Investor.ge

A MAGAZINE OF THE AMERICAN CHAMBER OF COMMERCE IN GEORGIA

ISSUE 27 JUN-JULY 2012

Entrepreneur Expats

Reforming the Revenue Service

Hydro, a billion dollar sector?

Clinton in Batumi

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Investor.ge CONTENT

4 Letter from the President
Newly elected AmCham President Sarah Williamson's address to the membership

6 Clinton Comes to Batumi
An abridged version of Secretary of State Hillary Clinton's Speech in Batumi

8 Investment Brief
Investor.ge's overview of investments over the past two months

10 IPOs, the Way to Future Investment
An interview with Partnership Fund CEO Giorgi Tchiladze

12 Clean Power, Clean Profits: The prospective on hydro power plants
The government believes hydro has the potential to attract billions in investments. What do investors think?

14 Foreign Investment, Direct
A feature section on Georgia's power to attract foreigner entrepreneurs eager to open new business

16 The ExPat Industry
Mark Rein Hagen is creating board games in Tbilisi but that is just the beginning of Georgia's potential to attract start ups, he says

18 Foreign Owned: Expat Businesses in Georgia
While smaller businesses created by expats are often overlooked, foreign entrepreneurs are ready to make a splash in the market

20 Advanced Tax Rulings: Providing Clarity and Confidence
AmCham Executive Director George Welton reports on the impact of advanced tax rulings. This article is part of the Chamber's Commercial Tax Law Committee program

23 Successful Polices of the Georgia Revenue Service: An Overview
Maka Khvedelidze, Deputy Head of International Relations at the Georgia Revenue Service, writes about reforms in the Revenue Service

26 Five Questions with... John Braeckeveldt
Gosselin General Manager John Braecheveldt on reform in the Revenue Service and its impact on customs.

28 A New Hub of Information for Tax Professionals
AmCham Executive Director George Welton and Nino Bakakuri, legal analyst for AmCham Commercial Law and Tax Committee and Nodia, Urumashvili, and Partners, on the new online service about tax laws

31 CSR in Action: Businesses Saving Lives
In honor of the annual Race for the Cure event in Tbilisi, Allison Dvaladze and Keti Khukhunashvili report about how Corporate Social Responsibility (CSR) can help Georgian women survive breast cancer

34 The Price of the Pipeline
Investor.ge looks at what the Southern Gas Corridor will mean for Georgia.

36 Dining Out
Coffeehouses and restaurants are moving out of Tbilisi's traditional café zone and setting up shop in Saburtalo. Investor.ge looks at if the capital's sleepy neighborhood could be the next big thing.

AMCHAM 40

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Special thanks to the AmCham Editorial Board, AmCham staff, and the President's Administration for use of its photographs on page six.

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Investor.ge is printed by CEZANNE
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Dear AmCham Members and Partners,

On behalf of the newly-elected Board of Directors of our Chamber, I want to thank you for your support to the AmCham Georgia over the years. We ask for your continued support and participation as we move forward into what promises to be a challenging, but exciting, time for Georgia and for AmCham.

The next two years are essential, both inthe country's development as a democracy and in cementing the worldwide image of Georgia as a favorable place to invest.We should do all we can to encourage investment in Georgia, both foreign and domestic, including working to promote the interests of our long-established businesses. It is my goal to lead the board in a manner that ensures the improvement of our ability to advocate for our members' needs, thereby strengthening our membership and chamber. The various AmCham Committees are vital tools in achieving this goal. The past year has seen the revival of AmCham's ITT committee and the launch of three new committees: Commercial Law & Tax, Corporate Social Responsibility and Agribusiness. I plan to continue working to strengthen ourcommittees and to create new ones with which we will be better equipped to raise awareness of issues affecting our members and to better promote our businesses. I highly encourage you to find a way to participate and get the most out of your contribution to AmCham.

Finally, I want to thank US Ambassador John R. Bass for his support to AmCham and to the community. He has been a strong advocate for the principles of democracy and free-market economy that are essential to our collective success. We are sorry to see Ambassador Bass and his wife, Holly Holzer Bass, depart Georgia this summer and wish them the very best in all their future endeavors.

Respectfully yours,

Sarah Williamson

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Clinton Comes to Batumi

Secretary of State Hillary Clinton stressed fair elections and continued U.S. support for reforms during her trip to Batumi on June 5-6 as part of a tour of the region. The trip was was praised by both the ruling party and the opposition as a successful visit. Investor.ge is republishing some of Secretary Clinton's remarks to President Mikheil Saakashvili. The complete speech can be found at www.state.gov/secretary/rm/2012/06/191818.htm.

"It is a great pleasure to be back in Georgia, and particularly to be here on the Black Sea and to see all of the development taking place in Batumi…The partnership between Georgia and the United States reflects the energy, the entrepreneurship, and the dynamism of our people and societies. More than that, our relationship delivers results. You can see that just from what we have achieved in the past few weeks."

"Of course, Georgia's long-term security and prosperity will depend in large part on the quality of your democracy. And this is a moment of great opportunity for your country. The United States will stand with the Georgian people as you take the next steps to strengthen the rights, freedom, and opportunities of all your citizens. Every Georgian deserves to live in a tolerant, democratic, inclusive society."

"Today, I met with leaders of opposition parties and discussed their vital role in deepening Georgia's democratic development. The United States believes competing energies and ideas drive the democratic process. Civic activism, open debate, a level playing field, citizens' access to information are all vital as you move toward parliamentary elections and then presidential elections. We expect Georgia will hold free and fair elections this fall, and then complete a democratic transfer of power in 2013. And we believe that every party and every candidate should respect the political process, and we look forward to welcoming a strong relationship with those that the Georgian people choose.

Let me also say, as both President Obama and I have repeated many times before, the United States remains steadfast in our commitment to the sovereignty and territorial integrity of Georgia within its internationally recognized borders."

"Finally, when President Saakashvili met with President Obama in the Oval Office earlier this year, one of the key issues they discussed was how to increase trade and investment between our countries. And just last week we launched our new High-Level Trade and Investment Dialogue. This group will explore a range of mechanisms to continue strengthening trade relations between our countries, including the possibility of a free trade agreement between Georgia and the United States, an updated investment agreement, and other measures that could facilitate trade and investments.

This is a relationship that gets things done and has for 20 years, because after all, Mr. President, we commemorate the 20th year of our diplomatic relations. We've seen a lot of change in that time. Georgia has moved from a closed country under communist rule to an active member of the Open Government Partnership. We are meeting in a building, the Public Service Hall, that is a testament to the positive changes that Georgia has made. And I would like to say as someone who has the honor of traveling the world, so many countries, particularly new and struggling democracies, are looking to Georgia. They want to know how Georgia has accomplished so much in such a short period of time. I look forward to seeing where the next 20 years take you."

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Investment Brief

Georgiareceives EUR 170 loan from European Investment Bank

A EUR 170 loan from the European Investment Bank (EIB) will be used to upgrade and rehabilitate the East-West highway, a new road linking Georgia's capital city Tbilisi and its Black Sea ports with Turkey and Azerbaijan. The loan makes Georgia the third largest beneficiary of EIB loans in the EU Eastern neighborhood region after Ukraine and Russia.

ADB allocates $140 million to Georgia

The Georgian government received an additional $140 million from the Asian Development Bank (ADB) for construction on the Kobuleti bypass road, according to reports from the Ministry of Finance. Under the project, ADB has provided $119 million to date.

The 12.4 km highway will improve traffic from the village of Natanebi (Guria) to Makhinjauri (Adjara), part of a major trade route between Turkey and Georgia.

Silk Road Group to construct Radisson in Tsinandali

The hotel, designed with traditional Georgian elements, will be a four-story building with 100 rooms. The rehabilitation work will include the old wine factory.

Silk Road Group, together with its partners, has facilitated investments of over $400 million for the Georgian economy over the last six years.

Survey Finds Most Georgian Entrepreneurs Positive about Business Environment

The IFC Georgia Tax Simplification Project, surveying more than 1,000 Georgian businesses, finds that 75 percent of enterprises believe that the business environment is 'attractive'. Less than one percent of respondents had experienced corruption with government agencies, and only six percent of entrepreneurs surveyed had heard about other businesses encountering corruption.

Georgia has been a member of IFC since 1995, and received $605 million in investments from the organization over the past 17 years. IFC Advisory Services projects in Georgia focus on reforming the tax system to benefit small businesses, helping raise food safety standards, and strengthening the risk-management practices of banks.

$100 million investment in Poti Port over next three years

APM Terminals Poti Managing Director, Joseph Crowley said the company plans to invest at least $100 million over the next three years. The investment will be spent on the improvement of infrastructure, the buying of new equipment, and recovering and repairing some of the existing berths.

The majority of cargo passing through the port in the past was transit cargo (50 percent), followed by imports (32 percent) and exports (18 percent).

Lending Increases from Commercial Banks

The volume of lending by commercial banks (including loans to non-residents) increased by 145.8 million lari (1.9 percent) and exceeded 7.8 billion lari between March and April.

Industry received the most loans out of any sector, 20.1 percent, or 873.2 million lari, nearly twice as much as construction (443.4 million lari).

Aldagi BCI acquires controlling interest in Imedi L

Aldagi BCI agreed to buy 85 percent of Imedi L for 8 million lari. Imedi L is the third largest insurance company in Georgia.

The deal will give Imedi L around 32.5 million, enough to complete con-

struction on its hospitals and fund future growth.

Georgia Today reported that experts estimate the combined business will control 33.4 percent of the local insurance market. The two companies are projected to own hospitals with nearly 1200 beds by the end of the year.

KSB Bank to sign $5 Million loan agreement

KSB received a revolving trade finance facility of up to $5 million from the Black Sea Trade and Development Bank (BSTDB).

The deal is part of BSTDB's strategy to support Georgian export potential and the country's small and medium enterprises.

BSTDB is an international financial institution established by Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine.

ATA Airlines, Sibir S7, Pegasus to fly from Batumi International Airport

Starting June 21, ATA Airlines will offer direct flights from Tehran and Tabriz to Batumi. In addition, Sibir S7 has resumed its Thursday flights from Moscow's Demodedovo Airport to Batumi.

