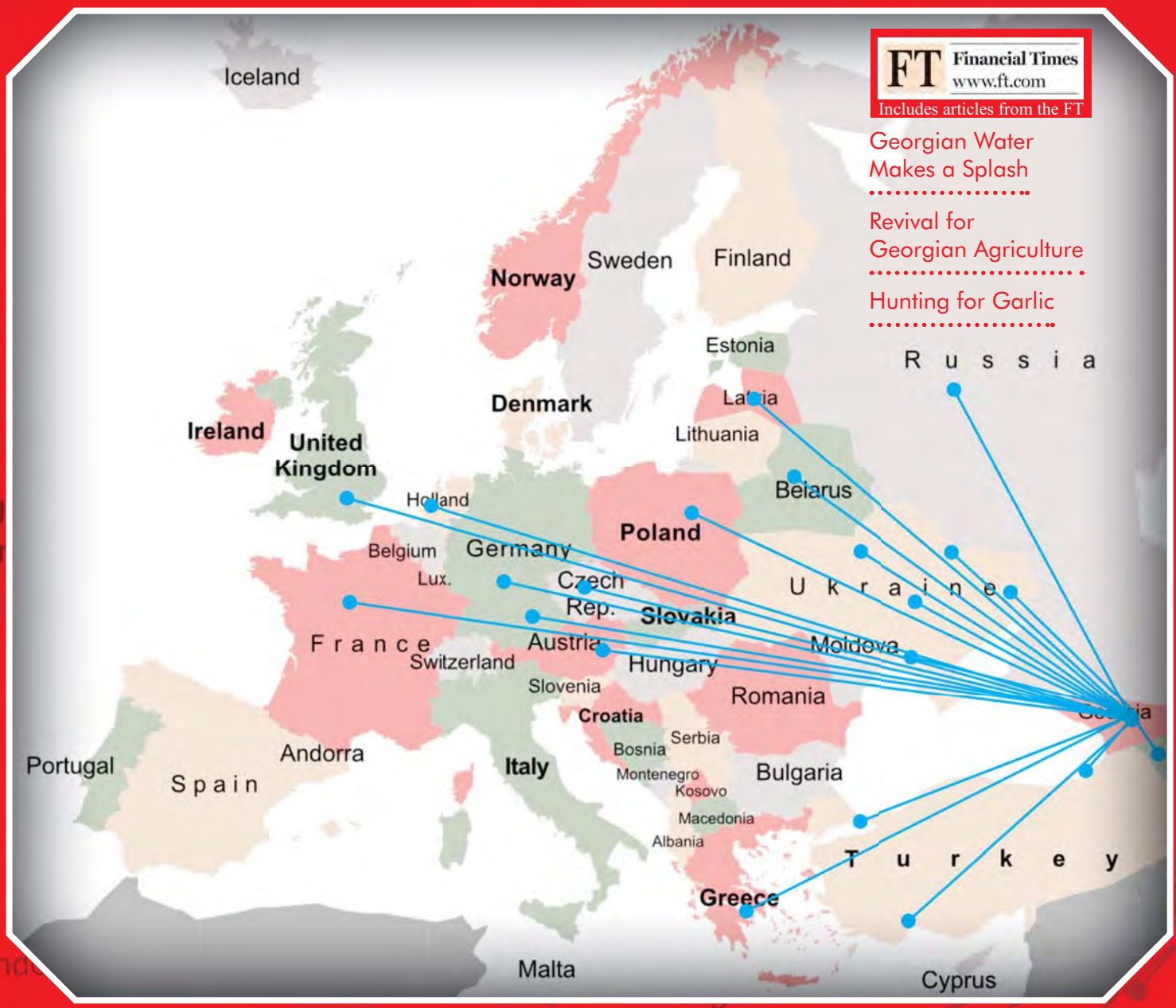

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Revival for Georgian Agriculture

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Investment Brief

Bank of Georgia to play in Premier League

Bank of Georgia was upgraded to a Premium Listing on London Stock Exchange (LSE) on February 28. After the first two days of trading on Premium Listing, stock price of BOG increased by 32 percent, according to bank reports.

As a result of the deal, BOG's shares will now be available to more investors, including large British and US pension funds. It consequently means higher liquidity for bank, lower interest rates for customers, more safety and stability in Georgian banking system.

New Investment Fund for SMEs

A new investment fund focused on financing small and medium businesses in Armenia, Azerbaijan, and Georgia was launched on March 30.

The $42 million fund is financed by The EBRD (the European Bank for Reconstruction and Development), IFC (International Finance Corporation, a member of the World Bank Group), FMO (the Netherlands development bank) and BSTDB (Black Sea Trade and Development Bank), and SEAF (Small Enterprise Assistance Funds). SEAF will manage the fund.

"Chacha" Fountain in Batumi

From September, Batumi will boast a new fountain that will gush Georgian Chacha, the locally produced grappa-like spirit. The 25-meters high tower will bring Chacha to the masses for 15 minutes one day a week, is part of a 810.1 thousand project funded by Batumi City Hall. The project will include four open swimming pools, a tourism information center, and some other service centers.

Estonian Air starts Flights to Tbilisi

From April 9, Estonian Air will start regular flights to Tallinn four times a week. The service will be the only direct flight to the Estonian capital from Tbilisi.

The airline offers onward flights from Tallinn to Amsterdam, Barcelona, Brussels, Copenhagen, Helsinki, Oslo, Stockholm and other major European cities.

Estonian Air is just one of a number of airlines to start direct flights from Tbilisi. For more information, please see Investor.ge's report on investment in the airline industry on page 14.

French Company buys shares in TAV Havalimanlari Holding

TAV, the Turkish company that operates airports in Tbilisi and Batumi, has sold 38 percent of its business to the French operator - Aeroports de Paris Group. The transaction is worth $874 million, according to TAV.

Together, the two companies operate 37 airports worldwide, which service approximately 180 million passengers annually.

In addition to airports in Turkey and Georgia, TAV operates airports in Latvia, Macedonia, Saudi Arabia and Tunisia.

Imperial Tobacco opens Georgian Branch

On February 23, Imperial Tobacco International Limited opened its Georgia office, expanding its branches in the South Caucasus. The company already has offices in Armenia and Azerbaijan.

Nikoloz Garsevanishvili, the head of the Georgian office, said the company has "long term" plans to expand in the Georgian market and to introduce new products.

Imperial Tobacco International currently has branches in 160 countries worldwide, operating 50 factories and employing 38,000 people. It owns several brands including Davidoff, Gauloises, West, JPS and Route 66.

Rixos Hotel Chain Coming to Tbilisi

The Turkey-based chain's new hotel is under construction on Gudiashvili Street, with the grand opening planned for 2014. The complex will have 60 rooms and 40 brand stores.

The Tbilisi project will be one of the first investments for Rixos in Eastern Europe. The hotel chain will become the most expensive hotel in the Georgia, according to report in The Financial newspaper. Total investment planned for the development is $15 million.

Trump coming to Georgia

Negotiations will continue on the construction of another Trump Tower in Tbilisi once construction of Batumi Towers is completed, according to the Ministry of Economy and Sustainable Development. Minister Vera Kobalia said the Batumi Towers are currently under construction; Donald Trump is planning a trip to Georgia in April. He agreed to participate in the two developments during President Mikheil Saakashvili's visit to New York in 2011.

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Georgian Water Makes a Splash

2011 saw the Georgian mineral water industry achieve its highest sales levels since the 2006 Russian embargo, largely due to the growth of exports. New markets and new competition are fueling a boom for the country's naturally bubbly beverage.

MAIA EDILASHVILI

In 2011 Georgia exported 71.3 million liters of mineral water, worth $47 million, a record number of sales since the 2006 Russian embargo on Georgian exports. This is also extremely close to the market's 2004 peak of 74.9 million liters and a 49% increase on 2010.

The two largest Georgian mineral water producers, Healthy Water and IDS Borjomi Georgia, credit new markets and an increase in demand for the growth in sales last year. Both companies are exploring markets in the Middle East and Africa.

"I can say without hesitation that since the start of the Russian embargo (in 2006), the year of 2011 was the most successful," noted Nitsa Cholokashvili, PR manager at IDS Borjomi Georgia, in an email interview.

"Our local and foreign sales in 2011 increased 22 percent compared with 2010."

IDS Borjomi, which produces Borjomi, Likani, Bakuriani and Borjomi Spring brands, sends its sparkling and still waters to 40 countries worldwide. Cholokashvili said just 35 percent of their production is for domestic sales; the rest is exported around the world.

IDS Borjomi Georgia's competitors also had a good year: Levan Chikovani, the exports manager at Healthy Water, said sales to the US were particularly high. "The demand grows from year to year," he said. "As the demand grows, our sales increase."

Healthy Water sends 15 percent of its production to 15 international markets. Israel, Turkey, Kazakhstan, the Baltic countries and Ukraine are the major consumers, Chikovani noted.

"Speaking about the US market, for instance, every year we intensify cooperation with local partners, organize promotional events to increase brand recognition and thus we boost supplying restaurants, supermarkets and other various stores," he said.

"So I can say that the expansion of the distribution network pushes our sales."

While sales are up, the number of producers is small: Euromonitor International's July 2011 report "Bottled Water in Georgia" noted IDS Borjomi Georgia was the country's top producer in 2010, with a 46 percent trade volume share of the market. Healthy Water Ltd., which produces Nabeghlavi and Bakhmaro brands, came in close second with a 45 percent share. A moderate 3 percent share was held by Igrika-97 Ltd., which produces the Sairme brand.

A third company, Aqua Geo, also entered the market last year, introducing Sno, a new mineral brand. Exports to Azerbaijan and Ukraine are planned, as are sales to the Middle East and Asia.

But IDS Borjomi's Cholokashvili said the increased competition at home will help the company produce better products – eventually leading to more sales.

"The competitive environment helps brands develop rapidly," she said. "This is why we appreciate healthy competition. We respect our rivals and always try to be a step ahead of them."

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Georgians Online: Internet Usage in Georgia

Can you remember what life was like before email or online search engines? How did you keep track of friends and family without Facebook, Twitter or Skype? Internet has changed the lives of many people; and yet according to survey results nearly half of the population of Georgia has never accessed the Internet!

NANA PAPIASHVILI

This article will look in more detail at those who have accessed the Internet and those who have never logged on. Who are these people? Where do they live? Are their attitudes or views different from those of us using the Internet? Results are based on data from the Caucasus Barometer survey conducted in 2011 by the Caucasus Research Resource Centers in Georgia (CRRC).

As one might expect, while half of the population has never been online, the non-users are most highly concentrated amongst the old, those living in rural areas and the poor.

The main reasons people cite for not using the Internet are resource specific, with 37% (of non-users) saying they don't have access to a computer and 5% saying they don't have a modem or an Internet hook-up. However, 18% say they do not need the Internet and another 18% have no interest in it. Of those who don't use the Internet only 13% say that the main reason is that they don't know how.

Also, while the survey shows that many rarely use the Internet, it also shows that many use it intensively.

While half of Georgians have never accessed the Internet, usage has grown rapidly: the number of daily Internet users in 2011 has doubled since 2009. Most importantly, even though 88% of people rely upon the TV for information (CRRC, Media Survey 2011), the percentage of the people using the Internet as the main source (and the second main source) of information has also doubled over the last two years.

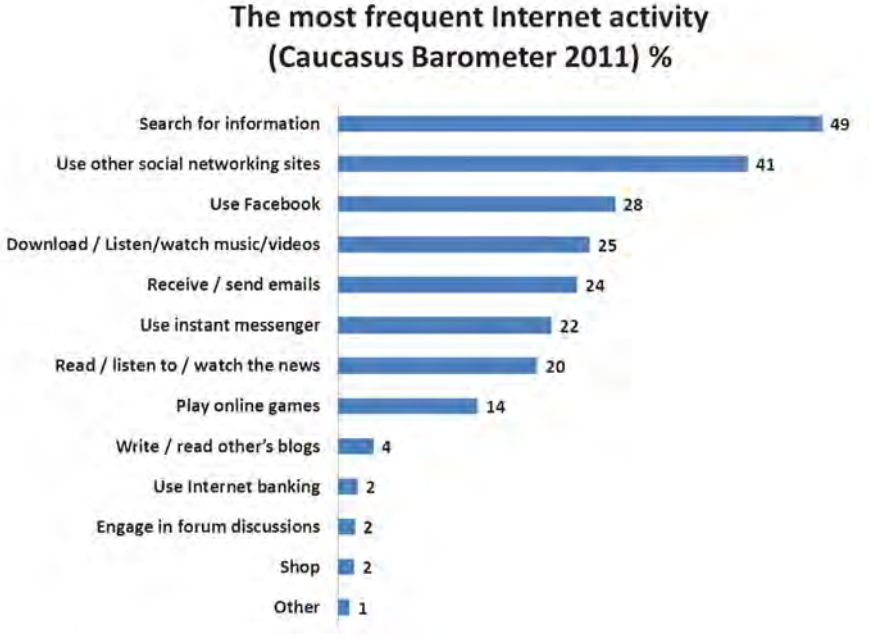
Internet Users | Internet Activities

More Georgians are accessing the Internet, but why? CRRC tried to find out what are the most frequent activities while using the Internet: data showed that about 69% of Internet users surf social networking sites (28% using Facebook, 41% - other networking sites). About half of the users use the Internet to search for information. Other popular activities were reading and writing blogs, Internet banking, forum discussions and shopping.

Not all Internet time is good news. Certainly healthier activities seem less of a priority during free time: according to the Caucasus Barometer survey 2011, for the last six months more people have played Internet games (30%) than have gone to the theater (12%), visited a museum/gallery (5%) or engaged in a physical activity like exercise/sports (12%).