The Georgian National Tourism Agency reported that in addition to ATA Airlines and Sibir S7 Airlines, Pegasus, Armavia and OLT Express will also offer flights to Batumi.

Germany grants Georgia 5.25 Million Euro

Georgia is set to receive 5.25 million euro in grants, and 52 million euro in loans from the German government. The funds will be used for a variety of infrastructure projects, including developing protected areas (4.5 million euro grant), and waste management in Imereti (20 million euro loan and two million euro grant). There is also 25.75 million euro for a renewable energy program, financed through commercial banks.

To date, the German government has invested 225 million euro in infrastructure projects throughout Georgia.

Commerzbank opens representative office in Tbilisi

The second-largest bank in Germany, Commerzbank AG is mainly active in commercial banking, retail banking and mortgages. Commerzbank holds a network of branch offices throughout Germany and numerous branch offices in the EU and Europe, with a large market share in online banking.

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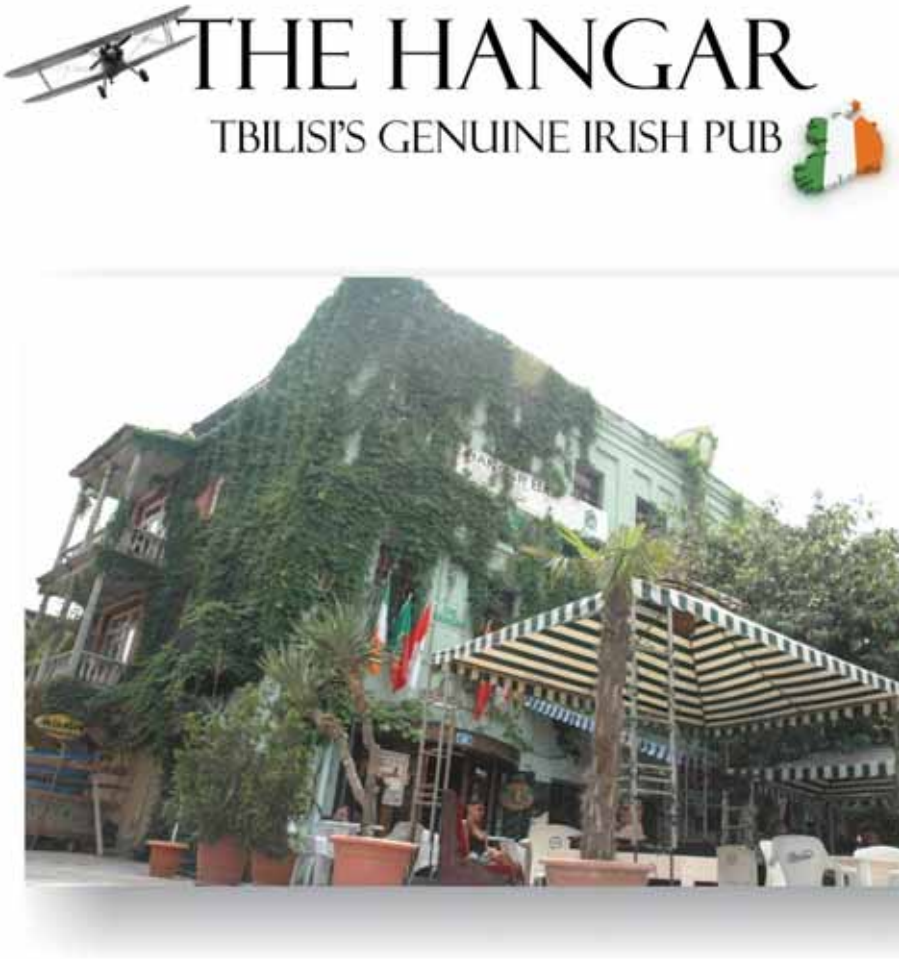

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IPOs, the Way to Future Investment

Investor.ge spoke with Giorgi Tchiladze, the CEO of the Partnership Fund, about the reasons for the delay the Georgian Railway IPO and how the fund will be used to attract Greenfield investment to Georgia.

The decision to postpone the Georgian Railway IPO on the London Stock Exchange (LSE) will not derail the government's new Partnership Fund, according to new CEO Giorgi Tchiladze. He said that, while there was solid interest in the offer – prices had been set between $15.25 to $19 – market "jitters" following Facebook's IPO deal and further crisis in Greece, lead to a decision to delay the listing. LSE rules dictate that the railway will have to wait 12 months before trying again.

Tchiladze, formerly an executive at Bank of Georgia, said the delay does not pose any funding problems for the fund, which was financed by "seed money" from the state, as well as dividend payments from its 25 percent shares in the railway and the Georgian Oil and Gas Corporation.

"Our mandate is very straight forward, very simple. We are established …to support private sector investment in certain sectors of the economy which the government thinks have great potential for further development," he said, stressing that the fund is a partner for local banks – not a competitor. Sectors of interest include renewable energy, hotels, real estate, and agro business including processing.

Several projects are already under discussion, he said, including Nenskra hydro plant in Svaneti – a potentially $600 million investment – and a partnership with Silk Road Group to build a Radisson hotel in Tsinandali.

With its stock dividends and around 50 million lari in funding from the government, Tchiladze said the fund has plenty of resources to start projects this year – potential partnership deals that could prove to large investors that Georgia is ready to pony up equity financing for Greenfields that will bolster the economy.

"[W]e are set up [to attract investors]. I think an investor can have enough money but, still, it is a foreign country, it is a frontier market and there are some risks from their point of view," he said.

"We are here to tell them we can share those downsides with them, we can partner here and hopefully that will pull their decisions toward more investment."

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Hydro Investments: An overview

With sector investments of approximately $1.2 billion, there are plenty of hydro power plant projects to follow.

The largest is the Khudoni project, anticipated to produce 702 megawatts of power, a potential $776 million investment. Currently, Indian Trans Electra Ltd is interested in the project but is waiting for the environmental assessment survey before proceeding. Once on line, it will be the second largest hydro power plant in the country, generating slightly less than the Enguri Dam. It is slated for completion in April 2017.

Another large project is the Turkish Anadolu Industry Holding's $125 million investment in the Paravani hydro power plant, which is expected to go on line in 2013.

Another Turkish investor, the Turkish Adjar Energy company, is putting in an estimated $200 million in several hydro plants including the Khelvachauri 1 and 2, and the Kirnati. The Turkish Optimum Energy company is investing about $70 million in the Abuli and Akhalkalaki plants.

And, finally, Dariali, a US-Georgia joint project, will invest $135 million in the Dariali plant, as well as an additional $65 million in the Mtkvari plant. Both plants are scheduled to be completed by 2015.

Norwegian Clean Energy Invest, through its Georgian subsidiary, is developing the Adjaristsqali Cascade Project with a possible installed capacity of 400 MW. The cascade will be developed in steps and have a budget of approximately $750 million. Construction will begin at the start of 2013, with a staggered completion up to 2020.

Clean Power, Clean Profits: The prospective on hydro power plants

Hydro power projects have attracted millions of dollars in investments from foreign and local businesses. Investor.ge spoke with investors, analysts, policy makers, and foreign government program managers about the anticipated return for new hydro power sources, and the potential markets.

ERNEST PETROSYAN

Not blessed with its own oil and gas resources, Georgia was initially in the energy spotlight for its role as a transit country: the Baku-Supsa oil pipeline, followed by the Baku-Tbilisi-Ceyhan pipeline, tied it to Turkey and the world oil markets.

But hydro has provided a chance for the country to shine.

A steady stream of investments in Georgia's hydro energy sector has buoyed government plans to boost energy production and export. Over a billion dollars worth of projects have been announced, according to official sources, including a potential $776 million investment by Indian Trans Electra LTD for Khudoni Hydro Power Plant, which is undergoing an environmental impact survey.

While the hydro projects have suffered from controversy – a local environmental group, Green Alternative, published a report highlighting the needs for higher environmental standards on the projects – investments are still coming as foreign and domestic demand for energy grows.

Deputy Energy Minister Mariam Valishvili told Investor.ge that expensive investments in hydro energy make good business sense based on the Turkish demand alone. Turkey, she said, is "a deficit market for many years to come."

For Lasha Iordanishvili, a local investor in two hydro power plants, the Dariali and the Larsi, the prospective for hydro is good.

"Investments in the hydro energy sector are quite lucrative in Georgia, as there are excellent perspectives to export energy to the Turkish market, where the annual energy deficit has increased by up to 1000 MW," he said, noting that the average return on hydro power plants has been in just four to eight years – a "relatively short" period.

Energy analysts and the Georgian Ministry of Energy estimate that Turkish electricity consumption will increase from 23,000 GWh in 2012 to almost 28,000 GWh by 2016, making it a good bet for Georgian hydro power.

But energy exports from Georgia are seasonal: while electricity is just five percent of total exports in the winter, it shoots up to between 20-29 percent in the summer. The annual average, according to Valishvili, is between 10 to 15 percent of all exports.

She noted, however, that after the completion of the 10 plants currently under construction, Georgia will be able to produce enough energy for its own consumption in the winter and increase winter exports.

"This is around 2,500 MW to be developed before 2020, which has the potential to cover the increased demand that we have today, because without new capacities there is no way we can maintain the supply levels and meet our demand, [and] at the same time keep our energy sector dependent upon imports," Valishvili said.

Iordanishvili added that demand is growing domestically, and more hydro could make the Georgian market more self reliant.

In addition, new high voltage transmission lines to the Turkish market will make electricity exports easier for the new production.

The transmission lines – a EURO 260 million project funded by EBRD, EIB and KFW – will stretch 300 kilometers across southern Georgia into Turkey and connect the two countries' transmission grids. The line will be launched in May 2012 and be fully loaded by January 2013.

"A new transmission line is being constructed between Georgia and Turkey, and we hope that the new hydro plants that are built will have access to the transmission line," noted Giorgi Chikovani, the deputy chief of party for the USAID Hydropower Investment Promotion Project.

"If they can sell their electricity to the Turkish market where the price is higher, it would certainly help with the economy."