Online Data Analysis Program:

For those using the Internet, CRRC has created an Online Data Analysis program, which gives everyone an opportunity to access CRRC's survey data without any special statistical software. CRRC has made available many surveys conducted in Georgia, as well as in Armenia and Azerbaijan. Check out ODA to find out more on Internet usage and other social science topics in the South Caucasus! The link is http://crrc.ge/oda.



Five Questions with... Steve Johnson

Investor.ge launches its newest feature – interviews with investors, CEOs, policy makers and economists – with a candid discussion with Steve Johnson, the owner of Prospero's Books, senior partner of Betsy's Hotel and a long time AmCham board member.

MAIA EDILASHVILI

Q: What is your feeling about the potential of the tourism business in Georgia? How important is the return traffic? What do you think should be done to promote Georgia as a destination of choice?

A: Betsy's Hotel, www.betsyshotel.com, was opened in 1993 by Betsy Haskell, when the only other acceptable hotel for foreigners was the Marco Polo (now the Sheraton Metechi Palace). Betsy's started with five rooms… we recently built a new building next door and made 57 rooms in total, with conference rooms and banquet facilities. Actually, most of our business is return business. We know guests who come frequently to Georgia have usually been to the larger corporate hotels and once they visit Betsy's and understand that it is the place to gather and meet other professionals and colleagues, they stay with us. The reasons for promoting Georgia are obvious: the old ancient wine country with deep religious roots and a fascinating history. I don't think the challenge is on figuring out what to focus on, I think the challenge is how to handle the guests that come.

You have to have English-speaking taxicabs, signs in the streets in English and Georgian. I think the police and law enforcement issues have been sorted out now. Most of the places [have people who] speak English well and offer menus and brochures, etc. in English, but more needs to be done. Tbilisi has huge potential for hosting conferences and events for the region. MICE (Meetings, Incentives, Conventions and Exhibitions) and other initiatives are working to achieve some good results. More airlines and better arrival and departure times are a challenge for many reasons, but as things continue to develop I am confident that the focus of the Georgian Government and their efforts to promote Georgia are working positively for not only tourism but also business and investment.

Q: FDI is critically important for the Georgian economy. What should the government do to attract more investors like you? What would you tell potential small investors about the Georgian market?

A: That's a good question… because you have to know whether you want to attract big energy related companies and retail corporations or small business owners like myself. When your government promotes Georgia as nice place to do business, does that matter to big energy, oil or mining corporations? I think they would come and set up even if it's very difficult. But the ease of setting up a company and operating a small or medium size company is a different mindset, and that matters to small and medium sized companies, which can, and do, have an enormous impact on the total economy when they are all considered together.

Concerning investors, firstly, they should come and run their business themselves, fully commit and be careful whom they partner with. They should spend time with businessmen who have been here for a while, who understand Georgia and then try to correctly determine where and with whom they invest.

Q: What inspired you to invest in Georgia? What has made Prospero's Books a success?

A: Georgia seemed like the land of opportunity when I first visited in 1992. My older brother and I purchased the property in 1997 with Peter Nasmyth and opened in 1999, two weeks before my son was born. At that time it was just a bookstore and offered books exclusively in English. We then added a café and began roasting coffee a year later. We expanded the property in 2010 adding a larger café and children's books section. What makes it successful, I think, is our level of customer service; orientation and

training of staff is completely American style. We have consistently maintained that level of quality during all this time. My wife, Tamara Megrelishvili is the director and does a fantastic job.

Q: Have you considered franchising the bookstore? How have e-books affected your business?

A: We have considered opening franchises in Baku and Yerevan many times, also locally in Batumi, or in Tbilisi in Vake or Saburtalo. But franchising is a difficult thing to do. For example, you may have a car which is operating perfectly because you know all its secrets and exactly how it works, but you can't sell it because you know others can't operate it with just the key. In the future we will do something bigger and better, but at this time with the e-book market developing quickly and the way people are reading more on their computers, it seems that regular paper books and publishers are on the verge of change. A lot of authors will start bypassing the publishers and the traditional methods of sales and distribution. In Georgia it's still hard for people to use e-readers because you must have an international credit card to download online; we will soon offer e-books on our website www.prosperosbookshop.com and we will change and grow with the market developments.

Q: How important is it to know and love the Georgian culture to do business here? How does being part of a Georgian family help you run business successfully?

A: After twelve years of marriage my wife and I have two children – a boy aged 11 and girl, 7. Georgians have one word for everyone who is not Georgian 'uckhoeli', which translates as stranger. So I feel like stranger sometimes. Even after so many years, I am still figuring out the Georgian culture. In 1992 when I first visited Tbilisi I was fascinated that even though people were waiting for hours in line for bread and searching for eggs and meat, dealing with hyperinflation and crime and that terrible feeling that nobody knew what was going to happen next, they would still invite you into their home, and have a four or five hour Supra with 20 people, the traditional Tamada, and since everyone has a piano or a guitar there was always singing and dancing. And I thought – this is crazy, where do these people find money, time and energy for this?

Now even after 15 years of living here I am still figuring out a lot of it and I am still fascinated with the culture which is so old: the mentality of the Caucasus, where the East meets West; the relationships between the men and women and kids. It seems like Americans grow up faster, they are expected to leave home at 18-19 to live on their own; in Georgia there are extended families living together all the time, which keeps people closely tied and connected and there is a lot more community understanding and knowledge about who is who and their history etc... But, for all the good that brings, it makes an already small town very, very small.

My Georgian? I can say enough to get in trouble but sometimes not enough to get out of trouble. People I work with speak English and most of the business I do is in English. Though everybody who wants to come and do business here should make some effort to learn a little Georgian. Everyone appreciates this. Georgia is an interesting place, but very complicated and chaotic at the same time if you don't understand some of the basics. And it's important to be as positive as possible and try to manage your expectations. If you are honest, and you are good and patient, work hard and expect the same from everyone else, eventually it's respected and returned.

Hotels: Optimism Grows in 2012

A recent report by KPMG indicates that occupancy rates, and confidence, in the Tbilisi hotel sector grew in 2011 and are expected to continue to grow in 2012.

Longer Season, Higher Occupancy

The increase in visitors, i.e. business travelers and tourists, coming to Tbilisi has pushed up occupancy rates and extended the hotel sector's 'peak' season, according to data compiled by KPMG for a hotel overview published in February.

While business travelers are the main stay for Tbilisi hotels, making up 67 percent of all guests in 2010, the latest statistics available, show that 12 percent of the guests were "leisure travelers" and 21 percent were visiting for "other purposes."

The volume of guests has shifted the hotels' peak and "shoulder" periods, noted Andrew Coxshall, KPMG's managing partner in the Southern Caucasus.

The "shoulder" period refers to the months between high and low occupancy seasons.

"Obviously if you looking at London or Paris there would be less of a peak season, shoulder season [but] for this type of destination, that seemed completely inline with what we expect," he said.

"The season does appear to be getting longer. I think you probably saw that last year when you see tourists in March and April and still here in October. The peak is sort of coming down a little bit."

Currently high season is from April to June and from September to November, with July and August considered "shoulder" months. Occupancy rates were 79 percent during the peak of the season, and down to 51 percent in the low period. Shoulder months saw an occupancy level of 65 percent.

Room rates, however, did not "show significant variation" depending on the season: international chains charge between $119 for a standard single to $710 for an executive suite. While chains are more popular, according to the survey, local hotels charge less: a standard single starts from just $70.

High hotel costs have been an issue in the past, but Coxshall noted that Tbilisi room rates are comparable with neighboring Azerbaijan.

The report noted that the average traveler to Tbilisi spent $151 per day on lodging, food, and beverages in 2010, higher than the $103 per day average for the CIS but lower the European average, $202.

High Occupancy, Higher Demand?

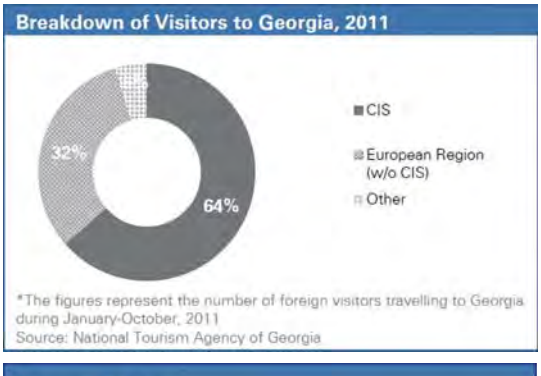
But is the increase in occupancy enough to satisfy the hotel projects planned for the city? Currently there are six international hotels already operating in Tbilisi, and a Hilton, Rixos, and others either under construction or in the planning stages.

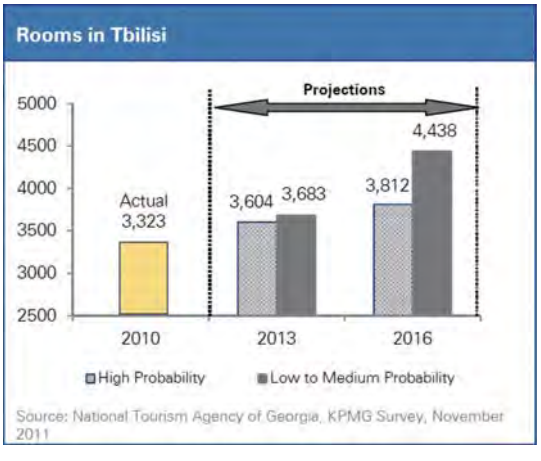
The report notes that business travelers prefer to stay in chain hotels over local establishments, a tendency that is understandable, noted Coxshall, adding that a lot comes down to "brand recognition."

"Business travelers are generally going to want to go to somewhere they know," he said.

"They know the Radisson, they know the Marriott."

The report noted that the number of rooms in Tbilisi is projected to increase from 3,323 in 2010 to an approximate 3,812-4,438 in 2016.





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Joining the Mile High Club: Georgia's Growing Aviation Industry

GEORGE WELTON

By any calculation flights to and from Georgia are growing at an impressive pace. While passenger numbers to Tbilisi International Airport dipped slightly from 2008 to 2009, there was 17 percent growth in 2010. The 29 percent growth in 2011 took passenger numbers to over one million for the first time.

The number of airlines is also increasing dramatically. The Airport Operator TAV lists 26 airline companies currently active in Georgia including three entrants in 2010 and four entrants in 2011.

In 2012 Qatar Airlines has already joined this group with Estonian, Alitalia and Aegean Airlines all expected to open in the coming months.

As Andy Ricover, a transport and logistics consultant for the USAID financed Economic Prosperity Initiative (EPI) project, says this has happened because "the market is completely liberalized."

This liberalisation has occurred, Ricover argues, because of strenuous efforts by the government to set up the right institutional framework for Georgian Aviation. "You cannot get a completely liberalized market without the right institutional framework because if you have conflict of interest between policy maker, market regulator and operator, you cannot ensure the independence in their judgment," he said.

Everyone agrees that this liberalization has pushed prices down. Ricover points out that prices from Armenia are ▸▸

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significantly higher because the market is not liberalized.

For Levan Elizbarashvili, the general trade representative for Pegasus in Georgia, the difference in pricing is clear. "No matter what kind of airlines, they have all been dropping their prices. In 2010 no one could ever have imagined that Lufthansa would sell tickets for 300 Euro."

In addition, new airlines coming in from Dubai and Qatar have cut prices on flights from Tbilisi to destinations like Columbia and Thailand, according to Tina Zaldastanishvili, the managing director of Levon Travel. "Qatar Airlines are currently advertising prices of 300 Euros to Thailand, that ticket was 550 Euros before they entered the market," she said.

Competitive Pricing. How low can you go?

While prices generally have gone down significantly, both Levon Travel and Intercontinental Tour Agencies agree that flights to the US and western Europe have largely stabilized over the past four or five years.

This comes as a surprise to most people, who perceive that the high number of new airlines flying into Tbilisi would cause prices to continue to drop.

"New entrants always seem to be cheaper," said Iali Beshkenadze, General Manager of Aerosvit. "They enter the market with discounted prices to gain some attention and market share, but prices soon go up."

This highly discounted pricing is already a problem for some people. Roland Beridze, the vice president of Georgian Airways, for example, argues that some of the lowest cost tickets amount to price dumping, which hurts the market long-term. "What will happen in Georgia is that the company with the deepest pockets will win and the local market will be killed," he said.

To many, however, it is still unclear why flights to Georgia remain much more expensive than they are in the EU, where return tickets under 100 Euros are routine. Sector analysts and airlines agree that the issue is not airport taxes: at around $22 per person per flight, the taxes at Tbilisi International Airport are marginally higher than the regional average but not by much.

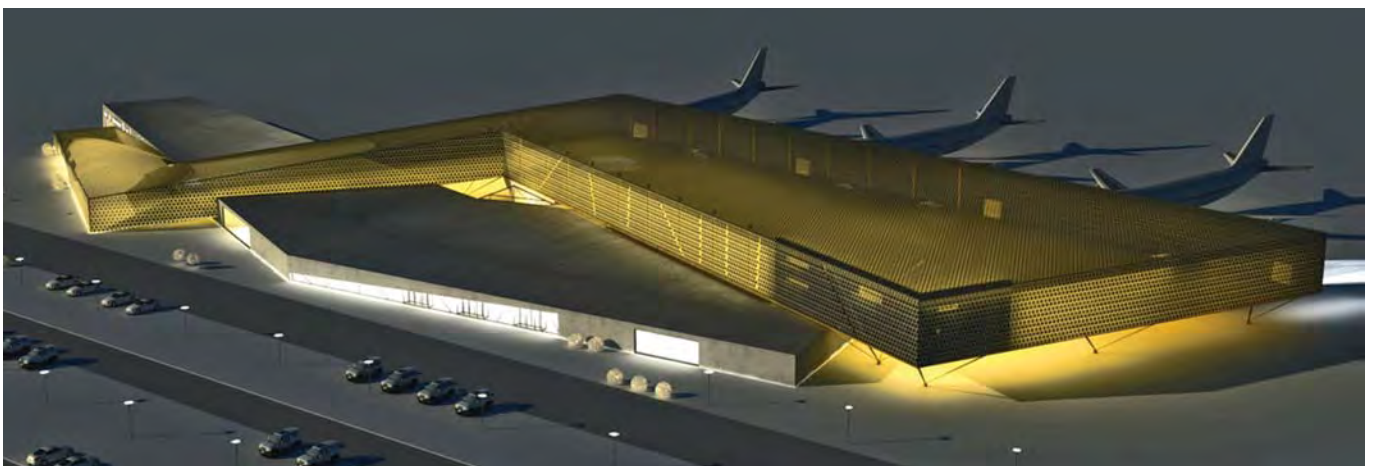
The problem is also not the availability of flights. "The bottleneck is not aviation anymore," noted EPI's Ricover, adding the policy of liberalization has helped. "If you have more demand then you can put in more flights immediately."

Three other factors, however, create expensive obstacles for Georgian flights: distance, volume and price differentiation. Georgian airlines cannot benefit fully from any of these three. The first is fixed. In terms of distance at 1,318 km (819 miles), Tbilisi to Istanbul is twice as far as London-Frankfurt.

The second, volume, is improving. With greater volume one can save on administrative costs and planes are more likely to be full.

Third, pricing structure is more complicated. In essence, in the 'hub and spoke' system that makes up most of aviation market, flights between hubs and major destinations are cheap, but flights to more exotic destinations are more expensive. One of the reasons for this is that the airlines can charge more for business-class seats and tickets booked last minute by business travelers. In a market with fewer of these high-end consumers, tickets need to be closer in price, so the cheapest flights have to be more expensive.

All of this does not mean prices will stay where they are forever. As volumes go up we can expect prices to drop as economies of scale kick in and ticket prices become more varied. But price drops will almost certainly be more gradual than we have seen in the past.



Georgia's Pharmaceutical Manufacturing Sector: Rightly Attracting Attention for Investment

STEPHANIE KOMSA,
KOMSA INTERNATIONAL

The pharmaceutical manufacturing sector in Georgia is attracting attention and for good reason.

Pharmaceutical production in Georgia has grown at an estimated average 35% per year from 2005-2011, totaling $48 million in 2011. Exports of locally produced pharmaceuticals have grown at an even faster pace over the same period, at an estimated 47% per year, totaling $18.5 million in 2011.

The Georgian National Investment Agency (GNIA) recently issued a report on Georgia's pharmaceutical sector (produced by this author) and the report shows very attractive opportunities for local and international investors alike. "Last year GNIA identified the pharmaceutical sector as an under-recognized sector with great potential for growth and attracting foreign investment. We chose to do the report in order to provide potential investors with insights and data about the sector. Already we are beginning to see investor interest. As a follow up effort, this month we participated in an international pharmaceutical conference in Singapore to promote exports of Georgian pharmaceuticals and we will participate in another global pharmaceutical conference in Madrid in October," said Keti Bochorishvili, Director of GNIA.

Pharmaceutical manufacturing in Georgia

Many people have the impression that pharmaceutical production in Georgia consists of packaging only. However, ▸▸

this is not the case. Much of the production, including both branded and generic products, is secondary manufacturing, meaning formulation and preparation. What is not done in Georgia is the production of chemically based active pharmaceutical ingredients (APIs), which is considered part of the chemical production industry.

Among the two major producers in Georgia, Aversi Rational mainly engages in packaging, while GM Pharmaceuticals engages in secondary manufacturing and packaging of branded and generic products. There is also a handful of other smaller but growing producers engaged in a combination of these activities and in the areas of herbal and natural based medicines and bacteriophages, two areas where Georgia has a special niche. In addition a recently launched antibiotics producer is undertaking primary production.

Among investors recently considering the pharmaceutical manufacturing sector is Marc-Milo Lube of Austria. "Our consortium of investors is particularly interested in the pharmaceutical industry in Georgia, both in manufacturing and distribution, based on companies that are able to show a strong record of growth and the promising outlook of the sector overall."

Export markets

Locally produced pharmaceuticals were exported to 15 countries in 2011. The main export markets which are established and growing are Armenia and Azerbaijan, Central Asia, Ukraine, Belarus, Russia and Bulgaria. Recently new export markets over the past two years include Moldova, Libya, Sierra Leone, as well as Australia and India (both for small and/or sample orders). Based on discussions with producers, new markets are under development including countries in Asia, the Middle East and Africa.

Another follow-up activity by GNIA was a Tbilisi conference bringing Georgian pharmaceutical manufacturers together, along with the Ministry of Health, to explore how exports could be promoted and to discuss the impact of the introduction of a government certifying agency for Good Manufacturing Practices (GMP) for the sector, which is planned for 2016. According to George Antadze, director general of GM Pharmaceuticals, "the introduction of a Georgian GMP certifying agency, which could be made optional in the initial years, will provide Georgian producers with the stamp of approval needed to export to a growing number of emerging markets, and to developed Western markets if and when the agency would be recognized by the EU and other international bodies. Our company, GM Pharmaceuticals, is already in the process of obtaining GMP certification from the French authorities, which will allow us to export products throughout the European Union, but a local certifying body will be a benefit to all."

Niche Sectors: Phages and Natural/Herbal Medicines

Since the 1930s Georgia has been a pioneer and leader in the research, development and production of bacteriophages, which are used for treating various bacterial infections. Though bacteriophage pharmaceutical products are not widely recognized and used in the West, there is an existing market in the CIS.

There are three companies focusing on phages production in Georgia and they sell phage products locally and to other CIS countries. Along with overall pharmaceutical market growth in the CIS there is an opportunity to expand phage exports. Additionally, with the growing number of drug resistant strains of bacteria, the potential role of phages is garnering new attention in the West, and Georgia, based on its historical and existing experience with phages, should be considered seriously by Western pharmaceutical companies as a place for R&D partnerships.

Georgia also has potential in the niche of natural and herbal based medicines. The Caucasus mountains possess over 40 varieties of unique medicinal and herbal plants, and there is underutilized pristine, organic agricultural land available for cultivation.

There are already a number of producers of natural based and herbal based medicines in Georgia, including some with unique/innovative branded products. Georgia's exports to the CIS within this niche are growing and there

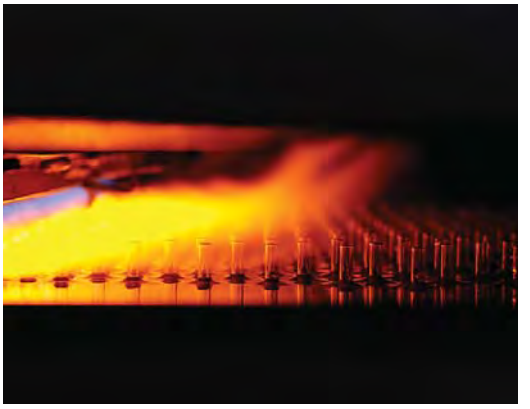
is potential to break into the EU market if there is investment in EU-demanded standards, licensing and marketing.

Potential for growth in the retail sector

Imports of pharmaceuticals to Georgia have grown at 15% per year on average from 2005-2011, totaling $210 million in 2011. Sales of locally produced pharmaceuticals in Georgia have grown at 33% over the same period, totaling $35 million in 2011. Research indicates that the retail pharmaceutical market in Georgia will continue to have robust growth.

According to many global pharmaceutical reports, emerging markets have been and will continue to be the main driving force of growth in the sector. Georgia presents significant room for growth, with notably low per capita pharmaceutical expenditure in comparison with other CIS countries and the West. A recent report cites per capita expenditure in Georgia at $35 in 2010, compared to $62 in Ukraine, $99 in Russia and a range of approximately $200-400 in Europe.

The combination of strong overall economic growth in Georgia along with the development of the country's health sector can be expected to bring pharmaceutical expenditure towards equilibrium with other countries. There has been a trend of increased state expenditure on health over the past several years and we can also expect the demand for pharmaceuticals to increase as insurance coverage in Georgia increases. Currently only 30% of Georgians have health insurance, most of which is a result of insurance



for state employees and the recently launched insurance program for the poor. With the recent announcement that pensioners and children under the age of six will also be covered by the state program and potential growth in private and corporate insurance driven by advertising and income growth, this percentage can be expected to increase.

Also notable as an attraction to investors for both the retail and manufacturing sector is that Georgia has absolutely no pricing controls on pharmaceuticals and no VAT is charged on pharmaceuticals and pharmaceutical inputs. Until now the pharmaceutical retail market has long been perceived to operate with high pricing margins and with domination by a small handful of players. However, simplified regulation of the pharmaceutical sector was introduced in 2007 to level the playing field. Since this time, indeed other players have been gaining ground and some data has shown as much as 25% decreases in pharmaceutical prices as a result of increased competition, but the overall dollar value of the retail sector is continuing to grow at impressive rates.

About the author:

Stephanie Komsa is the founder and director of Komsa International, an emerging markets investment consultancy based in Georgia (www.komsa-international.com). *The article is based on information from the pharmaceutical report prepared by Komsa International, with support from health sector consultant Levan Jugeli, on behalf of the Georgian National Investment Agency (GNIA). The report is available on GNIA's website, www.investingeorgia.org.*

Georgian Banking Poised for Continued Growth

While international banks continue to struggle in the face of the Euro crisis, the Georgian banking sector appears to be poised for more growth in 2012.

Two recent deals, the Bank of Georgia's listing on the premium stock market at the London Stock Exchange, as well as Sturgeon Capital's quiet purchase of 20 percent of Liberty Securities, indicates the tiny Georgian banking sector is positioning itself for more international attention.

Bank of Georgia's move to a premium listing, the only bank from the region to be listed, is a powerful sign of growth for the Georgian banking sector, noted Zurab Gvasalia, the president of the Association of Georgian Banks.

"[B]y entering into a premium listing, the Bank has satisfied the Exchange regulators' criteria of the high standards of transparency, accountability and corporate management," he said in an email interview, referring to the Bank of Georgia as a "bridge for integrating Georgian capital market with international markets."

"Of course, the demand of investors for the bank shares will increase, which will ultimately promote the growth of capitalization and expansion of foreign investment into the country and geographical area."

Giorgi Shengelia, the senior associate at BG Capital, agreed that Bank of Georgia's listing will help attract interest to Georgia's small but dynamic banking sector.

"Nearly all the portfolio investors, who invest in Georgia, know Georgia through Bank of Georgia," he said.

"Because Bank of Georgia is listed on the premium market, a larger pool of investors will have an opportunity to invest in Bank of Georgia and this will help to increase awareness of Georgia. It will be much easier for other companies to attract additional investments, as investors will already be familiar with the country."

"Following BOG's successful Premium Listing, I think there are excellent prospects now to raise the profile of Georgia as an investment destination," noted Ian Hague, the co-founder of Firebird Management, LLC, and a stockholder in the bank.

"My experience over the years has been that, once a new investor has a good experience as a shareholder in one company in a new market like Georgia, she is drawn to visit the country and to look for further opportunities."

The long arm of reforms

For Clemente Cappello, the founder and CEO of Sturgeon Capital, the reforms helped single out Georgia as a good option for their investment fund.

In February, Sturgeon Capital bought 20% of Liberty Securities. Liberty Securities is owned by Liberty Investments Holding B.V., a Dutch company founded by Dinu Patriciu and Lado Gurgenidze – the owners of Liberty Bank.

Even reforms that were not directly related to banking made an impression on Cappello.

"Obviously we are quite impressed with the development of liberalization that has happened over the past several years….particularly we like the business environment and the large reforms undertaken over the past years," he said, adding that the "general attitude" of doing business here makes Georgia an attractive destination.

"In other countries, natural resources….are the key asset that attract foreign investment. In Georgia, [resources] are relatively speaking [small] because the lack of some huge resources, they are trying to promote themselves as more open, and transparent."

While the Sturgeon deal is considerably smaller than Bank of Georgia's LSE listing, Gvasalia said it will make real difference for the sector.

"The deep knowledge of Georgian financial and capital markets …and the working experience of Sturgeon Capital in Central Asia and in adjacent regional markets … will be very beneficial for Georgia in gaining investments and developing a capital market," he said.

Solid performance, Good Regulation

The government's record of reforms is also putting Georgia in the spotlight, according to Michael Kortenbusch, the founding and managing director of Business & Financial Consulting.

"The attractiveness of the Georgian banking sector for foreign investors is based on two factors: First, Georgian banks have left the crisis behind in 2010 and shown strong financial results," he said in a skype interview from his offices in Geneva.

"Second, Georgia is interesting to investors in general as a fast and successfully reforming economy."

Two of Georgia's largest banks, Bank of Georgia and TBC Bank, both reported high growth across the board in 2011: Bank of Georgia's net profit increased 72 percent year-on-year to $81.3 mln while TBC Bank earned GEL 91.6 mln, an 85 percent year-on-year increase.

Deposits have remained high, after an initial drop in 2008, and consumer confidence is also strong. A 2010 survey by the Caucasus Research Resource Center found that 49% of the 2,089 people asked either strongly/fully trust the banks.

"Generally speaking what happened after the financial crisis of 2008 and the global meltdown, the general public lost confidence in the banking sector all over the world, especially in the western countries," noted Badri Japaridze, the Deputy Chairman of the Supervisory Board of TBC Bank.

"In Georgia we have a different picture. We have a lot of confidence from the public side. So the banking sector has relatively quickly recovered from negative developments in 2008."

Giorgi Glonti, the Chief Executive Officer at Kor Standard Bank, added that growth should continue in 2012, as well.

"For the banking sector, [2011] was quite a success…Of course a big role was played by the prudent regulations from the National Bank of Georgia…The main thing was the stability was there," he said, adding that there is "definitely" still room to grow.