Export potential, however, is not limited to Turkey, noted Eric Livny, the director of the International School of Economics at Tbilisi State University. He noted that Russia – with massive development projects planned for the North Caucasus – should be considered a possible importer depending on "how the political situation and the Sochi [Olympic Games] evolve."

Michael James Delphia, the Chief of Party at the USAID Hydro Power Promotion Project, told Investor.ge that Georgia has the power to export energy to the European market, as well.

"Unlike other countries, Georgia has power plants which generate many months of the year. Georgian has a potential not just to feed the region, but to export its energy in the European market," he said.

"Russia's southern region also has a great need for power…and they certainly need additional help to satisfy growing demand… there is a great potential for-building plants here; the market looks very good."

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Foreign Investment, Direct

New restaurants, tour agencies, consultants – even a yoga studio. Foreigners in Georgia are taking direct investment a step further, and starting their own small businesses as expats in Tbilisi.

The ExPat Industry

Georgia has an untapped potential to attract expats for start-up businesses, according to board game creator Mark Rein Hagen.

Forget exporting reforms or churchela. The next "Made in Georgia" label you will likely see in the US will be on a board game.

Georgian reformers might not have been eyeing the multibillion dollar gaming industry when they set about rebranding the country as the pro-business, pro-investment capital of the Caucasus, but Mark Rein Hagen said the easy regulation, high speed internet, and location makes Tbilisi a natural base for his business.

Rein Hagen, an established game creator in the United States, has developed a new game he plans to sell in the US and Europe. The game, an old fashioned-type of board game that allows players to create and govern a fictitious democracy, is the latest creation from Rein Hagen, who is well known among fantasy and vampire buffs for Vampire: The Masquerade and World of Darkness games, among others.

The game allows players –divided into 'parties' like Liberty, Tradition, Change, and Regulate - to build factions, create liaisons, and negotiate betrayal as they battle for control over power structures: the media, voters, activists, lawmakers, money, justice, and bureaucracy. Brightly colored tiles outline possible relationships between the spheres, and cards – laws – lay out the price for different moves.

The game, which should hit American stores in time for the 2012 elections, is currently under development. Rein Hagen plans to launch a promo on the fund-raising KickStarter site by summer.

Unfortunately for Georgian political junkies, there are no wild cards from the Ivanishvili camp, or special point rounds for preventing a war over South Ossetia. But while Georgia is not a direct model for the game, Rein Hagen said the reforms were crucial in creating a strong base for start ups.

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"I can basically run a company from Georgia," he said. "I think it is increasingly true you can run pretty much any kind of product company, have meetings on Skype and live anywhere you want and still help the local economy."

Rein Hagen stressed the new focus on creating an IT hub in Georgia, which should give IT start-ups tax-free status, which will make the country an easy and affordable base for programmers looking to create new products and businesses.

"Internet for people living in certain areas, like Vake, is much faster than the internet in America. And we have worked very hard on that," he said.

One potential obstacle, however, is the lack of local programmers. But Rein Hagen has found the cadre he needs, even hiring a local graphic designer to create the games pieces – not a small feat in a country not known for its love of board games. While Georgians have a strong tradition of playing chess and nardi (the national version of backgammon) there is a notable absence of Georgian board games.

Rein Hagen has cultivated a group to play his game – even at times resorting to remote games with teams of players in other countries. But he said the end result could be the creation of a new audience for board games – and promoting the opportunities here for start-ups.

"[I]f I can do board games, anyone … can produce something from here," he said, adding he would "definitely love" to start a culture of gaming in Georgia.

"I am working on a product that will mostly be sold in America and there is absolutely no problem doing it from here."

Foreign Owned: Expat Businesses in Georgia

Reports of large investments are common in the Georgian media, from franchise deals like the Trump buildings to hydro dams. While smaller businesses created by expats are often overlooked, foreign entrepreneurs are ready to make a splash in the market.

MAIA EDILASHVILI

There are always reasons not to start a business: the market is too small, the financing too expensive, the legislation too complicated.

But a seemingly growing number of expats in Georgia are taking the risk, with foreigners taking advantage of cheaper operational costs, and unexplored niche markets to flex their entrepreneurial spirit.

For Carol Ann Gvineria, the owner of Gvineria Luxury Handmade Chocolates, a hobby making truffles slowly became a business.

Gvineria, a native of Scotland, came to Tbilisi in 2008. The move proved to be a good opportunity to realize her dreams of owning her own business: last year, after experimenting with recipes, she launched her business creating fine truffles for gifts and special occasions.

Today, she is running a small but growing business out of her apartment, splitting her time between developing new products and raising her two year old son.

Gvineria runs all aspects of the business herself- from sourcing the ingredients to the sales. The main challenge, she says, is language and understanding official processes. "It helped that several of the staff working (at the Revenue Service) have a good command of English and the patience of saints," she says and adds that "there are really clear procedures in place on how to set up a business."

While there are no publicly available official statistics on how many foreign-owned businesses exist in Georgia, the number of small businesses appears to be growing. In 2011, small businesses registered in Georgia increased to 31,292- approximately 72 percent of the total number of enterprises, according to the state statistics office GeoStat.

Long-time resident and entrepreneur Mark Mullen said the government's efforts to streamline business regulations play a role in attracting investors like Gvineria.

A new survey from the International Finance Organization (IFC), which studied the impact of the recent reforms on the business community, found that 75 percent of enterprises, out of 1000 questioned, believe that the business environment is quite or fairly attractive.

Paul Clark, who started TBSC Consulting in Tbilisi nine years ago, agreed that the government's reforms have helped businesses feel at ease.

"The government has done all the right things in this regard, as much as any government can do, and has made Georgia a desired place to do business to a great extent," he said.

But he noted that there are other "considerations" – including the market size.

"The market in Georgia is not as big as in other countries so competitiveness is an issue," Clark said. "So while starting a business is easy, it's not easy to do business here.,though, this is beyond the government's ability to solve."

Enterpreuners like Viktoriia Svystun appear ready to take the risk.

Svystun, a Ukrainian decorator, was attracted to Georgia's reforms two years ago. Today she is slowly creating a new business in Tbilisi selling handmade soaps and crafts under the brand 'Victoria's Boutique.'

The government's never-ending efforts to improve the business climate does, however, create some negative consequences. In particular, it can lead to a lack of predictability, and this is particularly problematic for non-Georgian speakers. For instance, Gvineria says that one challenge is how to stay updated as "the tax code in Georgia is ever a work in progress and improvements are being implemented on a regular basis."

Mullen noted this is "a big" challenge. "The government- very often with the best of intentions -will try to improve something related to the business climate. Or they will do something in another sector which has consequences for businesses without very much public consultation… this frequent change is a barrier for people who do not know the place very well and do not have good connections."

Lene Skov Mackintoch, a Danish nurse and doula, started Expat Entrepreneurs Tbilisi to help expats who want to go into business.

"By meeting up, we inspire each other," she said. "[This way] we get a second opinion on what is on our minds. It could be: Setting up a home office or renting a space? Recommendations from accountants and attorneys [as well as answering questions about] how to promote my business."

Amanda New Wright, a US native who recently started Sun Yoga Tbilisi, a USA Yoga Alliance-registered yoga school in Georgia, said the network has been useful for new business owners.

"Once we had a visit from an attorney Marina Guledani who briefed us on the registration process; we also had another useful meeting - a coaching session on pricing our services and products," Amanda recalled. She finds it very useful that members of this informal group meet twice a month to share experiences and recommendations.

Carol Ann Gvineria, the owner of Gvineria Luxury Handmade Chocolates,

With loan cost high at private banks, financing for small businesses in Georgia can also be an issue: Clark noted that, on average, loans cost around 13 percent, when it is approximately 7 percent in other places – and that reduces the number of businesses that are profitable.

Mullen attempted to create a Georgian-version of the Angel Network but it didn't take. He and his partners, then went on to create GeoCapital, a microfinancing company, to help small businesses receive loans and learn the basics of business finance.

Svystun and others, however, are simply keeping their businesses small.

"I started with a minimum amount and want to keep it, without taking further loans," she said. "Currently, I am in talks with potential wholesale partners – some beauty salons -so they will be purchasing my products, and Brand Mall Georgia, a store located at the airport, already sells my product."

Since they are small in scale and have no capital for marketing, these businesses mostly rely on word of mouth and social networks like Facebook to promote themselves.

"The challenge is going to be reaching the Georgian market, and helping people realize what our product is, because it is a little bit new there," said New Wright, who is working with two other partners - Jacqueline Koay, founder of Sun Yoga globally and Nino Tsitsishvili, their Georgian partner – to develop the studio.

Gvineria has also been slow to market her truffles, so far selling by word of mouth and through expat networks.

"Like many good ideas, my chocolaterie business started as a hobby, however it is now growing to become a full time concern," she said. "I have had a great response to the products and expect to be even busier in the coming year."

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Advanced Tax Rulings: Providing Clarity and Confidence

AmCham Executive Director George Welton reports on the impact of advanced tax rulings. This article is part of the Chamber's Commercial Law and Tax Committee program.

In 2010, the Government instituted a new Advanced Tax Ruling (ATR) system in Georgia. As a result of this new initiative, it is possible for potential tax-payers to submit information on transactions (either planned or completed) to gain a ruling from the Revenue Service on how they would apply Georgian tax law to that particular situation.

As part of an on-going process of reviewing changes in the Revenue Service, the Commercial Law and Tax Committee analyzed the new system for Investor.ge.

The new Advanced Tax Ruling System is not for everyone. The system is fairly expensive, costing between 5,000 and 30,000 lari depending upon the size of the company and the speed with which they want the ruling. Therefore, it is generally only used in large and complex transactions. However, it does allow firms in these situations to gain certainty regarding the taxes that will be charged.

Once signed, the Advanced Tax Ruling is legally binding, and commits the government to agree to a particular interpretation of a tax ruling and so gives clarity and certainty to potential payers. As Sergi Kobakhidze a tax specialist at PwC explains, "this is a great development. Clients draw a lot of comfort from it."

Others agree, Nelson Petrosyan from Grant Thornton adds, "Our clients said that even if the answer from tax authorities is negative, at least it will clarify the issue for future. The client really appreciated that the official response from the tax authorities would have a power of law."