"I think in the retail market, there is a very big potential [and] in business loans, SME, there is quite potential to still have growth."

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Free Trade Agreements: Potential for More Investments, More Exports

Negotiations for free trade agreements with the EU and eventually the United States continue. Investor.ge spoke with economists and Vakhtang Lezhava, one of the Prime Minister's chief advisors, about what impact potential agreements could have on foreign direct investment.

ERNEST PETROSYAN

The potential for a free trade agreement with the European Union could help bolster foreign direct investment (FDI), a critical source of income for the Georgian economy. While talks on the agreement continue, some economists believe trade incentives for the European market will entice investors to bet on Georgia.

FDI was up in 2011, rising to $980 million after a deep slide following the 2008 economic crisis. Investors put funds into the financial sector ($177 million), real estate ($122 million), energy ($158 million) and manufacturing ($180 million).

Most investment in Georgia's economy, however, has been so-called "passive" investment – investments that make little impact on the country's employment woes or GDP.

Vakhtang Lezhava, chief advisor on management and economic issues to Prime Minister, Nika Gilauri, predicts the free trade agreement could bolster investment – especially in agriculture and energy.

Economics analyst Shota Murgulia agrees that the energy sector is a strong contender for increased investment, while agriculture could also attract international companies looking to expand their market presence in the EU.

If investments materialize, Murgulia noted, the trade agreements could help resolve one of Georgia's most pressing issues: high unemployment.

But Paata Sheshelidze, the president of the New Economics School, argues that meeting the DCFTA preconditions set by the EU will be costly for Georgia, potentially increasing the costs of goods and services, which would make the country less attractive for investors.

"… it is indeed a good opportunity to access the European market… however, meeting the DCFTA preconditions will make Georgia approach EU economic realities, and the [Euro] zone itself is currently not so attractive for foreign investments," he stressed, adding that the agreement will likely fall short of universal free trade since the governments involved will set quotas and conditions on particular goods.

Lezhava however highlighted the benefits, namely becoming part of a large market hungry for new products.

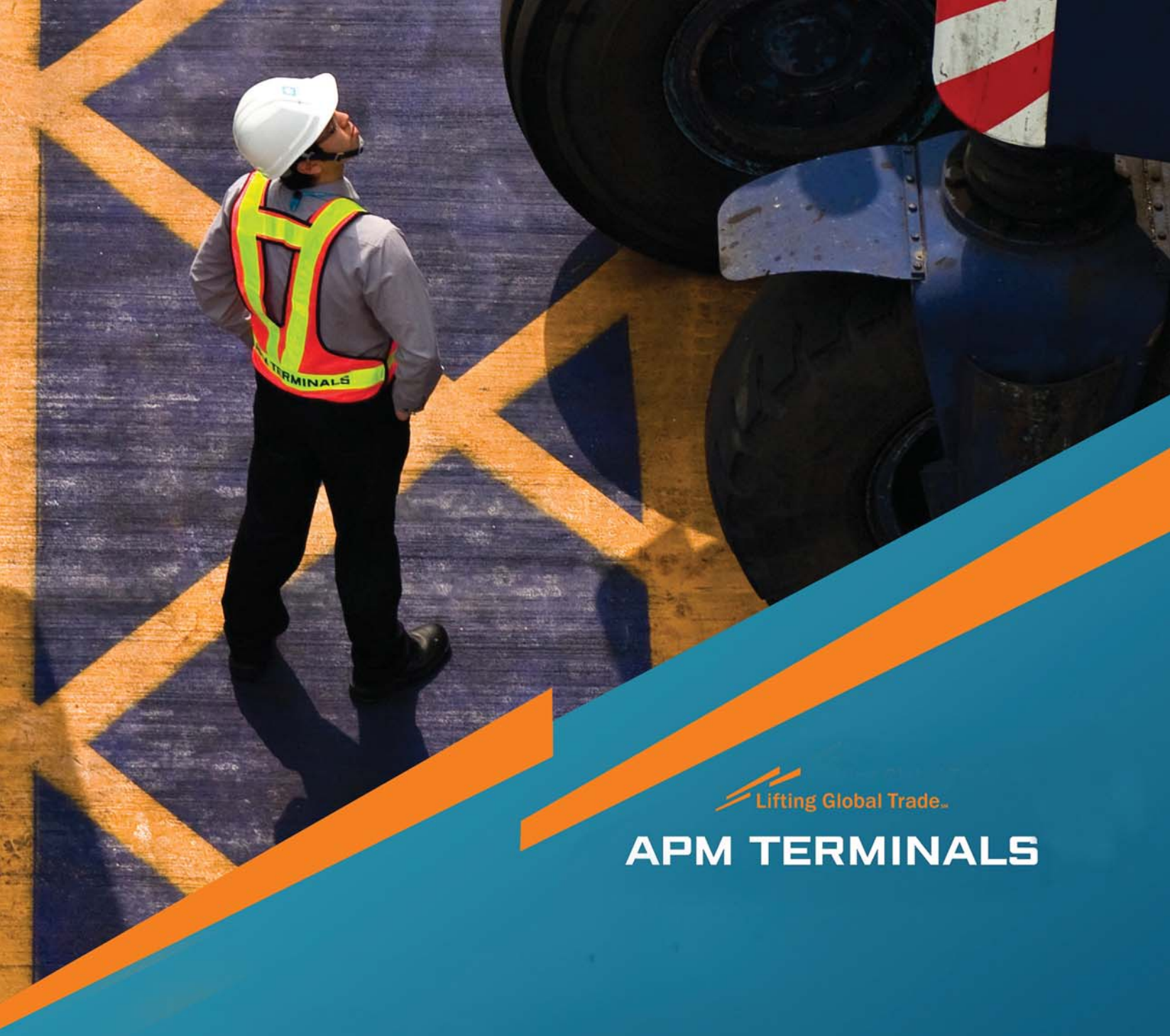
"When we enter the EU free trade area we will become part of the EU internal market, which is one of the biggest markets in the world and all the benefits business people enjoy in it will also be extended to Georgian entrepreneurs... However, how these opportunities are used will depend on business people," he said.

Michael Fuenfzig, Assistant Professor of Economics at the International School of Economics at Tbilisi State University (ISET), agreed that the agreements could bolster investment.

He also pointed out that the impact could extend beyond just energy and agriculture, depending on how the economy develops and what the demand is. International experience with free trade, he noted, has shown that benefits sometimes come from unexpected quarters.

"For example, if you looked at South Korea in 1950s, no one would have predicted that South Korea would one day produce electronics products or other sophisticated technology," Fuenfzig said, adding, ". . . the same might happen to Georgia."

Source: National Statistics Office of Georgia - GeoStat



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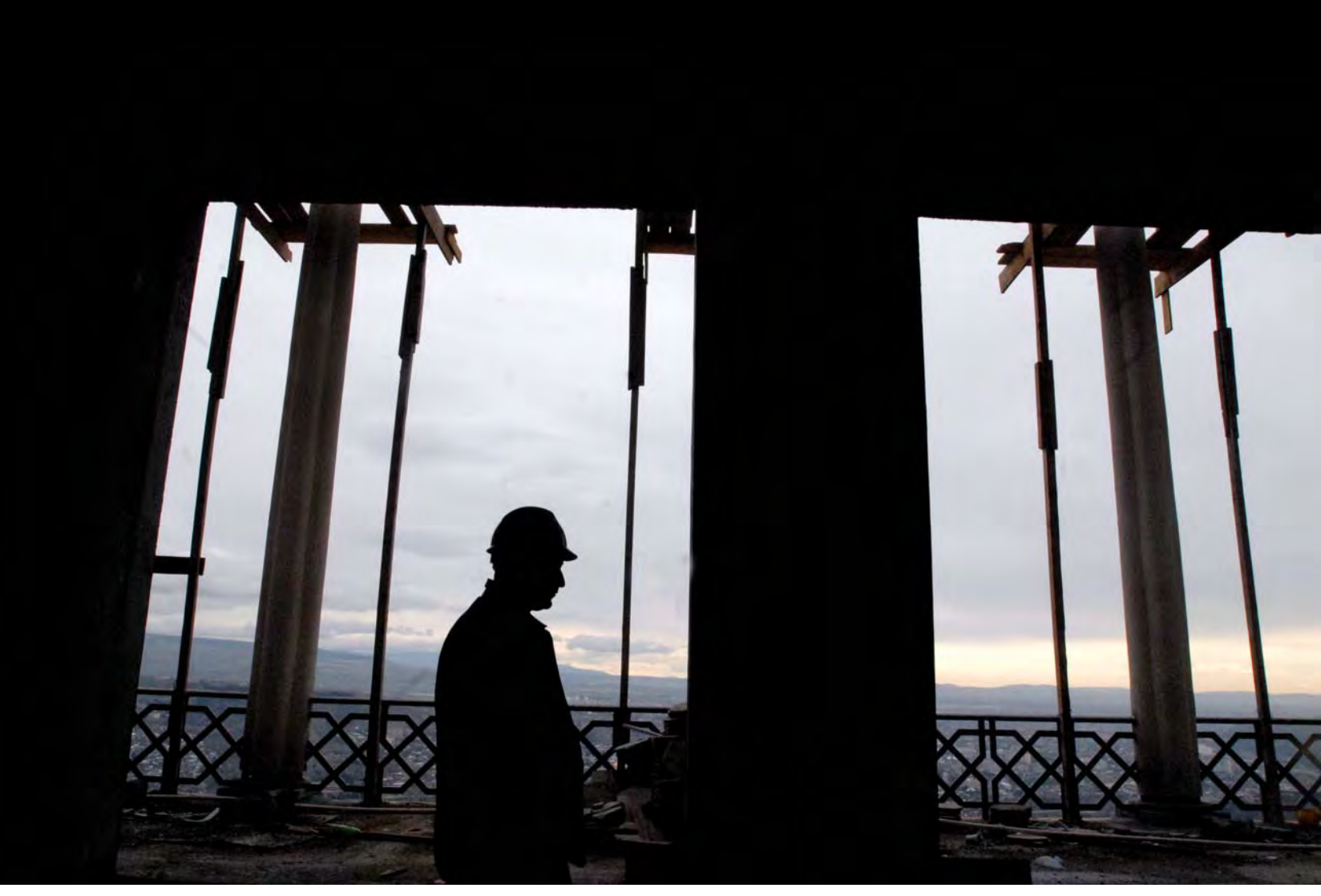


Building Green: A delicate balance between conservation and cost

A push to save energy by forcing construction companies to follow stricter laws is stumbling on fears that more regulation could stifle the building sector.

NINO PATSURIA

Buildings and homes in the European Union are three to four times more efficient than those in Georgia, according to energy efficiency specialists – a difference that is costing Georgians nearly twice as much in gas payments.

70-80 percent of the country's gas consumption is used to heat Georgians' houses and apartments. That is nearly twice as much as our European neighbors, where on average just 40 percent of gas consumption is used for heating.

More Regulation, Better Efficiency?

Energy conservation specialists like Katrine Melikidze see an easy solution: strengthen the laws that regulate construction practices so new buildings meet higher standards.

Even simply insulating existing residential housing could cut down national heating costs by as much as 40 percent a year, she noted.

But insulation and other energy efficient housing material is expensive and the government is unwilling to pass on the cost to either consumers or the construction companies.

While creating energy efficient housing was a government priority before the 2008 war and financial crisis, Deputy Energy Minister Mariam Valishvili said today the government believes stricter building regulations could harm the construction industry, a vital sector for

job creation that is slowly recovering.

"… this is a very complex issue and would also require state subsidies since the construction industry is very weak and cannot bear new regulations," she said.

"Also the state cannot disburse subsidies at the moment; now is not the time for such projects."

Valishvili added that foreign donors have started programs to fill the gap while the government waits: both the European Bank for Reconstruction and Development (EBRD) and USAID are providing funds to encourage businesses and households to purchase more energy efficient building materials.

EBRD created a $35 million credit line to Georgian banks in 2008 and has already disbursed about $20 million through three Georgian banks to both corporate and household beneficiaries

However, few of the funds go to construction companies, noted Irakli Mekvabishvili, a senior banker at EBRD.

The majority is given to businesses investing in hydro-power development projects, with just ten percent of the loans going to households.

The Energy Efficiency Center Georgia, a resource and consultancy center for businesses and households seeking to save on energy costs, has also noted a decline in interest from construction companies, according to Director Giorgi Abulashvili.

Construction companies like Axis agree that while they recover from the financial crisis the industry is not ready to take on the extra cost of investing in energy efficient materials, according to Goga Kapanadze, Axis' General Director and the head of the Georgian Developers' Association.

"Certainly the law should regulate this, but if the state makes energy-efficiency standards obligatory today, it will bring [the construction sector] to a halt," he said.

"… you cannot say for sure how much using energy-efficiency materials increases costs, it may be by 5 percent or by 100 percent; it depends on each separate project, but we cannot survive with new rules today… we have just overcome the [financial] crisis and a new Eurozone crisis is imminent. Plus this is a political year with elections approaching, so companies prefer to wait for a while until situation is settled."

Abulashvili pointed out that energy efficient materials will only increase prices by about ten percent. In addition he commented that higher energy efficiency will bring long term benefits for the entire economy.

Locally Produced Materials, Less Cost

One way to escape higher costs could be using locally produced construction products, according to research conducted by the USAID supported Economic Prosperity Initiative (EPI).

The EPI report notes that locally produced energy-efficient products made from basalt and perlite could be an economic way for developers to use better materials at less cost than imported goods.

But Melikidze stressed that building companies will not spend extra – even domestically produced perlite costs approximately twice that of less efficient competitors – until they are required to do so by law.

"This is a vicious circle: first of all companies do not use green construction practices because there is no law and they are ill-informed, and local producers are not geared up to the local market because market demand is restricted since the law does not require it," she said.

"One cannot blame anyone in particular [neither the producers nor the developers] because [everything is] interconnected and this circle will not be unlocked until the state reacts to it."

Tamar Rukhadze, the head of the Urbanization and Construction Department at the Ministry of Economy and Sustainable Development, said new legislation for construction standards – including energy efficiency standards – is being developed. There is no indication, however, of when the draft law will be sent to parliament.

Valishvili, however, stressed that any new law has to take the construction sector's recovery into consideration.

"We cannot make energy-efficient standards obligatory at the moment … although they save money over the long-term, they will increase initial investments and we do not want to press the industry in this way," she said, adding "the market will define the demand itself."

But Temur Megrelidze, the director of Arcitech responsible for the technical standards at Arci, a local construction company, said it will take a law to force consumers and developers to spend more on energy efficient products.

He noted that while Arci, a local construction company, prioritizes energy efficient standards, the use of more expensive materials makes the company less competitive in the current market. New laws requiring all construction companies to meet the same standards will help level the market, he said.

"If there is a legal obligation to observe green construction regulations it will be better for everyone, and will eventually lead to [better] competition," he said, noting that even consumers balk at the cost of energy efficient and eco-friendly supplies.

"Market demand cannot help this; it can only be solved through the law."

Georgian Agriculture: Revival after a decade of neglect?

VINCENT BOIVIN, RESEARCH ASSOCIATE, GEOWEL RESEARCH

Employing around 53 percent of the Georgian labor force, no-one doubts the importance of the agricultural sector. However, until very recently it has not been a key focus of the Georgian government or private investment. In the last two years though, this situation has started to turn around dramatically and the government has undertaken significant actions to revive the long forgotten sector.

There are many signs of this re-awakened interest in the sector. According to Kote Kobakhidze, Deputy Minister of Agriculture, the government has recently approved the first draft of a long-awaited Agriculture Development Strategy. This is the first time the government has had a strategy of this kind since the Rose Revolution and it is currently under review by stakeholders.

The numbers are also impressive. In 2010, the Ministry of Agriculture had a budget of 30.6 million lari. This number will have increased fourfold to almost 120 million lari by the end of this year, according to latest budget projections.

A large proportion of the government's budget is channeled through the Georgian Agriculture Corporation (GAC) and its five subsidiaries.

Currently, GAC draws funding from the state budget although the recently created Agriculture Development Fund (ADF), under the Ministry of Economic Development and the Ministry of Agriculture, will allow the corporation to also draw funding from different sources including equity funding, joint ventures, grants, and foreign direct investments (FDI).

The GAC is managed by a board of directors that represents a range of different government ministries.

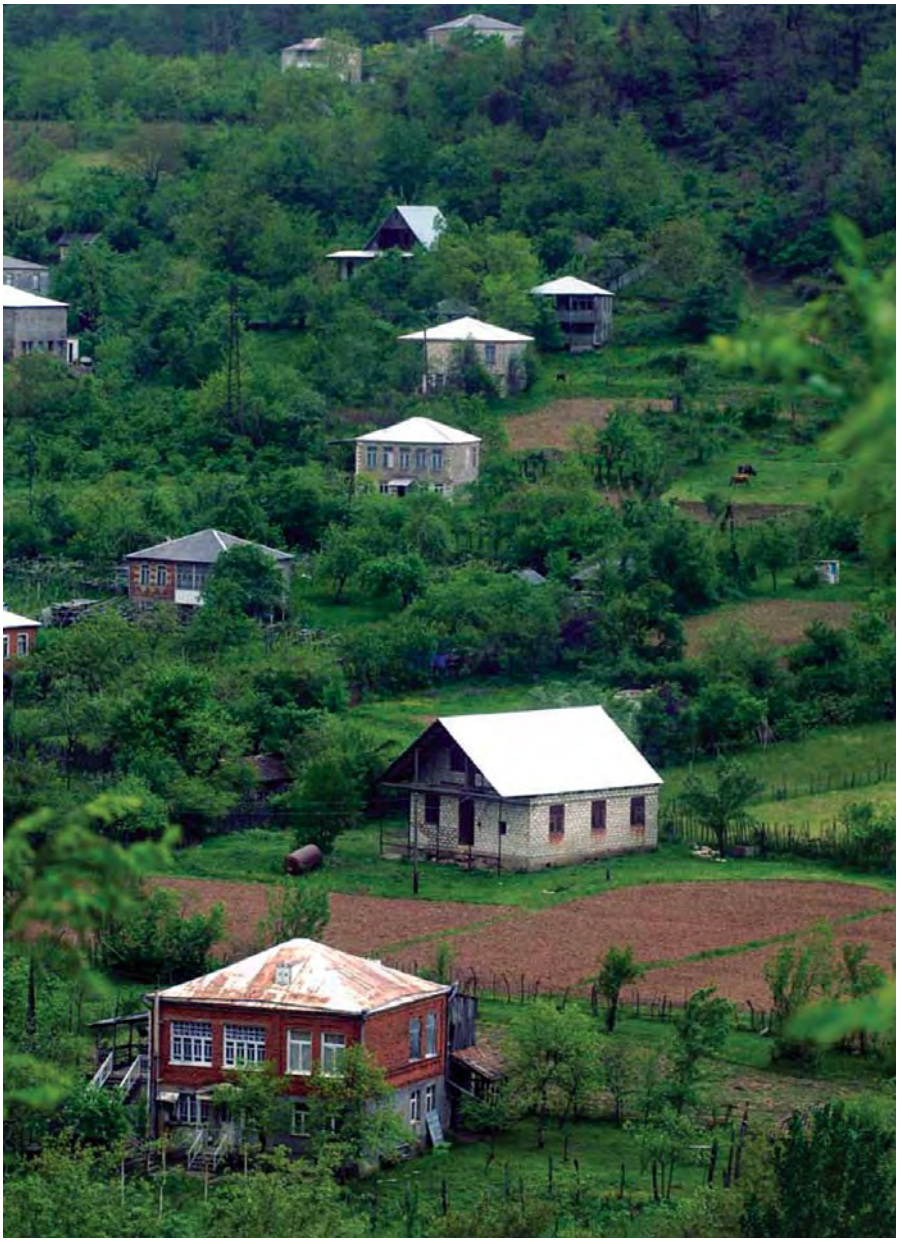
As stated by General Director, Giorgi Jakhutashvili, GAC's main goal is to boost commercial agriculture in the country and to alter the low input/low output model that actually characterizes Georgian agriculture. Thus, high quality inputs such as seeds, pesticides and fertilizers are being sold to farmers. New farming techniques and modern technologies are also being displayed and made available through a diverse range of projects.

For instance, the organization is currently implementing a 7-8 million lari demonstration plot program entirely funded by the Ministry of Agriculture, which intends to cover a total of 450 to 500 hectares in 8 different municipalities/communities. Although managed entirely by GAC, through trainings and consultations farmers will be introduced to different types of irrigation systems and their impact on production, different agro procedures for seeding and harvesting, and the proper use of pesticides and fertilizers.

Since machinery service centers are not yet operational, the corporation provides farming services through mobile units stationed in more than 30 municipalities. So far, GAC helped to cultivate 25 thousand ha of land in 2010 and increased it to 49 thousand ha in 2011. With the completion of the 12 regional service centers in early spring, these figures are expected to grow drastically.

However, the organization's work is not without controversy. Its activities are mainly oriented towards larger, commercial farmers, while support and accessibility for small farmers is limited. For example, storage facilities, quality agricultural inputs and machinery services usually target professional farmers with the ability to pay.

This means that small farmers may not have access to the services, or may ▶▶



lack the knowledge or resources to make use of them.

An illustrative case in point is the government's maize program which GAC carried out last year. This project received a lot of negative media attention. In total, over 30,000 farmers participated in the project and were given the opportunity to purchase imported hybrid seeds on credit from the American company Pioneer.

Larger farmers seem to have been successful increasing their yield from 1.8 to 4.6 tonnes per hectare, on average, according to GAC's Director Giorgi Jakhutashvili. However, the majority of the participants who were small farmers encountered serious drawbacks, some achieving very low yields and some no harvest at all.

Despite these setbacks, GAC considered the project a success.

Robert Revia of Cartlis, a leading Georgian agriculture company, who has been working successfully with Pioneer for seven years, provided a similar analysis of the situation. "I wouldn't say that the Government's project failed. The people who failed created a lot of noise and it became a political issue, but most of these people did absolutely nothing in terms of irrigation, pesticide and fertilizer use," he said.

GAC and the government are now faced with a difficult dilemma. There is a consensus that Georgia's small farmers should be given a fair chance at 'survival' by receiving increased support and access to the services offered. Yet, experiences so far have led the government to conclude that working with small farmers is not commercially viable.

Faced with this situation, the government tends to push for investments that mainly target semi-commercial farmers, commercial farms and agribusinesses.

For the time being, the main flaw of the approach is that that there are no other prospects of employment for small farmers in Georgia's rural areas, thus trapping them in a vicious poverty circle. However, even if access to services and projects remains restricted for small farmers, it will most certainly be improved.

There is a general consensus among experts that the government's increased investments in agriculture are a step in the right direction given that semi-commercial farmers, commercial farms and agribusinesses will benefit from the range of new services available. The challenge that remains is trying to widen accessibility so that the increased opportunities which GAC brings can be provided to all.

GeoWel Research is a Georgia based research consultancy. The data contained in this article was gathered for a large agriculture analysis currently being undertaken by GeoWel Research for UNDP.

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New VAT Exceptions Could Bolster Domestic Food Production

A new program that frees local farms and food production plants from VAT could bolster local production, but sector analysts and producers warn that without more goods and better quality control, domestic production will not be able to compete with imports.

MAIA EDILASHVILI

New program, new hope

A recent change to the tax code exempts fresh agricultural products as well as local livestock from the country's 18 percent value added tax (VAT).

The initiative, signed into law in March, is an attempt to reduce Georgia's dependence on imported foodstuff and bolster the ability of domestically produced goods to compete with imports.

Over the past seven years, the volume of food imports has tripled while the export sector has struggled: in 2011 the trade deficit for foodstuff was $614 million, according to GeoStat, the official body for statistics.

With imports worth around $1.04 billion last year, Georgia's appetite for more fruits, vegetables, grains, and meat products is obvious, noted Esben Emborg, Managing Principal Partner ▸▸

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at SEAF, a Washington-based global investment firm.

"Georgia's potential is huge," Emborg said, noting that the new VAT policy should bolster local production and investor interest in the sector.

The policy is focused on improving local production, Manana Manjgaladze, President Saakashvili's spokesperson explained on March 3.

Under the former law, if distributors wanted to use local farmers they were responsible for VAT and had to make investments in quality control, which made buying domestically more expensive than simply purchasing imports.

"Before this legislative change, locally produced products were not appealing for distribution companies or supermarket chains, which is why they used to give preference to imported products," she said.

Sector specialists and investors also believe the initiative will help develop local production in the long term: intermediary players will become stronger, helping the development of small and medium-scale farmers as well.

"Now farmers don't try to produce products in large quantities as they would have to pay taxes. So since VAT [on fresh products] has been canceled, they will expand and see higher profits," commented Florian Biermann, Assistant Professor at the International School of Economics at Tbilisi State University (ISET).

Bridging the gaps between suppliers and producers

In 2010, agriculture represented an 8.4% share of Georgia's GDP; down from 16.7% in 2005. Throughout this period the stake of FDI in this sector has remained below two percent. Last year, however, saw considerable growth: according to preliminary statistics, FDI in agriculture and fishing increased to $13.6 million from $8.6 million the previous year.

Indeed, in Georgia, where 53% of the employed population is engaged in growing fruit and vegetables and cattle breeding, even opening a small factory or market matters. But while villagers worry how to sell their product gainfully, supermarkets and factories have trouble in obtaining a consistent and high quality supply.

The current Georgian market lacks distributors to collect farm products and sell them to processing factories and supermarkets, noted Emborg.

"When you are talking about a supermarket chain where you try to have some unity and conformity, you need to find a local producer who is not just capable of supplying one shop, but 17 shops or maybe 30 shops," he said. The demand for consistently high quality production is increasing, he added, but the local market can't meet the demand fully.

Nunu Porchkhidze, the director of the legal department for the Caucasus at Pepsico/Wimm Bill Dann, noted that the company can only obtain 50 percent of the raw milk it needs domestically. That is much less than they are able to purchase in Russia, where the company is headquartered.

"Our key suppliers in Georgia [are] various peasants and family based farmers with no stable milk output, versus 15 liter/day per cow for WBD farms in Russia," she said.

More investment, more opportunities

For locally based production companies, obtaining raw supplies domestically has meant heavy investment.

WBD has invested around $17 million in its Georgian production since it entered the market in 2007.

Sante GMT Products, a leading dairy product manufacturer in Georgia, has similarly invested heavily to develop the supply network and facilities necessary for its production: over the past five years, the company has put $12 million into the business.

"We buy our milk from up to 10 milk collecting units throughout the Georgian regions, such as Kakheti, Samtskhe-Javakheti and Kartli," Deputy General Director Erekli Gamkrelidze told Investor.ge. He noted that the company, which produces 55 different dairy products, only imports packaging materials and select ingredients, such as concentrates.

Those investments are paying off, however: Porchkhidze noted that 2011 saw a 71 percent increase in the demand for locally produced products.

Supermarket chains have also noticed the potential for locally produced products.

In January, Goodwill, one of the leading hypermarkets in Georgia, announced plans to expand into the food production market.

Mikheil Charkviani, the supermarket chain's general director, said at a press conference that the $40 million project will unite big production lines, wholesale centers and a packaging plant under the new brand Marche. He said they view the entire Caucasus region as potential market.

SEAF invested $3 million in Ioli through its Georgia Regional Development Fund (GRDF), a $30 million risk capital investment fund which focuses on growth-oriented small and medium size enterprises.