The system is relatively simple in its operation. A potential tax-payer submits the terms of their transaction to the Revenue Service (as well as the fee) and then, if necessary, meets with the Revenue Service to clarify the details of the transaction. This is followed by a hearing with the advanced tax ruling committee, where the revenue service will offer their opinion on the how the tax code should apply, and where the potential tax-payer can make counter-arguments. Following this discussion, a provisional tax ruling will be provided to the tax-payer who can then respond and argue the details of the ruling. The two groups can meet again if necessary to clarify the final ruling.

Head of the International Relations Department at the Revenue Service Samson Uridia noted that "producing an Advanced Tax Ruling is a complex procedure which requires the processing of detailed transactional information and documentation."

"In this situation the tax authority, in effect, acts as an accounting consultant for the tax-payer, with the added benefit that the final conclusions are legally binding," he explained.

Audit firms have been enthusiastic supporters of the initiative. In particular, they all appreciated the opportunity that the system allows for discussion over the interpretation of the tax code. "One of the great strengths of the system is that it provides several opportunities for the client to engage the Revenue Service in arguments over the interpretation of the tax code," Giorgi Tavartkiladze, a tax expert at Deloitte, said. "As a result, during the process, it is possible to reason with them."

Ivan Khokhlov, who heads of the law practice at Ernst and Young, agrees. "We have experienced a very constructive engagement and it is that engagement that has allowed for favorable resolutions for the clients," he said.

The emphasis on discussion and debate over the interpretation of the code, however, also means that firms will probably have to enlist the help of considerable tax expertise to be able to make the argument. "The tax authorities tend to be fairly conservative in their ▸▸

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interpretation of the tax code and so it is important to have a consultant to help argue your case," Khokhlov said.

This is made even more important because there are many elements of the tax code which are open to interpretation. Kobakhidze, for example, points out that, "the Revenue Service's use of the principle of substance over form gives them a lot of flexibility on how to deal with a case."

Kakha Rukhadze, a tax expert at KPMG, puts it in blunter terms. "In complex cases," he said, "you just need to have a tax expert."

The most obvious concern of the system is cost. It will only make sense for firms to pay for an ATR for relatively large transactions. However, the experts generally agreed that this is unavoidable. PwC's Kobakhidze noted that 'if it cost 100 lari, then everyone would use it and the tax authority would be overwhelmed."

In addition, as Deloitte's Tavartkiladze points out, under Georgian law all citizens have the right to ask the tax authority for answers to specific questions (known as 'recommendations') and the Revenue Service is legally required to provide answers for free. Unfortunately, the answers, he says, can be vague, and they are not intended to have legal force.

Another potential concern, accepted by the auditors and the Revenue Service alike, is that the large number of changes to the tax code might undermine the certainty of ATR, as changes in the legislation could mean that ATRs (on future transactions) are invalid.

This creates two issues. First, would be the cost of the possible revision to the ATR. According to Dinara Chubinidze from the Revenue Service, this should not be a problem as the taxpayer has the right to request a revision to the ATR elements that are invalidated by changes in the law. This revision should be free of charge. Unfortunately, none of the tax experts interviewed were aware of this right, so it is clear that improved communication is necessary to alleviate this fear.

The second concern is that companies that thought they had clear conclusions for their tax liabilities could see those liabilities expand. However, Khokhlov believes that this should generally not be a problem because "the ATRs usually explain the way in which the principles underpinning the liability should be interpreted."

"If, for example, tax rates changed, the underlying principles would still remain and the ATR would still apply," he said.

In addition, the firms suggest this is more of a hypothetical concern for now. "So far, it has not undermined any tax rulings that we have assisted on, but it could, and it is a concern for clients," Kobakhidze said.

> Audit firms have been enthusiastic supporters of the initiative. In particular, they all appreciated the opportunity that the system allows for discussion over the interpretation of the tax code.

A larger problem, tax experts believe, is the sheer volume of changes to the tax code since it makes forward tax planning extremely difficult – a type of uncertainty ATRs cannot fix.

Another issue is whether a tax-payer, while applying for an ATR, is exposed to the possibility of a full tax audit as a result of initiating the ATR. At the current time, ATRs are sometimes used for historic transactions so that a company can gain confidence about its likely liabilities, in the event of an audit. However, according to Deliotte's Tavartkiladze, this opportunity is partially undermined because some potential tax-payers worry that the Revenue Service could use the request for an ATR to trigger a tax audit.

Uridia, however, shrugged off this concern. "The decision to conduct a tax audit is taken based on a risk management system," he explained, adding that "no tax audit has been started immediately following an Advanced Tax Ruling."

Tax experts feel, however, there may be room for improvement of the regulations on this point to address this concern.

One common concern is that it can be fairly slow and often take longer than the time originally promised. While the Revenue Service generally attribute these delays to poor information provision on the part of the tax-player, Khokhlov noted that delays can stem from the Revenue Service's desire to get things right.

"The Revenue Service is very eager to get it exactly right which means that they often want to triple check their conclusions. This can mean delays," he said, adding, however. that the situation is improving.

"This is a new institution and over time I think it will get quicker and easier."

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Successful Policies of the Georgia Revenue Service: An Overview

From private audits to cash receipt lottery games, the Georgia Revenue Service is crafting new, proactive policy to create a healthy and transparent business environment. The goal is straightforward: to have a fair, simple, and reliable tax and customs system in the country.

MAKA KHVEDELIDZE, DEPUTY HEAD OF INTERNATIONAL RELATIONS AT THE GEORGIA REVENUE SERVICE

Through innovative reforms like private alternative audits and a nation-wide lottery based on cash register receipts, the Revenue Service is creating new habits of tax compliance while still protecting the valuable relationship between the government and the business community.

Addressing the Mentality of Corruption

While the Revenue Service once depended on measures to control businesses, today the tax authorities are working to increase compliance through progressive programs, educational outreach, and positive reinforcement.

The reforms have done more than simply remove corruption; they have also increased efficiency and transparency for citizens and businesses while reducing costs.

For instance, when a tax payer goes to pay the Revenue Service, he or she is served based on an automatically generated ticket number. The taxpayer is not able to define which tax officer will oversee his or her case, and all service centers are under video surveillance. The new system provides revenues and supports business development and economic growth.

Similar reforms were made in the customs administration. New legislation laid down stiff fines and jail time for state employees guilty of corruption or bribery.

New customs laws streamlined procedures to create an environment with simple, clear and understandable rules. ▸▸

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Easing Tax Procedures

To continue to educate and encourage businesses to follow new tax laws, the tax authority created the service of district tax officer and a project PRIVÉ – service of a personal tax advisor to address the problems of businesses of all sizes. The district tax officer and personal tax advisor work to inform taxpayers on legislative changes and other tax liabilities, as well as providing taxpayers with vital information and advice. The Revenue Service also introduced the Alternative Tax Audit, a policy that allows tax payers to hire private auditing companies to carry out tax audits on behalf of the Revenue Service.

Tax payers who opt for an alternative tax audit are exempt from tax penalties and have the right to correct filed tax returns.

In addition, the tax authority have significantly improved customer service at its tax payer centers for those who prefer handing tax matters in person. These centers operate in major cities and are available for all taxpayers, regardless of where the business was registered. This is a major improvement from the old system, which required taxpayers to use the centers where they had registered their company. The centers also provide consultation about tax legislations, access to the National Agency of Public Registry and banking services, and allow taxpayers to use computer facilities. The Revenue Service has created a hands-on, easy to use webpage, www.rs.ge, which allows tax payers to perform most tax procedures from the comfort of their own homes. Tax payers can use the site to send questions and receive responses, as well as to submit tax returns, file VAT invoices, view video definitions of Tax Code, submit advance customs declaration to Customs Clearance Zone (CCZ), obtain consent for the write-off of inventory items, as well as many other services. In addition, taxpayer can make electronic payment and submit appeals. The system benefits both the government and tax payers by providing an easy platform to document procedures and provide timely service.

Simplifying Customs Procedures

Similar reforms for customs procedures have helped revolutionize Georgia's role as a transit state. The authorities have created a healthy work environment for economic agents, providing simple and fair service as part of their voluntary compliance policy.

One major step has been to transfer the burden of identifying commodity codes and custom values from the business to the government. Since 2010, the Revenue Service has a service to identify the information necessary to levy customs taxes, allowing business to concentrate on development.

In addition, better communication between government and businesses has created a lively exchange of ideas to help ease the bureaucratic burdens that disrupt business. One successful new initiative was the decision to allow economic agents to obtain certificates and permits directly at Border Crossing Points or in Customs Clearance, which enables them to finish all the procedures in one customs control zone. Another innovated solution to simplify legislation was the new Tax Code, which unifies both the tax and customs codes.

The creation of the Unified Personal Tax and Customs Liability Account allows companies to cover different tax and customs liabilities: in case of additional surplus in a tax area the balance can be achieved automatically in customs areas if necessary.

The Revenue Service has also been creating better conditions for logistics and distribution businesses based in Georgia. Recent reforms include exempting international conveyance from VAT, allowing goods held in customs warehouse regime, and allowing goods in warehouse customs procedures to be sold while still applying a profit tax exemption to free warehouse enterprise.

In addition, a special tax regime exists for Free Zones, which are exempt from taxes. Importers may qualify for a special VAT payment regime. The new system allows tax payers who have paid 200 thousand lari in VAT to the state budget to be exempt from VAT on imports – a policy which has helped stimulate business in Georgia.

Mediation policy

To foster better communication and relations between the authorities and businesses, the Revenue Service created a mechanism to mediate tax disputes. This system has significantly eased the appeals system for taxpayers. In 2011, 2230 appeals were discussed and there is a growing trend of cases decided in favour of the taxpayer.

Mediation is a multi-step process, beginning with discussion of fines and violations between the Revenue Service and the taxpayer. If the case is still not resolved, the taxpayer can appeal to the Mediation Council, which includes the heads of all related departments in the Revenue Service. And if the case is not solved in favour of the taxpayer, the taxpayer can apply to the Mediation Council of the Ministry of Finance of Georgia.

Altogether, these reforms are creating a better and more transparent business environment and also helping to facilitate export, import, and transit - creating the proper conditions to develop Georgia's potential as a logistics and distribution center, and a business hub.

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Five Questions with... John Braeckeveldt

In Investor.ge's newest feature - interviews with investors, CEOs, policy makers and economists – is a candid discussion with John Braeckevldt, the general manager of Gosselin in the Caucasus, a long time AmCham board member and the co-chair of the Trade and Transportation committee.

Maia Edilashvili

Q: The Georgian government boasts of easy customs and tax procedures. How would you evaluate the outcome of the reforms in this system?

A: As the Revenue Service has been implementing reform, the Trade and Transportation Committee at AmCham has been trying to make sure that business has a real say in the decision-making process, specifically concerning the customs legislation.

Until 2009, we always had problems communicating with the Ministry, but with the arrival of the new Head of the Revenue Service (RS), Jaba Ebanoidze, there was a complete change in attitudes and we have started monthly meetings with the representatives of the RS. The change was not only about giving us the right to make comments and express our ideas; the RS started asking 'how can we make the procedures easier for you? What can we do for you?' So we have developed a very successful cooperation during the last two years, in particular with the Customs Department of the RS, whose representatives have even made visits to various businesses to witness their problems personally and have offered to work jointly on the existing problems.

Q: How open were representatives of the RS towards criticism?

A: For the last two years they have been listening to us. Moreover, there were even situations where officials from the RS were inviting us, saying: 'Hey, we haven't heard from you; tell us if there's a problem. Please give us something to work on.' And this was exactly what business needed. Four years ago, the Trade and Transportation Committee at AmCham started its work with 200 discussion points. Now I am going around businesses asking members 'what is the problem' and I don't hear much about problems anymore… What is important is that, with our meetings, we established a dialog between the government and businesses.

Q: What have the biggest disagreements been with the RS?

A: There will always be areas about which the government and businesses will disagree. …One problem with my company, about which I still disagree with the RS, is the following: There should be a way to allow [people] to import [their] own goods free of charge for personal use. We requested that the Georgian government introduce the EU legislation's provision which makes it easier for foreign investors to come for residency and bring their personal items. They adopted this regulation but made another entry restricting it only to diplomatic people and investors of importance. So the next question is: who is important and who is not important, according to the RS? Also, the tariffs for the customs process are still an area of major disagreement: the RS reports that the rates were reduced with the opening of the new GEZi terminals, however we

have first-hand experience that the customs process has gotten very expensive, which directly increases the prices of imported goods on the Georgian market.

Q: What should the government do first to further improve the environment concerning customs legislation?

A: Small problems, like declarations, have mainly been solved. The areas where I think improvements are possible are the providing of information to businesses, [for example] not to give the whole customs legislation to those who have questions, but instead provide simple booklets. For example, it would good if the government produced booklets for drivers passing through – in Russian, English, and Turkish - so they know where to go, where to stop, and what to do. In addition, the updated information should also be provided in English on the RS webpage. Currently, the information in English is incorrect or is missing.

And another important thing is that the government of Georgia still has to start development of Georgia's hub system- its logistics hub system -because it is still underdeveloped. For instance, I would welcome the giving of more opportunities in the law for storage facilities, and for local distribution.

Q: If you measure the impact of the reforms on businesses, how big was it? Did the reforms help make customs procedures cheaper, or just faster?

A: The financial part is still open to discussion. I still do not believe that it got cheaper: it got more expensive. But the work process has gotten better. It has been simplified; every transport export knows what to do. We have specialists and if we have questions, we communicate with customs people, and receive answers in five minutes. And AmCham is also there, ready to intermediate if any business has a problem.

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A new hub of information for tax professionals

George Welton, Executive Director of AmCham, and Nino Bakakuri, Legal Analyst for the AmCham Commerical Law and Tax Committee and partner at Nodia, Urumashvili and Partners

As part of its on-going efforts to promote transparency, consistency and predictability in the tax system, the Revenue Service has just launched a new website that aims to centralize tax-related legislation and expand on the materials that the Revenue Service (RS) provides to help in its interpretation. The Commercial Law and Tax Committee analyzed the new system for Investor.ge.

This website, www.matsne.ge ('Herald') serves two main purposes. First, it provides a linked source for all of the supporting legislation for the Georgian tax code. For example, if the tax code includes a reference to a Presidential Declaration or Ministerial decree, the site will provide a link to that declaration/decree. Second, the Revenue Service is gradually producing and releasing commentaries on the tax code which will also be linked to the main document to clarify how the RS interprets that particular clause.

> Rukhadze noted that the situation is evolving. "The commentaries are getting a lot better but, even if you disagree with them, it is good to have them there," he said.

This initiative has been the result of a collaboration between the government and the private sector. The commentaries were developed by a coordinating council, established this year. This includes nine members from the government, including the tax Ombudsman, and seven from business.

Both of these are extremely welcome developments. Giga Kverkhelidze, a tax specialist at BDO said, "We pay attention to the development of the website and we use it quite effectively in our working process. This provides us with necessary legislation acts, which are now much more easily accessed then before."

Ted Jonas, the legal co-chair the Commercial Law and Tax Committee (CLT) at AmCham and a Managing Partner at DLA Piper, explains that this is just what many tax experts have been waiting for.

"When the Commercial Law and Tax committee started in October 2011, we conducted interviews with all the committee members who represent the largest law and audit firms in the country," he said. "We asked them what the biggest problems were in the areas of commercial law and tax. One of their most frequently cited concerns was that there was that the body of tax legislation - especially "sub-normative acts" interpreting and applying the Tax Code - was very disorganized, the hierarchy and precedence of legislation wasn't always clear, and there was very little official guidance on intepretation. The Herald project is intended to address all these issues."

He added that "it is a very positive development that really should make it a lot easier for tax-payers and tax-professionals to understand the Tax Code and tax legislation and gain confidence that they are interpreting it correctly."

The connection of the tax code to related sub-normative acts is widely considered the most straight-forward fix ▸▸

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to an enduring problem. Not only does this connection make reviewing the tax code simpler. It also helps to overcome possible confusion, as the code itself is not always clear on what the exact 'sub-legal' acts are being referred to.

The provision of 'commentaries' (interpretations of the code) was also generally considered a positive innovation by all four of the big audit firms that were interviewed for this article. However, as the system evolves, they all offered suggested areas where it might be improved.

One way in which the system could expand its effectiveness is if it allowed for publication of the administrative acts of the RS. These acts, which are issued by the head of the service to direct revenue service employees on how to interpret the tax code under certain circumstances, are not considered 'normative acts' and so do not need to be made public at the current time.

AmCham's analysis concluded that releasing these administrative acts would be a big step forward in helping to provide transparency and predictability to tax-payers.

Samson Uridia, head of the department for international relations at the Revenue Service, noted however that it is "a commonly accepted practice" to distinguish between administrative acts for public use and those only used inside the administration of government.

"This is, for example, the way similar acts work in the United Kingdom. The commentaries we are currently developing are explicitly for public consumption but it is not the case that this would be appropriate for all administrative acts," he explained. In addition, there is debate amongst experts about the legal status of the commentaries or the importance of making them legally binding. According to Giorgi Tavartkiladze, a tax expert at Deloitte, "at this point it is unclear how legally binding the commentaries will be and, if they are not binding, then that will severely limit their usefulness."

Uridia noted that the commentaries "'reflect the position of Georgia Revenue Service on the execution of any provision and will act as mandatory instructions for GRS officers when conducting working procedures. These commentaries are therefore legal binding on the Revenue Service."

Ivan Khokhlov, the head of law practice at Ernst and Young, said that what is needed is not interpretations from the Revenue Service, but a body of decisions from the courts to see how the court system will interpret the code.

"This is, for example, the way similar acts work in the United Kingdom. The commentaries we are currently developing are explicitly for public consumption but it is not the case that this would be appropriate for all administrative acts."

"These commentaries may be interesting for telling us how the Revenue Service interprets the Tax Code, but only the courts can make legally binding and final interpretations of the code," he said.

"The biggest problem of the tax-code is the lack of legal practice upon which we can depend. We therefore need a legal database. Cases are important because, even if they do not provide strict legal precedent, they can offer persuasive authority."

But Kakha Rukhadze, a tax expert at KPMG, believes publishing the commentaries, is more important than court cases.

"Published commentaries, binding or not, help us develop a body of practice and this helps to provide predictability," he said. "The fact that the commentaries are not legally binding can actually be useful, as it gives you an opportunity to argue with the Revenue Service's interpretation."

Another question is how exactly to prioritise the issues to cover. With so many possible areas where commentaries may be useful, it will be a long time before the Revenue Service will cover everything. Therefore, it is essential that they try and provide interpretations on the issues that are of most confusion first.

Uridia said help from the business community can assist them in setting those priorities.

"We are actively encouraging businesses and audit companies to approach us to highlight the areas they find confusing in the code so that we can write commentaries to clarify them," he said, adding that the Revenue Service would "welcome" comments from the committee about members' "difficulties."

All tax specialists agree, however, that the Herald service is a welcome development and is yet another sign that the Revenue Service is taking strong and positive strides forward.

Rukhadze noted that the situation is evolving. "The commentaries are getting a lot better but, even if you disagree with them, it is good to have them there," he said.

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CSR in Action:
Businesses Saving Lives

In honor of the annual Race for the Cure event in Tbilisi, Allison Dvaladze- who wrote her Master's on Public Health thesis on cancer in Georgia, and Keti Khukhunashvili report about how Corporate Social Responsibility (CSR) can help Georgian women survive breast cancer.

ALLISON DVALADZE AND KETI KHUKHUNASHVILI

Breast cancer is survivable. But women are dying in Georgia; falling victim to a fatal mix of lack of information, poor insurance coverage, and low levels of early detection. The statistics are stark – the five year survival rate for women of reproductive age, diagnosed with breast cancer in Georgia, is just 18 percent compared to nearly 60 percent in Eastern Europe – but the response to this information has been tepid.

High profile international assistance organizations and local NGOs have been active, funding free screening and consultation services. But more is needed. Despite an ongoing government outreach program, and the support of First Lady Sandra Roelofs, breast cancer has remained the leading cause of mortality among women in Georgia and the number one cause of death among women of reproductive age (15-49).