"At the moment we have 17 shops in Tbilisi," Emborg noted. "In May alone we will open five new shops in Batumi; and the plan is to have around 30 shops at the end of the year… that is quite a significant success."

Hunting for Garlic

MONICA ELLENA

Vampires are back in fashion, even in Tbilisi: the Twilight saga films proved a smash-hit, while the Vampire Diaries TV-show has an avid online Georgian fan-base. But the country would fare poorly if confronted by a real-life vampire invasion. The reason? A shortage of garlic.

Investor.ge talks to those working to improve the agricultural sector to explain why Georgia relies on imports for garlic and other agricultural products that we could produce locally. We also look at what is being done to rectify the problem.

Garlic spices up most Georgian dishes; it is a natural antibiotic and has strong antioxidant qualities, yet Georgia doesn't grow enough to feed its habit.

From 2008–2010, the average import quantity was 1,000 tonnes with a value of $900,000. Imports peak in February, when – as your correspondent found - buying garlic can prove very difficult.

"Garlic productivity could be easily doubled through improved production practices and the availability of machinery and tools," says Lasha Dolidze, Agriculture Sector Deputy Component Leader at the USAID-funded Economic Prosperity Initiative (EPI).

"This coupled with the expansion of production area, and an increased area with adequate quality assembly points and storage infrastructure could provide the opportunity for substituting imports and increasing exports."

Reversing import trends

Garlic is not alone: low productivity and weak competitiveness are significant problems across the whole of Georgian agriculture. Once the Soviet Union's granary, the country now imports most of its vegetables; in 2010 these imports cost the country $26 million.

As the vision of Georgia as a major financial center, and transportation hub, fades, attention has turned back to the country's neglected agricultural sector. 53% of the population derives most of its income from farming, yet productivity has slipped to such an extent that it only contributes 9% of GDP.

A recent assessment by USAID identified modern technologies, better knowledge, greenhouses and storage facilities as the key elements that can reverse the sector's fortunes. Orchestrated efforts between the government, farmers and distributors have managed to boost particular products, such as wine. From 2008-2010 hazelnuts generated $384 million in exports, and $130 million in 2010, a number Dolidze says is "impressive."

"We work mainly with the farmers, showing them how using simple methods can improve yields. Pruning mandarins or grafting tomato plants can raise the productivity by 20 - 30%.

No expensive machinery, just up-to-date field practices."

Houses of Green

In Soviet times, Georgia was encouraged to supply the USSR with fresh vegetables in the winter months. Many glass greenhouses were constructed: some were left unheated for cold tolerant green crops, while others were fully heated to support production of fruits and vegetables like tomatoes and cucumbers. However, when the Soviet Union collapsed, collective farms disappeared, the greenhouses fell into disrepair and the essential know-how disappeared.

But so much could still be achieved using greenhouses; there are currently about 35 of them in Georgia, ranging from 0.5 hectares to 8 hectares, all privately-run. Heated greenhouses are extremely capital intensive: they cost an average of $100 per square meter, meaning that for a 0.5 hectare facility you face a bill of about $1 million in start up costs.

Returns can be high. Take tomatoes, for example: in the middle of the winter, Georgia imports as much as 95% of its fresh tomatoes, mostly from Turkey, even though Georgians consider Turkish imports to have an inferior flavor. A better tasting Georgian tomato will command a price that is at least 25% higher than a Turkish one.

"Growing tomatoes in greenhouses with the proper know-how can lead to impressive results. We estimate that profit margins for tomatoes in Georgia are the second-highest in the world," says Dolidze. "We can facilitate the investments and provide all the necessary training, including a greenhouse knowledge center in the village of Misaktsleli where we train farmers, investors and agronomists."

Training is essential: without the proper knowledge, crop yields will not be sufficient to give the rate of return needed by the investors and lenders. Running a greenhouse requires great discipline: the heating system must be carefully controlled and farmers must know what, when and how to spray. They also need to keep an eye on the market, to know exactly when prices peak, for example.

Investment opportunities

For David Shervashidze the future is bright, as Georgia has "tremendous" opportunities. First Minister of Agriculture following the Rose Revolution, now advisor for the Washington-based investment firm SEAF, Shervashidze is an agronomist and a farmer himself.

"Better knowledge means better orchards," he says. "And better knowledge also means a radical improvement in the value chain after harvest to reduce the shrinkage further down the chain. The average garlic yield in Georgia is between 7 and 12 tonnes per hectare; in Europe the average is between 35 and 40 tonnes. It's not better land, it's just better farmed and better fertilized."

That means marketing: farmers need to know what the market needs, what is the potential and what can stimulate investors' interest.

"Take cauliflower. We are net importers, but the crop grows under conditions very similar to those of cabbage, of which Georgia is a net exporter. Here you go, an opportunity right there to be grabbed."

There are also opportunities in some of Georgia's more isolated areas. A report by CHF International determined that collecting herbs and wild berries alone can account for earnings ranging between $120 and $1200 per season.

"Herbs are a totally unexplored field," stresses Shervashidze. "The potential in medicine and cosmetics is big and it will give a boost to Georgia's poorest, high mountain regions."

Advising a firm fishing for good investment opportunities Shervashidze points at small and medium enterprises. The example is the experience in Italy and Spain where SMEs are the backbone of a profitable agricultural sector where marketing plays a vital role and the involvement of the government is key.

So, where to fish for opportunities?

"Apart from vegetables, meat production, mainly pork and sheep which now we mostly export alive, then honey and fish. But also logistics, like collection and storage centers; there is huge potential as there are [currently] just a few."

The much-needed storage facilities to assure a constant flow to the market are starting to pop up though: three big ones, all privately owned, have recently been completed: two in Lilo, one in Orkhevi with a total capacity of 24,200 tonnes.

As access to credit remains difficult for small farmers, an alternative seems possible.

"Equity funds are yet another tool," believes Shervashidze. "Unlike commercial banks, equity funds are interested in the small scale, the small companies. They have a long-term vision and have an interest in a good performance as they participate in the company's capital."

Until Georgia produces more garlic, Georgians who fear blood-sucking vampires will have to settle for foreign imports.

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Deloitte.

Apple proves this is not your father's Silicon Valley

FT News, analysis and comment from the Financial Times

RICHARD WATERS

Can a company still be lovable when it has $100bn in the bank? For Apple, this is starting to become a serious question. The maker of iPhones and iPads arouses some of the warmest feelings among consumers of any brand in the world, thanks to a string of breakthrough gadgets and classy marketing. Something changes, though, when the underdog comes out on top - and there's nothing like unrivalled corporate wealth to drive the point home.

Steve Jobs was fond of saying that he wanted to sail with the pirates, not the navy. In any popularity contest between the establishment and the lovable rogues, the latter always win hands down. But what happens when the pirates have made off with all the gold?

The question was thrown into sharp ▸▸

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Representatives of International Financial Institutions EBRD, IFC, FMO, BSTDB and The Caucasus Growth Fund Manager SEAF signing the LPA Agreement on Friday, 30th March 2012

International financial institutions are initially providing $40 million and Small Enterprise Assistance Funds (SEAF) will contribute additional $2 million to the SEAF Caucasus Growth Fund, with a target size of $70 million. It will be the first institutional-quality fund dedicated to providing debt and equity capital to small and medium enterprises in Armenia, Azerbaijan and Georgia.

Through their collaboration, the international financial institutions are supporting private equity investments in the small and medium enterprises segment, which is a backbone of the Caucasus economies and plays a key role in job creation. The fund will invest across a range of industries, with particular focus on consumer and business services, agribusiness, distribution, energy and retail, which remain underserved by other capital providers.

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relief this week as Mr Jobs' successors made a halfhearted attempt to deal with their embarrassment of riches. At first blush, Apple has come up with what sounds like a suitable response to the pressure building on Wall Street to do something with the money: it will pay out an average of $1.25bn a month in dividends and share buybacks over the next three years. If chief executive Tim Cook was looking to recast Apple as a responsible - even boring - corporate citizen, this was a good start.

But that won't make any dent at all in a cash pile that was growing by $1.23bn a week in the final three months of last year. At this rate, Apple will end 2012 with something like $130bn (and rising) in the bank.

In an era that frowns on corporate excess, this prompts some uncomfortable questions, and not just about whether Apple is using its massive wealth responsibly. Included among them: should it be able to keep so much in the first place?

Compared with bankers' undeserved bonuses, Apple's executives at least do not rank highly on the greed charts. Steve Jobs paid himself only $1 a year and whatever personal wealth his lieutenants have made - almost all of it from stock - is the result of business success that has seen all shareholders profit handsomely.

Yet, even here, there are reasons to question whether excessive corporate wealth has started to distort the normal strictures of pay for performance. To keep Mr Cook for the long term, the company last year handed him shares that have soared in value to more than $600m as the latest bout of Apple-mania has grabbed Wall Street.

Apple's reasons for hoarding so much of its money also raise questions. It has resisted paying out more to its shareholders because two-thirds of its cash is held outside the US: it would face a big tax bill if it brought the money home to use for dividends or buybacks.

Sensible tax-planning, perhaps. But Apple executives said this week that they had lobbied Washington for tax concessions that would relieve them of much of their tax liability if they repatriated the cash. That smacks of corporate welfare and hardly induces sympathy for a company that is minting money, particularly at a time of such big fiscal deficits.

Apple has not been alone in this, or even the most egregious in its special pleading: other Silicon Valley companies have been more vociferous, promising to use a tax break to boost investment - and jobs - in the US. But as the richest, it will be Apple and its shareholders that benefit most from any unseemly deal with Washington.

More broadly, Apple has come to exemplify the conspicuous wealth - both corporate and personal - that is coursing through Silicon Valley. Facebook's IPO is set to create a new batch of young multimillionaires; the latest symbol of the runaway success that only the tech industry seems capable of producing. A handful of others - including Google, Microsoft and Cisco - are sitting on an unrivalled amount of money.

The social obligation this creates has so far been ignored. The wider corporate sector has been hoarding money rather than investing or hiring more workers. Apple and its peers stand apart in their financial resources yet with their extended global supply chains, they have multiplied jobs abroad rather than at home. Silicon Valley's success has largely failed to reverberate to the wider benefit of the society that created it.

The Apple cash mountain will also, inevitably, raise questions about its business practices. Its wealth throws into sharp relief the conditions endured by workers at its Chinese suppliers. Is it doing enough to raise safety standards and alleviate the plight of workers who, by its own admission, are sometimes forced to work excessive overtime or suffer other privations?

Class action lawsuits and heightened political criticism are the least it can expect as scrutiny of conditions in its supply chain intensifies. Ambitious lawyers and politicians know how to build careers by attacking rich companies with Achilles heels such as this.

This suggests that the Apple that will emerge from its current period of growth - rich, powerful, able to exert its influence over a large part of the tech world and beyond - will be viewed very differently from the scrappy and creative underdog over which Steve Jobs once presided.

It need not necessarily become the big, ugly multinational. Unusually for a company of such size, it continues to surprise and delight its customers with products that stand apart from the competition. But it will be judged by different standards, and held more strictly to account.

Mr Cook appears to understand all of this. He has already shown the direction, trying to keep the innovation engine firing on all cylinders while smoothing out some of the rougher edges - for instance by starting to pay dividends and opening the company's suppliers to a degree of independent inspection.

Who knows, Apple might even become something new on the corporate landscape: a truly lovable mega-corporation. That $100bn burning a hole in its pocket, though, already points to the perils that lie ahead from unbridled success.

The writer is the FT's San Francisco bureau chief

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Eurozone concerns put investors on edge

FT News, analysis and comment from the Financial Times

DAVE SHELLOCK

Global markets remained extremely nervous as persistent uncertainty over Greece's bail-out deal was compounded by fresh evidence that the eurozone as a whole was teetering on the edge of recession.

The UK also found itself in the market spotlight as the minutes of the Bank of England's last policy meeting revealed a split within the Monetary Policy Committee.

But the eurozone was the main focus for investors as they picked over the details of Greece's second rescue package.

Ed Yardeni at Yardeni Research said he suspected many institutional investors had been relieved by the deal.

"However, it was widely expected, and it was widely expected to be full of holes," he said. "So no one was disappointed or surprised that the second bail-out plan amounts to buying more time with a lot more money, just as the first plan did back in 2010."

Adding to market tensions was news that the preliminary, or "flash", composite purchasing managers' index for the eurozone fell to 49.7 this month from 50.4 in January - led by an unexpected drop in the service sector.

"The region is still facing major headwinds, notably including increased fiscal tightening in many countries, rising unemployment, and still serious concerns and uncertainties over the sovereign debt crisis which are likely to constrain businesses' investment decisions," said Howard Archer, chief European economist at IHS Global Insight.

James Ashley, senior European economist at RBC Capital Markets, estimated that the PMI readings, in isolation, were consistent with a contraction in real gross domestic product of about 0.1 per cent quarter-on-quarter in the first three months of this year. "If that steer on growth proves to be accurate then the euro area economy - after the fourth quarter's contraction of 0.3 per cent - is therefore about to slip back into technical recession," he said.

Such concerns weighed on US and European equities, with the S&P 500 down 0.4 per cent by midday in New York and the FTSE Eurofirst 300 falling 0.8 per cent.

Asian stocks, however, found some support from slightly less disappointing news from China. The HSBC-Markit "flash" purchasing managers' manufacturing index came in at 49.7 for February - still below the 50 mark that separates expansion from contraction, but up from 48.8 in January.

Flemming Nielsen, senior analyst at Danske Bank, said the data suggested GDP growth was improving moderately but remained slightly below trend. "With HSBC PMI improving for the third month in a row it also appears that we are in for a soft landing of the Chinese economy at the moment," he added.

Meanwhile, sterling touched a two-month low against the euro - as the single currency held steady against the dollar - amid speculation that further monetary stimulus could be in the pipeline.