HERA Executive Director Marika Davituliani, a forerunner in efforts to educate, screen, and obtain treatment for women, said that the lack of screening and preventive treatment is a major problem. Less than 50 percent of women in the regions are using the free screening available to them, she noted, largely due to a lack of education. The Georgian National Screening Center offers free screening for women. Started in 2006, in Tbilisi, by the mayor's office and the United Nations Fund for Population Activities, the program was expanded nation-wide in 2011.

As with any other disease, early detection and treatment are key steps toward surviving breast cancer. In Georgia, however, more than 68 percent of cases are discovered in the second and third phases of the illness, when treatment is already extremely difficult and expensive. A startling 23.3 percent receive first diagnosis in the final stage of the disease, when there is little chance of survival.

Obstacles to receiving care perpetuate the cycle of late-stage diagnosis, requiring more expensive treatment. This cycle further supports the misconception that breast cancer is a lost cause.

The Race for the Cure, an annual event that started in Georgia in 2009, is using corporate donations to spread the word about free screening and treatment. Davituliani said that the event depends on support from businesses to finance awareness campaigns and help fund screening and treatment in the regions. Simple community education programs and advertising can help save lives, she said, but it requires funding.

A number of well-known Georgian and international businesses support the event and Bank Republic, ProCredit Bank, DLA Piper, Sheraton Metekhi Palace, GeoCell and British Petroleum, as well as others, are helping by incorporating the Race for a Cure into Corporate Social Responsibility strategies.

The trend has picked up speed, with businesses participating in recent races, including Geoplant (Georgian tea brand Gurieli), Beeline, Geocell, M Group, ▸▸

Georgian Baker, Outdoor.ge, DHL and Sheraton Metekhi Palace.

The Race for the Cure is an easy platform for cooperation between companies and non-government organizations working to improve survival rates. The lack of education about screening, and its role in saving lives, is a major obstacle for reducing the mortality rate.

Megi Papiashvili, a participant of the Race for the Cure since 2009, says that the event helps raise awareness – and support women who are currently battling the disease. During the race, Papiashvili said, women can see first-hand that "there is an exit from this seemingly hopeless situation."

"One of the most vivid examples of comradeship I witnessed was a Georgian woman who had just been diagnosed with breast cancer and was afraid to talk to her family," she recalled. "A breast-cancer survivor at the marathon told her what to do, step-by-step, and encouraged her to use family members as the most important support system during her battle."

Raising awareness, and increasing education, however, is expensive. Davituliani noted that corporate sponsorship for the Race for the Cure event and outreach has decreased over the past two years. Last year HERA was able to raise 50 thousand lari, a decrease from previous years. This year, the NGO has not been able to reach that level.

Without funding, NGOs like HERA are unable to help women who fall through the cracks; women who do not qualify for state insurance, and who either do not have private health insurance, or whose insurance policy does not cover the necessary treatment.

The way insurance companies treat cancer has changed over the past year, noted insurance specialists at Financial Brokers Georgia (FBG).

"In 2010, [insurance companies] didn't have that kind of coverage- it was a known fact that cancer was on the "standard exceptions list" of all insurance companies," explained Margarita Zhiznevskaya, the CEO and Owner of FBG.

Since 2011, however, certain insurance providers have started including screening and other preventative care in some coverage packages.

"Coverage for cancer has already been increased and exceptions for oncologic treatment have been narrowed down to a minimum," noted Shorena Miminoshvili, the medical service manager at FBG.

According to FBG, major insurance companies offer limited co-financing, capped at 2000 lari – a sum that is easily surpassed in most oncologic disease treatments. Higher premiums can result in more extensive coverage, however.

Another option is state insurance that is capped at 15 thousand or 12 thousand lari for invasive and therapeutic treatment respectively. But planned chemotherapy is not covered here either.

Insurance companies are more orientated towards treatment, rather than screening or self education, noted Dr. Lia Umikashvili, the reproductive health/family planning technical expert at John Snow Inc in Tbilisi.

"Maybe some can say that it is the job of public health, of the state and federal government, but I think it will save money for the insurance companies too if they will…insure these clients and take care of them from the very beginning," she said.

In addition, an estimated 67 percent of the country's 4.2 million citizens do not have health insurance, according to official statistics. Women who are over the age of 16, but under the age of 40, have a difficult time receiving affordable care, noted Davituliani. Funds raised during the Race for the Cure allow HERA and its clinic to help patients with treatment costs.

"People are often coming who are over 17 because [the state program covers until age of 16]. If we have funding, we can [help pay] for services [that are not covered by the state]," she said, noting that the more care they can provide, the more funding they have to spread awareness to help tackle the fear that is costing women their lives.

"The stigma really lives, lives, lives in everybody," Davituliani said, noting that women refuse to be screened out of fear they will hear they have cancer – a decision that can cost them their lives.

"That is why we [all] need to work with their mindset…that is why we need to break this stigma." ■

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The Price of the Pipeline

Next year the Shah Deniz consortium is scheduled to decide the final route for the Southern Corridor Pipeline. Regardless of how the gas arrives in Europe, industry specialists say Georgia's role in the transit is secure – and Tbilisi is poised to become more important for Europe.

With just a year left before the Shah Deniz consortium – which includes BP, Statoil, SOCAR, and LukOil – decides on the final route from the Caspian Sea to Europe, Georgia is one of the few countries that can rest assured it will benefit regardless of which pipeline plan is chosen.

The 2013 decision will determine if the gas will travel from Turkey to Italy, and head to Europe via the Mediterranean, or if it will go to Eastern Europe – either through the EU-backed Nabucco West, a revised version of the EU-backed Nabucco venture, South-East Europe Pipeline, or the Trans-Adriatic Pipeline.

But, regardless of which route is selected, by the end of the pipeline construction, Georgia is set to receive $2 billion in foreign direct investment, including transit fees for 350 thousand metric tons of equipment, according to Neil Dunn, the general manager of BP Georgia.

The pipeline will also bring an estimated 2000 short term – and 125 long term – jobs for Georgia's troubled labor market. He noted, however, that the "big deal" for Georgia will be the gas it receives as transit fees. Under the initial agreement for Shah Deniz gas sent through the Southern Caucasus Pipeline, Georgia receives five percent a year, reportedly 200 million cubic meters, and can purchase 0.5 billion cubic metres a year at a discounted price.

"The big deal here, I think, is the increased amount of gas that Georgia will get. So, by expanding the pipeline, Georgia' s off take – the supply they will be entitled to from the South Caucasus pipeline -- will essentially double," Dunn said.

"We will get to a point where their entitlement will just about meet current demand…we expect the demand to grow…but it is a significant amount of gas for Georgia, which supports Georgia's energy security."

Energy security is at the heart of the project, for Europe as well as Georgia, noted Giorgi Vashakmadze, the director of development for the White Stream Pipeline – a complementary project that will provide a diversification for gas from the Caspian to Europe via Georgia and the Black Sea. Vashakmadze said the Southern Corridor is one of the key European energy infrastructure priorities since it will provide the continent with a steady alternative to Russian gas.

"The Southern Gas Corridor is designed by the EU to diversify the routes and sources of pipeline gas," he said in an email interview.

"The EU needs such diversification of pipeline gas supply in order to rely on gas as an important component in its energy mix."

For Georgia, that means the pipeline could bring more than just energy security; it could serve to tighten relations between Tbilisi and the EU as the country becomes part of the larger picture of the European energy supply.

"That supply chain to Europe is really only as strong as its weakest link," Dunn said.

"So it really doesn't matter what part of that chain you are; it makes every link in that chain very strategic and very important to Europe."

Economists Intelligence Unit specialists Peter Kiernan and Alice Mummery agreed that the pipeline will turn Georgia into a player in European energy security. They stopped short, however, of tying the project to early EU membership for Georgia, noting that is a "longer term prospect."

"As a transit country, Georgia is obviously important, and obviously for all parties concerned, security and stability in Georgia as a key transit country of the "Southern Energy Corridor" is important," Kiernan noted in an email interview.

"Within the EU, natural gas production is declining and thus alternative and diversified sources of gas need to be secured. As a transit country, Georgia plays its part in this European energy security objective."