The minutes of this month's Bank of England meeting showed two members of the Monetary Policy Committee had voted for a £75bn increase in asset purchases, rather than the £50bn that was agreed on.

The dollar's strength was seen even more keenly against the yen, as the Japanese currency tumbled to a seven-month low beneath the Y80 per dollar mark.

In commodities, the pound's weakness helped push oil prices denominated in sterling to a record high, as Brent crude touched a nine-month peak in dollar terms.

UK government bondsrose sharply, with the 10-year gilt yield down 7 basis points at 2.14 per cent. Doubts over eurozone growth and Greece pushed the German Bund yield down 5bp to 1.92 per cent, while that on the 10-year US Treasury bond slipped 4bp to 2.02 per cent.

US home sales data had little impact on the market.

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A windfall tax will not lift Russian business confidence

FT News, analysis and comment from the Financial Times

NEIL BUCKLEY

A decade-and-a-half after the event, Russia's 1995 loans-for-shares auctions are seen as the original sin of Russian business. The sell-offs saw prize industrial assets acquired by well-connected businessmen for a song. They created a class of oligarchs and festering resentment among ordinary Russians.

They came to symbolise the process of privatising billions of dollars' worth of state property in opaque transactions. The murkiness left those who participated fearing that their assets might be taken away, and vulnerable to political pressure.

After Mikhail Khodorkovsky, then Russia's richest man, clashed with President Vladimir Putin in 2003, he was imprisoned on charges partly stemming from a 1994 privatisation.

Little surprise that these deals have raised their head again as Russia prepares for presidential elections amid political ferment . Mr Putin told a meeting of tycoons this month that it was time to resolve the issue of "patently unfair privatisations". The solution might be a "one-time contribution" or windfall tax.

Under loans for shares, the cash-strapped Russian state borrowed money from businessmen, who received stakes in state assets as collateral. When the government failed to repay the loans, the businessmen were allowed to sell the shares, mostly to themselves. These included stakes in Russia's crown jewels: oil companies such as Yukos and Sibneft, and Norilsk Nickel, the metals complex.

Thousands more companies were sold in auctions in which citizens could exchange vouchers they were issued by the state for shares. In reality, little understanding their potential future value, many Russians sold their vouchers for kopecks to businessmen who used them to take control of the companies being privatised.

A windfall tax to right past wrongs has appeal. It might not just draw a legal line under privatisations; it could help overcome lingering antipathy to business.

Yet designing one fairly, up to 20 years after privatisations took place, is tricky. One former Kremlin official suggests it could only be achieved through "understandings" between businessmen and the state. Models from other former Soviet republics are hardly auspicious.

Leaders of Ukraine's 2004 Orange Revolution set out to reprivatise companies more fairly. Only one group, Kryvorizhstal steel works, was resold. But speculation over how reprivatisations might happen led to oligarch battles, investor jitters, and plunging production and growth.

In Georgia, many businessmen were investigated and in some cases arrested after the country's 2003 Rose Revolution, paying fines to legitimise their property. But the process was seen as highly politicised.

One foreign model is mentioned approvingly by Mr Putin: the £5bn windfall tax imposed by the UK's Labour government under Tony Blair on utilities it believed were privatised too cheaply by the Conservatives. But that was limited to 30 companies, sold only a decade earlier. Russia's case is vastly more complex.

Loans-for-shares involved only 12 businesses. Anders Aslund, a Swedish economist who advised the Russian and Ukrainian governments in the early 1990s, points out the auctions led directly to change of control in only four. One, Sidanco, went bankrupt (parts now belong to TNK-BP); Mr Khodorkovsky's Yukos was mostly sold to state-controlled Rosneft; Sibneft's owner, Roman Abramovich, sold it to state-controlled Gazprom in 2005. Of the four, only Norilsk Nickel has not changed hands.

Many businesses sold through voucher auctions have been through so many ownership changes that levying a windfall tax becomes near-impossible. The head of Russia's government spending watchdog has offered to take on the task, but warned it might involve "legal proceedings".

There is a broader issue. Without the rule of law, ownership of privatised assets can never be truly secure.

Russia's business environment does not need the destabilisation a windfall tax would produce. The thousands of bureaucrat hours required to devise such measures would be better spent on legal reforms long promised but never delivered.

If Russia's likely returning president wants to boost business confidence, a sense that legal protections and property rights were finally being strengthened, not threatened, would be the best way.

So, too, would a period of calm, free of the attacks on businesses, domestic and foreign, that pop up all too often.

Then the risk premium long applied to Russia might finally start to fade.

Neil Buckley is the FT's Eastern Europe Editor

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Nabucco pipeline plans scaled down

FT News, analysis and comment from the Financial Times

JOSHUA CHAFFIN IN BRUSSELS,

The companies behind the proposed 3,900km Nabucco pipeline that would carry natural gas from the Caspian region to Europe have pitched a slimmed-down version of the project, acknowledging the challenges confronting their original vision.

The scaled-down pipeline, known as Nabucco West, would be roughly half as long and carry a fraction of the gas, according to executives familiar with the project.

The plan has been presented to BP and other members of the consortium overseeing the development of Azerbaijan's large Shah Deniz II gasfield.

The consortium, which also includes Azerbaijan's Socar and Norway's Statoil, is to decide between Nabucco, the South East Europe Pipeline and the Trans-Adriatic Pipeline by mid-2013.

Al Cook, the BP vice-president overseeing Shah Deniz's development, said the revised project was "a big step forward".

"We believe Nabucco West is a much improved offer. We're really pleased."

A Nabucco spokesman said the consortium believed its original offer was still "attractive", but acknowledged that the group was exploring other plans.

"We are calculating various scenarios but the negotiations are ongoing and no final decision has been made," he said.

The original line was conceived as a vast pipeline stretching from Georgia to Austria, with a capacity of 31bn cubic meters per year, that would allow the European Union to break the stranglehold of its Russian gas suppliers. Nabucco West would run from the Turkish-Bulgarian border to Austria.

Nabucco has had to contend with a growing belief that there might not be enough gas available to justify its €8bn cost.

Shah Deniz is offering 10bn cu m to European companies from 2017, after meeting commitments to supply 6bn cu m to Turkey.

Although there are abundant supplies in Turkmenistan, northern Iraq and Iran that could feed Nabucco, each supplier presents obstacles that could take years to overcome.

BP is convinced that it would be wiser to build a smaller pipe that could be increased over time as more gas becomes available.

"If a car wants to drive from point A to point B, and there's only one car, you need to build a road before you build a highway," Mr Cook said.

Additional reporting by Gerrit Wiesmann in Berlin

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Clock Ticking on Nabucco

Time is running out for Nabucco, according to the Caspian energy experts who discussed which pipeline project could win the Shah Deniz consortium's contract during the 11th Georgian International Oil, Gas, Infrastructure and Energy Conference on March 28-29.

Gas pipeline proposals are jockeying for position as the Shah Deniz consortium deliberates over which will win the contract for gas distribution to south-east Europe.

Neil Dunn, the general manager of BP Georgia, told the audience the Trans-Anatolia Pipeline (TANAP) has been selected to "handle all Shah Deniz Stage 2 gas through Turkey".

Over the next few months, he said, the consortium will make a preliminary decision on which pipeline will carry the gas into south-east Europe. Currently two options look the most competitive, either Nabucco West (also known as Nabucco Light) or the South East Europe Pipeline project (SEEP).

The final decision, slated for mid-2013, must meet both consumer and producer countries' needs, stressed panelist Gulmira Rzayeva, a research fellow on energy related issues for the Center for Strategic Studies under the President of the Republic of Azerbaijan.

She noted that while Nabucco West is a strong contender, the decision to opt for TANAP through Turkey means the original, mammoth Nabucco project has been shelved.

The conference, an annual event in Tbilisi, was held at the Radisson Blu Iveria hotel. In addition to the Nabucco-SEEP competition, panelists discussed parallel projects like White Stream and the AGRI – a proposal for a liquefied natural gas pipeline to run through the Black Sea.

Talks on green energy, Georgia's energy production potential and the hydro-energy sector were also held.

During the conference, AmCham was honored with the Valued Support Award.

Golf in Georgia: A 21st century supra for networking and business?

A professional, 18-hole golf course is planned for Tbilisi. Investor.ge spoke with CEOs, high ranking business managers, anthropologists and sociologists to determine if the Georgian businesses' networking tradition of the supra, could be challenged by the western allure of talking shop while putting on the green.

ETERI MAISURADZE

The networking feast

When Assistant Secretary of State for Economic and Business Affairs Jose W. Fernandez visited Georgia in 2010, he had several business and other traditional networking meetings. But he was also the guest of honor at a traditional supra.

The supra, that focuses as much on toasts as it does on food, gave business leaders a chance to introduce Mr. Verde to Georgian culture and find a common language to discuss the issues they face with trade, market development and commerce.

For centuries Georgians have turned to the table and their legendary gift of food, wine and toast-making, to celebrate family, relations, tradition and business.

The spread of Georgian food, the intricate culture of the Tamada (toastmaster) and the intimate atmosphere of the shared experience is a powerful vehicle for creating ties, noted anthropologist Florian Mühlfried.

In his paper "Celebrating Identities in Post-Soviet Georgia", Mühlfried underlined the importance of the supra, describing it as "a privileged place for creating networks, reinforcing alliances and trading information…" even during the Soviet period.

Today it continues to play a role in how Georgians discuss business, but Mühlfried found there is a movement, particularly among younger generations, to seek other means for socializing, and networking.

"When it comes to the younger generations, the situation is far more complex. Many young people (especially from urban contexts) overtly dislike and discredit the Georgian supra," he wrote.

"Their reasons are based on changing gender roles, an attributed backwardness of customs like the supra in the face of pro-Western orientation, and a differing understanding of authenticity."

Golf: the new supra for business?

A golf course planned in Tbilisi could offer professionals a new outlet for networking, noted Alexander Bolkvadze a partner at BLC Law office.

"… gradually it could become a successful business in Georgia, especially if it's not expensive," he said, adding it will likely be popular with middle aged men.

"I think that golf will be more popular as a part of business meetings than as a game itself."

The cost and potential audience for golf is still a matter of debate and could be a deciding factor on who is able or willing to take up the sport.

"While talking about golf, rich people always come to my mind, meeting each other on golf courses and speaking about their business," commented Nino Giorgobiani, PR Manager for Airzena Airlines.

While the origins of golf are less clear than those of the Georgian supra, the role the game plays in business and networking in United States and other countries is obvious.

A 2009 report on the relation between CEOs at U.S. based companies playing golf and their average salary found that executives who play golf well earn up to 17 percent more than their non-golf-playing peers.

"The evidence supports our claim that CEOs who are regular golfers earn more than those who are not," the authors said, "the effect is economically large – 17% less in pay just because the CEO does not play golf or does not play golf regularly enough to have a decent handicap."

The 18-hole course, planned by Spanish development companies, Grupo Pastor, LV Salamanca, and Getinsa, is scheduled to open in 2013. No one from any of the companies responded to several requests for comment.

The game is catching on in other developing countries: in China, for example, the first golf course opened in 1984. By 2009 the country boasted 600 golf courses and resorts and has ambitions for international golf tournaments.

It remains to be seen, however, if the sport will take off in Georgia where the passion and tempo of the supra is a far cry from the quiet competition of hitting small balls into holes.

"I think this sport isn't for Georgians. The main problem is in the Georgian character and culture," Giorgobiani said.

"Georgians are emotional hot-tempered people; we are interested in mostly active sports, while golf is for quiet and balanced people."

Irakli Baidashvili, the senior vice president of GMT Group, has golfed overseas and is "fond" of playing.

But while he welcomes the opportunity to play golf at home, he warned that it cannot take the place of the supra for doing business.

"The supra has previously been a good networking occasion because of the specific nature of Georgian feasting – it's all about emotions, passion and sharing," he said, "I don't think that golf can ever take its place, because it lacks all these three essential components and elements."

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Giga Bokeria Meets With AmCham Members

Gigi Bokeria, head of the National Security Council and an influential member of the ruling party, met with AmCham members during a candid, two-hour question and answer session.

During the meeting, which was held on February 15 at Betsy's Hotel, Bokeria answered a wide range of questions, tackling issues like possible trade relations with Russia, concessions during the World Trade Organization negotiations, the potential free trade agreement with the United States, and the country's newest opposition figure, billionaire Bidzina Ivanishvili.

Bokeria stressed that new amendments on the tax law that affect the banking industry are merely a response to international requests for more "regulation" in the sector.

He pledged free and fair elections, underlining that the ruling party is in a "stronger position" since the emergence of Ivanishvili and his new political movement.

A former journalist, Bokeria also fielded comments that the Georgian national media is openly biased toward government, responding that the ruling party does not interfere with media and journalism suffers from low standards and lack of editorial freedom - two issues that the government cannot resolve.

Bokeria was optimistic on Georgia's changes for free trade agreements with the European Union and the United States, dismissing concerns that too many liberal reforms would need to be sacrificed to meet international regulation standards.

"We are not radically liberal; we are just liberal," he joked.

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IMF Report to AmCham Members: Why Financial Crisis Worse in EU than in US

The EU Central Bank's limited powers, the imbalance of debts among EU members, and the lack of financial integration in the EU have all contributed to the deep financial crisis in Europe, noted Edward Gardner, the senior resident representative for the Middle East and Central Asia Department of the International Monetary Fund (IMF).

Gardner, the keynote speaker at the March 15 luncheon for AmCham members at the Sheraton Metechi Palace hotel, said while the U.S. economy is positioned to grow by two percent in 2012, the EU can expect another year of contraction, according to IMF calculations.

The depth of the crisis in the EU took most people by surprise, he said, and, while Brussels' new polices to bolster the economy and contain the Greek debt crisis are positive, clearing out debt is a long process. The IMF predicts a small turn around for the EU in 2013, although the level of growth will be low. New AmCham members were also introduced during the meeting: Grant Thornton LLC; The Hangar Bar, Tbilisi's Irish Pub; New Construction LLC; and Transparency International Georgia.

In addition, Executive Director George Welton made a brief announcement about AmCham's business magazine, Investor.ge. The magazine is read by 300 of the largest businesses operating in Georgia, as well as the diplomatic community. For more information, please contact Diana Karibova, the magazine's marketing manager, d.karibova@amcham.ge.

Giorgi Pertaia: 2011 "more positive than negative" for taxpayers

Sarah Williamson, 1st Vice-President of AmCham, started by highlighting the work of the American Chamber of Commerce in Georgia in successfully lobbying for the reversal of last year's amendment to the tax code and law on enforcement procedures. The changes, which undermined the reliability of bank collateralized debt, were widely considered damaging to the business environment. AmCham had been in close consultation with the government on this issue and had been lobbying hard for the reversal of the changes. On the 19th February, the Prime Minister announced that this law will be reversed in the current parliamentary session. The revision has already heard its second reading in Parliament.

The Ambassador presented his thoughts to AmCham on the Oval Office meeting and 'next steps'.

Giorgi Pertaia, the business ombudsman, spoke about the work of the business Ombudsman's office and a year where many challenges facing tax-payers have been overcome.

Over the past year, Pertaia noted his office has submitted 56 draft amendments - out of which 34 were taken "into account."

While major issues still persist, including an excessive number of amendments and changes to the tax law, there have been some successes, including the introduction of alternative audits, reduction of fines for first offenders and the start of a mediation council.

Bass touched on several timely issues, particularly President Mikheil Saakashvili's recent meeting with President Barack Obama in Washington, and the possibility of the free trade talks between the United States and Georgia.

Additional presentations were made by David Khrikadze a partner at BDO Legal, Associate Firm of BDO Georgia, introducing the new service.

Also, Tina Mendelson, the chief of party at the Economic Prosperity Initiative, announced plans for an EPI Georgia - Executive Opinion Survey to be conducted. For more information, visit www.amcham.ge.

Ambassador Bass Talks About Elections

Ambassador John R. Bass opened the meeting with his monthly political, economic and security update. Among other issues, he spoke regarding the upcoming elections in both Georgia and the US eventually this year and the implications on the national and regional levels.

GeoCapital MFO's Ralph Burleson made a presentation of his company, which provides financing to SMEs and on top of standard MFO services tries to raise financial knowledge in the region by offering free training in personal financing in the summer. The company has already lived its first year, but the official opening of the central office of GeoCapital MFO will be celebrated on April 30th in Kutaisi. For more details of the company please check out the presentation "GeoCapital: Using Greed For Good," on www.amcham.ge.

In addition, Lasha Gogiberidze of BGI informed those attending of a new charity initiative "Borani" Charity Fund.

AmCham Georgia briefly introduced its committees and their chairs who told members of their past work and the current agenda and encouraged members to participate. American Academy in Tbilisi's Director Gary Crippin reminded members of the summer school. And Susanne Channon informed fellow-members of the change of the company name formerly known as SEACOR Response that will hence forward be known as NRC, for more information please read press releases by SEACOR Holdings, Inc and J.F. Lehman & Company.

Amcham Is Electing A New Board And Officers

AmCham members will be electing new officers and board members on Wednesday June 6. There are 7 Corporate A positions and two Corporate B positions. Three of the Corporate A will be for the officer positions of President, Vice President and Vice President/Treasurer. That means a total of 9 out of 11 board positions will be up for election. So we are inviting nominations for all those seats.

All candidate nominations for Officers (President, First Vice President and Vice-President/Treasurer) and Board of Directors must send their announcement to George Welton (g.welton@amcham.ge). These will then be forwarded to the membership and the Board of Directors. Nominations must be received by George Welton at least 14 calendar days before the date of the General Assembly, i.e. no later than 6pm on May 23, 2012.

To be eligible to vote or to be nominated to the board, a Corporate Member should have been accepted as a full member of the Chamber at least 90 days prior to the elections. And only those Corporate Members who have no outstanding debt may be nominated or vote.

Please refer to the By-laws, page 4, Article VI – Rights and Duties of Members, and pages 12-14, Article XIX – Election Procedures, for elaboration of elections' procedures and voting eligibility.

By-laws are available at www.amcham.ge.

Paul-Henri Forestier: Overview of EBRD Investments

On February 9, members heard from Paul-Henri Forestier, director at European Bank for Reconstruction and Development for Caucasus, Moldova and Belarus. In his presentation "EBRD: Committed Investor in Georgia" Forestier gave an overview of the organization's history in Georgia since the time the country joined the Bank in 1992. The bank expanded its regional presence in 2006. The presentation provided an insight into the instruments that the bank has to offer businesses that can be used to boost their development. For more details of the presentation please refer to the presentation: "EBRD: Committed Investor in Georgia" on the AmCham website, www.amcham.ge.

At this meeting, several newly accepted members were introduced, among them: Dewey & LeBoeuf, BLB (Business Legal Bureau), Crystal JSC MFO, SRG Investments LLC, Financial Brokers Georgia, Georgian Resourses Company LLC, Rustavi Azot, JSC, Saunders Group, CARE International in the Caucasus and Save the Children Federation Inc.

Five Tips to Actually Being Insured

Financial Brokers Georgia, www.financial-brokers.ge, manages insurance policies for corporate clients in Georgia. Margo Zhiznevskaya, the company's director, offers the following advice on what businesses should consider when purchasing insurance.

1. Study your risks

If you want to be insured, first you need to know what you type of coverage you require. Of course, there's a standard list of risks for every business, but it's your business we're talking about, which is individual and exclusive, isn't it? That is why it cannot be treated as "standard".

If you have to deal with transportation, be sure that your production is insured for every stage. For real estate and financial risks I would strongly recommend consulting with a lawyer or financial manager, preferably one involved in insurance before. Regarding health insurance, research your options and ask your employees which medical service they regularly require. If your business is causing a risk of health damage (for example – factories, distributors, etc) – you should consider them as well. The health of your employee is directly connected to his productivity – the productivity of your entire corporation – that is why it deserves a lot of attention even during the discussion stage.

2. Know the product, know the price

Before we started cooperating with some clients, I heard them saying: "We have a great insurance. We cooperate with X company for several years, our premiums and conditions never changed, and it's all right with us".

Insurance market is dynamically changing. Not only in terms of price, but also in terms of products and conditions. The only way to follow it up is to research the market, as your demands for the conditions for the price you're paying should be realistic. After you have studied the market, you can organize a tender.

If the tender is organized competently, it's half the job done. Usually, when we organize tenders for our clients, we improve their previous insurance conditions, or lower the price compared to the previous year. When you give a clear and realistic statement to the insurance company about your needs and requirements, it's very helpful for both parties.

3. Look at exceptions and co-compensation

Insurance proposal might look great with its unlimited compensation and wide range of services. However, when my company employees look at the proposal, above all, they pay close attention to exception (what you will not be compensated for at all), and co-compensation (the part of the amount you will have to cover yourself if the damage occurs). That is where we come back to the first stage – studying the risks. You have to make sure that none of your primary risks appear in the list of exceptions. If they are, you will have to create an additional internal insurance fund for such cases.

4. Do not sign the contract

That might sound weird. What I actually mean is do not sign a contract with the insurance company before studying it. Even if it appears to be "standard" because we do not want anything standard in our businesses, we want something that works for us.

The contract is the only legal document according to which you can demand coverage. Dual meanings do not work in this case – your contract should be very clear, first of all to yourself.

That is why you should ask the insurance company for explanation about this or that subject, or sometimes request something to be replaced by a more specific definition.

5. Fix the problem before it appears

Insurance monitoring is already a common practice with Georgian companies. Usually this function is transferred to HR managers or financial directors. However, it is very important to use a competent problem solving techniques, which requires more than one or two people to be involved.

This process includes risk management personnel experienced in insurance, as well as medical consultants, financiers and lawyers.

At FBG, we organize special risk control events (on non-life insurance) and interviews with employees of our clients (in health insurance) to understand what they are or are not happy with, on the monthly basis.

In addition, every employee has an opportunity to call the FBG office and have his problem with insurance solved within couple of hours. All the collected data afterwards is organized, filtered, and transferred to the insurance company, with the detailed, based-on-contract explanation on why the client is right in his statement. That approach guarantees you the quick and – most of times – satisfactory respond.

The Hangar Bar

Corporate A

The Hangar - Tbilisi's original Irish Pub and Grill - a bit of Ireland moved to Georgia and the only pub in Tbilisi where you'll find virtually all major televised sporting events as they occur.

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Our kitchen offers a wide variety of American, British, Irish, and Italian dishes...all prepared with the freshest ingredients.

The Hangar Bar offer full service catering to its corporate and individual clients.

www.thehangar.biz

Grant Thornton

Corporate A

Grant Thornton, the member of Grant Thornton International, is a multi-professional group of public accountants and auditors, advisers in finance, business and management, as well as tax and legal advisers. The company is committed to providing partner-led, personalised services and highprofessional standards dedicated to the needs of public sector and growth-oriented business. Since early 1990s the firm has been providing audit missions, in-depth professional consulting services and specialist advice to governmental organisations, top-level enterprises, national and commercial banks in Georgia, Armenia, Belarus, Russia,Ukraine, Kazakhstan, Uzbekistan, Tajikistan, Mongolia and Kyrgyzstan.

www.grantthornton.ge

Perdue Farms

Corporate A

Perdue is the leading international food and agriculture company. The Perdue brand is the number-one selling brand of premium chicken in the eastern U.S. and is synonymous with quality products and services around the globe.

www.perdue.com

New Construction

Corporate B

New Construction is a building company established in 2008.

www.nova.com.ge

Save the Children

Non-Profit

Save the Children is the leading independent organization creating lasting change in the lives of children in need in the United States and around the world. Recognized for our commitment to accountability, innovation and collaboration, its work takes the otganization into the heart of communities, where it helps children and families help themselves. Save the Children works with other organizations, governments, non-profits and a variety of local partners while maintaining it's own independence without political agenda or religious orientation.

www.savethechildren.org

TI Georgia

Non-Profit

TI Georgia is an independent Georgian non-governmental organization, its activities are based on in-depth analysis and targeted advocacy to promote transparency and accountability in Georgia. TI Georgia is part of Transparency International, a global civil society movement committed to fighting corruption, which consists of nearly 100 National Chapters, approximately 30 Individual Members and an International Secretariat in Berlin.

www.transparency.ge

SOCIAL PAGE

AmCham President David Lee spoke at "South Caucasus: Dark Spots& Bright Spots in Peacebuilding: City Society's Role." The conference was organized by the Eurasia Partnership Foundation, in cooperation with the Swiss Peace Foundation and the Robert Bosch Foundation in Bern, Switzerland on 27 March 2012, from 9h – 16h

The 11th Georgian International Oil, Gas, Infrastructure and Energy Conference & Showcase was held at the Radisson Blu Iveria Hotel on 28-29 March 2012 For more information, please visit www.amcham.ge. AmCham is pleased to have been acknowledged with the Valued Support Award from GIOGIE organizers at the official conference reception on March 28.

SOCIAL PAGE

APM Terminals Poti Congratulates Women on International Women's Day!

APM Terminals Poti continued its long standing tradition and congratulated its staff – and community - on International Women's Day. Every woman employed at APM Terminals Poti, from the cleaning lady to executives, received flowers and chocolates on March 8, 2012.

AMCHAM

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14th Anniversary Dinner-Dance

SAVE THE DATE!

Celebrate AmCham Georgia's 14th Anniversary
at a black tie dinner-dance
Saturday, June 2, 2012
Please call 995 32 2226907 for details

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3rd Tbilisi Burns Supper

This year's sold-out Tbilisi Charity Gala Burns Supper & Ball raised a record amount – in excess of 28,000 lari – for its beneficiaries: the Roddy Scott Foundation; the Temi Community in eastern Georgia (International Women's Association of Georgia's focus project for 2012); the Dog Organization Georgia shelter and the Homeless Pets Help Organization.
Executive chef Thomas Sommer and his team at the Sheraton Metechi Palace Hotel once again created a superb 5-course Scottish menu for the occasion, including the traditional haggis.

SOCIAL PAGE

Reports suggested that this year's speeches were some of the best ever, despite the break with tradition in having women take on what are traditionally male roles, beginning with Carol Ann Gvineria's exuberant rendition of Burns' Address to the Haggis.

Nicol McLaren and the Glencraig Scottish Dance Band once again flew in from Scotland especially for the occasion, generously sponsored by bmi and KPMG. With their ceilidh tunes, the band kept the dance floor full until the wee hours, not only with experienced dancers, but also those having their first fling of 'Strip the Willow', Gay Gordons, Dashing White Sergeant and more.

Board Of Directors 2012

David Lee, PRESIDENT

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

Sarah Williamson,
First Vice-President

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

R. Michael Cowgill,
Vice-President & Treasurer

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

Irakli Baidashvili, Director

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

John Braeckeveldt, Director

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

Esben Emborg, Director

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

Neil Dunn, Director

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

Badri Japaridze, Director

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

Steve Johnson, Director

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

Ted Jonas, Director

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

Ivo Bakhuijzen, Director

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

John Ashworth, Ex-Officio Member

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

Betsy Haskell, Founding Advisor

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

George Welton, Exec. Director

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

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BGI is Georgia's leading independent full-service law firm

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LEGAL 500:

'BGI Legal … is commended by international clients for its 'extremely professional, timely and valuable advice'. The firm's two founding partners, Lasha Gogiberidze and Zaza Bibilashvili, are considered 'outstanding', and noted for their 'excellent communication skills, native level of English and 24/7 availability.'

CHAMBERS GLOBAL:

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

CHAMBERS EUROPE:

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

IFLR 1000:

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

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