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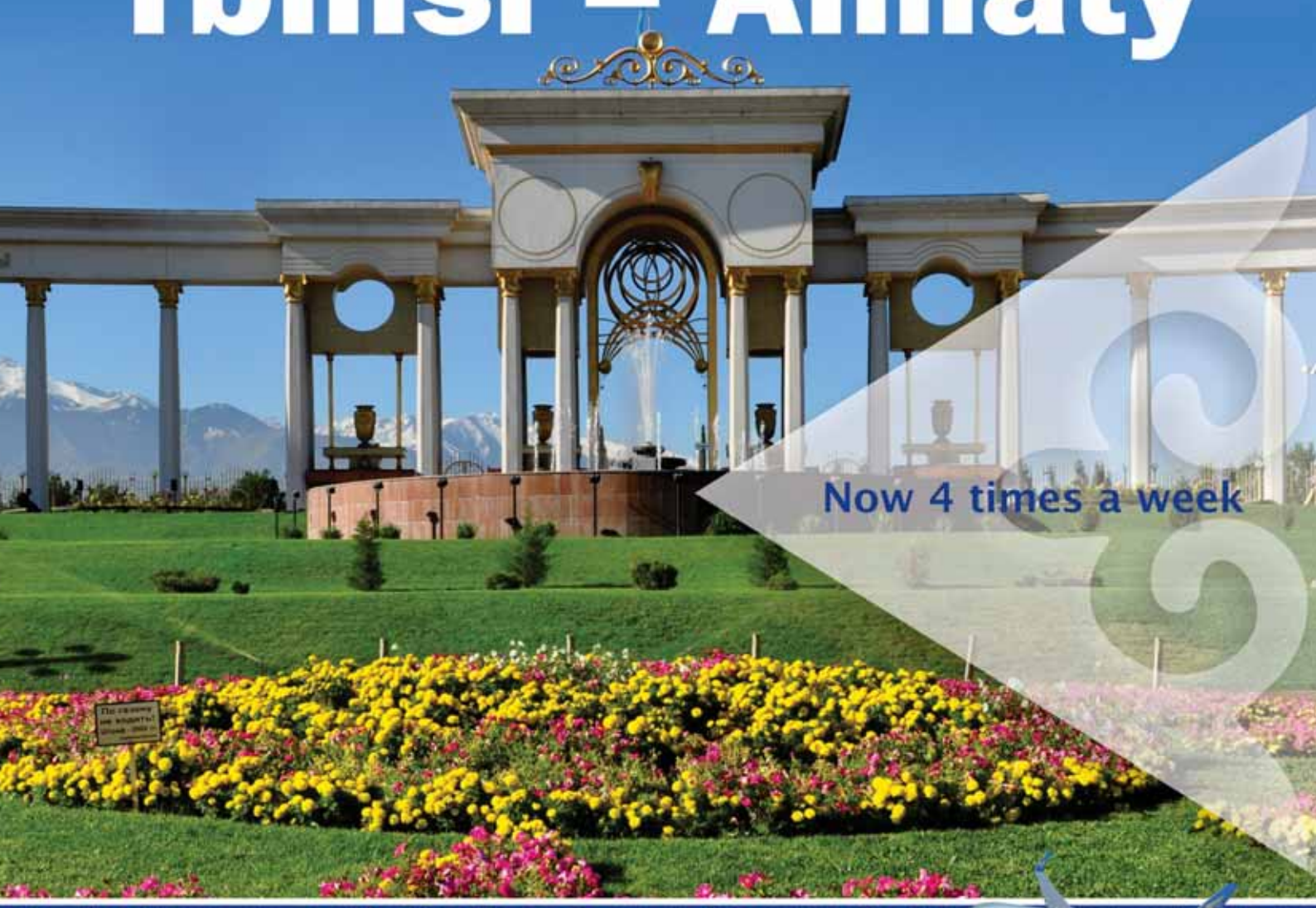

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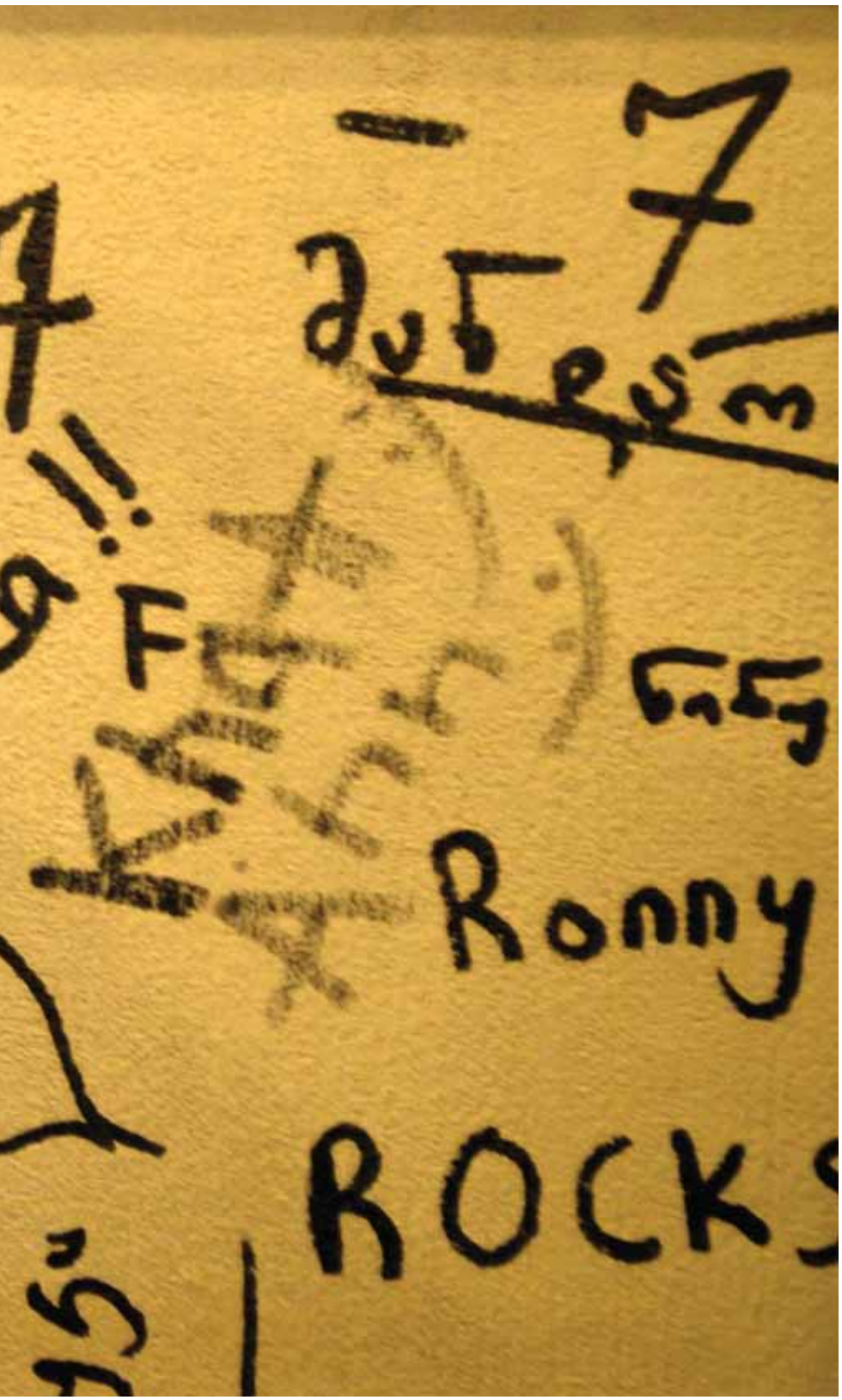

Dining Out

Coffeehouses and restaurants are moving out of Tbilisi's traditional café zone and setting up shop in Saburtalo. Investor.ge sees if the capital's sleepy neighborhood could be the next big thing.

The Taste of Change

Saburtalo, a central district in Tbilisi more famous for its abundant housing than its nightlife, is used to playing second fiddle to hip Vake, Vere and Shardeni. But a plethora of new coffeehouses, cafés, and restaurants could be the harbinger of the neighborhood's evolution from sleepy to swanky.

NINO PATSURIA

Just a few years ago, a pizza bar, and a handful of khinkali joints passed for Saburtalo's dining options. The quiet neighborhood was still better known for the Sports' Palace, universities, and reasonably priced apartments.

Fast forward to today, however, and the leafy streets of Kazbegi Avenue and Vazha Pshavela are laden with cafes, restaurants, and coffee bars. While fast food style dining like Texas Chicken and the Georgian Machakhala chain are abundant near the universities, Kazbegi and Vazha Pshavela are cultivating an eclectic variety of café life.

Tucked among the Soviet-era Khruskhovkas and metro stops are a Turkish eatery, with a lush green and red interior, a wooden-uzba styled Slavic café, and a intricately decorated Chinese restaurant. Acid Bar was one of the first to expand into Saburtalo from the high traffic districts of Old Tbilisi and Vake. With spoon-handle light fixtures and original art work on the walls, the Acid Bar on Kazbegi Street makes a clean break from the neighborhood's staid dining past.

Opening an Acid Bar in Saburtalo three years ago was a calculated risk, noted Bacho Mikadze, owner of the Kala Group that created and operates the Acid Bar restaurant chain, as well as Kala Bar and the KGB Café.

"[When] we entered Saburtalo three years ago, after [opening an Acid Bar in] Vake, we thought a lot about whether or not the Saburtalo location would be profitable," he said, noting the "accent" for café life "falls on old districts" like Shardeni and Vake.

But the Kazbegi Acid Bar is roughly 20 percent more profitable than the three other restaurants in the chain, Mikadze said. Other restaurant owners agree. Teremok, a Slavic-themed café network, has 70 percent higher sales at its Kazbegi location than at the Vake eatery, according to Sopio Brodzeli, the chain's administrative manager. The detailed wooden shutters on its windows and waitresses dressed in national Russian and Ukrainian costumes add to the impression of a warm, cozy Russian cabin.

On a balmy evening in May, cafes on Kazbegi were humming, with couples and large groups spilling out to sidewalk tables.

Many of the patrons are locals, according to Mikadze, a sign that Saburtalo is ready to embrace café life at home instead of traveling to more prestigious districts like Shardeni Street in Old

Tbilisi or Vake.

"Initially I feared that Saburtalo's population would be more eager to go to old districts like Vake, but the Saburtalo Acid Bar caught up with the Abashidze [restaurant] within a year and is moving ahead now," he said. "In fact, Gldani is larger than Saburtalo [with] about 300 thousand residents, but they prefer to go to the center for cafes. Saburtalo is already part of the center."

The larger locations, better parking, and lower rents are also encouraging cafes to expand from Vake, noted restaurateur Nodar Shurghaia, the owner of Café Latte, a coffeehouse with locales on Kazbegi and Paliashvili Street.

Shurghaia decided to expand to Saburtalo after traffic jams and parking issues stifled growth for his café on Paliashvili Street. Today, the Kazbegi location earns five percent more than the Vake coffeehouse – attracting even Vake regulars.

"When we opened our café on Paliashvili it was quite popular. Today, one of the biggest problems that hampers our business [in Vake] is parking. The street is overflowing … it was not a problem at all when we started," he said.

"[W]e chose Kazbegi now because this street is not overloaded despite a lot of traffic, and our café is more oriented towards customers passing by in cars, not on local residents. In fact, the local population rarely drop in here," he said, adding that rent is also about 20 percent higher in Vake which also cuts down profit to a café business compared to being in Saburtalo.

Amy Binder, who owns Ronny's Pizza with her husband Eric, agrees that the larger commercial space, better parking, and larger local population is driving restaurant expansion in Saburtalo.

"I think it's easier to get here," she said, noting there is opportunity for growth.

"There is room here, there are a lot of people here, and they do not have to go to Vake to find a good café…

Vake seems full of a lot of good restaurants and cafes. That is very good for people who live there; they can walk to a café … it should be like that here in Saburtalo. If I live here, I should be able to walk to five different cafes. Why not?"

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CONTENT

42 AmCham Elects New President, Sarah Williamson

42 AmCham Elects New President, Sarah Williamson

42 Competition Highlights Students Using Social Enterprise

43 AmCham Members Discuss NDI Survey

43 GeoStat: New reforms increase transparency, trust

43 Kakha Bendukidze: "Radical" Reforms Necessary to Improve Economic Growth

43 AmCham Discusses Proposed DCFTA and USFTA

44 New Members

44 Farewell Bella, Welcome Salome

46 Membership Directory

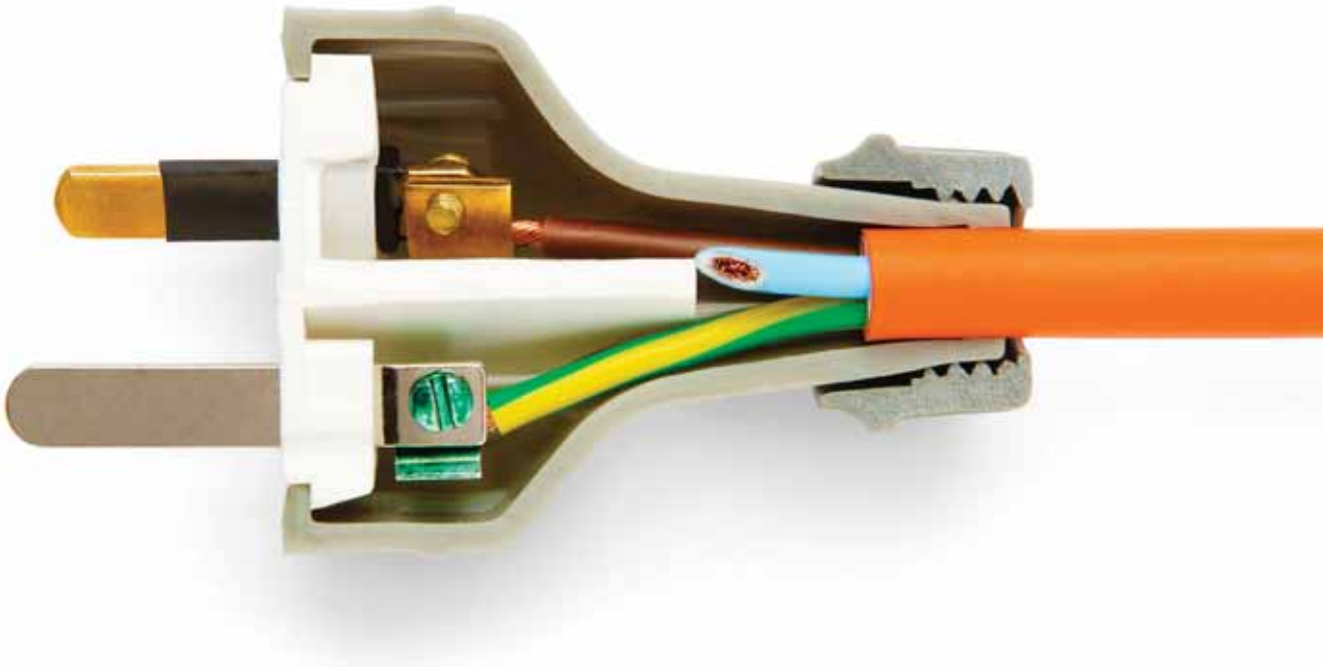
48 Social: AmCham's Annual Gala

50 Social: Golden Brands

51 Social: BP, Hope Box

52 Social: Salvation Army, APM

53 Board



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AmCham Elects New President, Sarah Williamson

AmCham members elected Sarah Williamson to replace David Lee during elections on Wednesday, June 6 at the Courtyard Marriott Hotel. Lee will stay on as Chairman Emeritus.

Williamson, a long time member of the board and vice president & co-owner of UGT, praised Lee for his contribution to AmCham over the past four years.

Michael Cowgill, GAU, was elected to replace Williamson as first vice president and Irakli Baidashvili, GMT, will take Cowgill's place as treasurer and vice president. The remaining directors are: Neil Dunn, BP; Esben Emborg, SEAF Caucasus Growth Fund; Stephen Johnson, Betsy's Hotel and Prospero Books; Ted Jonas, DLA Piper; Robin McCone, PwC; Badri Japaridze, TBC Bank; Lasha Gogiberidze, BGI; and Keti Kvartskhava, BLC.

Competition Highlights Students Using Social Enterprise

On June 6th, students for Social Enterprise (SE) competition was held at the Europe House. Eurasia Partnership Foundation, the British Council and the Center for Strategic Research and Development of Georgia united to promote SE concept among the youth and ensure active involvement of students in SE development.

The competition Students for Social Enterprise was an amazing four universities to deepen their knowledge of the subject matter, acquire new skills, demonstrate their abilities, and defend the honor of their universities. It also helped existing SEs overcome marketing challenges and develop innovative social business projects for nongovernmental organizations. Student teams and their partner organizations prepared social enterprise projects and relevant business plans.

AmCham's Ketevan Sidamonidze together with five other independent jury members selected the best project and revealed the winning team – eQuality from Tbilisi State University. David Lee from Magticom handed over blackberries to all 4 students of the winning team and the winning NGO - Movement Accessible Environment for Everyone received a grant from EPF amounting to GEL 15,000 to implement the winning project. In addition, the NGO will have an opportunity to request additional funding from a bank through Tbilisi State Hall's business promotion program.

The following four Georgian universities together with their partner Social Enterprises took part in the competition:

- Little Miss Sunshine (Georgian-American University) – Women's Union Rhea
- Spark (Caucasus University) – Union Human, Law, Freedom
- GRUNI (Grigol Robakidze University) Innovation and Entrepreneurship Development Center
- Quality (Javakhishvili Tbilisi State University) – Movement Accessible Environment for Everyone

For more information please contact the Eurasia Partnership Foundation office.

AmCham Discusses Proposed DCFTA and USFTA

AmCham members and U.S. Ambassador John Bass discussed upcoming bilateral meetings concerning a possible free trade agreement with the United States during the May roundtable event at the Courtyard Marriott on May 23.

Executive Director George Welton spoke about AmCham's work with the Georgian government and Washington to encourage discussion about the potential benefits of a future free trade agreement between the two countries. AmCham's trade and transportation committee has refocused its efforts to lobby for business concerns during the negotiations and discussions for both the EU DCFTA and a possible USFTA.

Members also had a chance to ask Ambassador Bass about the NATO Summit in Chicago, and the political climate, among other topics.

Ketti Kvartskhava, a partner at BLC Law Office, gave members a brief overview of the law firm, which is celebrating ten years as an AmCham member. For more information about the firm,please see the presentation on www.amcham.ge.

GeoStat: New reforms increase transparency, trust

The National Statistics Office of Georgia is improving the quality of its data - and striving to bolster confidence in its products, according to Zaza Chelidze, the head of the office. Chelidze spoke to AmCham members during the April 24 round table meeting at the Sheraton Metekhi Palace Hotel. His remarks about reforms followed a candid report by US Embassy Deputy Chief of Mission Bridget Brink about the upcoming parliament elections, the media environment and the possible free trade agreement between the United States and Georgia. Chelidze highlighted the National Statistics Office's efforts to reform after it was recreated as an independent body in 2010.

Margarita Zhiznevskaya, the CEO/owner of Financial Brokers Georgia, also spoke to members during the meeting, providing an overlook of how the insurance companies view the Georgian market.

AmCham Members Discuss NDI Survey

On April 11, members gathered at the Radisson Blu Hotel for a luncheon networking meeting with key-note speaker Luis Navarro, Georgia Country Director of the National Democratic Institute. Navarro presented results of a survey on public attitudes in Georgia that had been conducted earlier in February by Caucasus Research Resource Center for NDI and that had resonated widely in the Georgian public. During the Q&A session, a closed-door media-free discussion was held where members were able to put various questions to the speaker.

Kakha Bendukidze: "Radical" Reforms Necessary to Improve Economic Growth

Former State Minister for Reform Coordination Kakha Bendukidze noted Georgia requires high rates of growth to offset years of economic depression in the 1990s during a candid meeting with members on May 8 at the Sheraton Metechi Palace Hotel. A successful businessman in Russia, Bendukidze returned to Georgia at the behest of the Georgian government following the Rose Revolution, and helped create the new government's economy policy. Today, he is the dean of the Free University in Tbilisi.

Bendukidze, credited with spearheading some of the government's liberal reforms, stressed that a "radical economic policy" is needed to spur the rate of growth the Georgian economy requires.

"[T]ake risk and enjoy the reward of the risk," he said, noting that economic growth is never dispersed evenly throughout society so maintaining low levels of growth is not sufficient to bolster the living standards of Georgians throughout the country. Bendukidze also raised concern over the cost of compliance to Western partnerships like the free trade agreements with the European Union and the United States. He warned that the cost of implementing "harmonization" reforms should also be taken into account. Finally, the former minister cautioned that any return to corruption - especially the epidemic corruption that eroded the Georgian state in the 1990s - would be disastrous.

"This country can be destroyed by corruption…this nation cannot afford to be corrupt because we are in the difficult process of nation building," he said.

"The birth of a nation [like the birth of a baby] is not pleasant. Babies can be easily killed by infection and we can be killed by corruption."

In other business, AmCham President David Lee welcomed new members Policy & Management Consulting Group, Nodia, Urumashvili & Partners, and Danish Refugee Council. He also announced the June 6 elections; for more information please contact the AmCham office.

NEW MEMBERS

Policy & Management Consulting Group

Policy and Management Consulting Group - PMCG is implementing economic development projects locally in Georgia and in Caucasus Region and Central Asia as well. PMCG plays an important role in capacity building of public and business sectors in Georgia through providing practical solutions and research-based advices.

www.pmcg.ge

Danish Refugee Council

Non-Profit Organization

The Danish Refugee Council (DRC) is a non-governmental organization operational in Georgia since 1996. Its humanitarian efforts for refugees and displaced populations includes construction or repair of homes, legal assistance, rehabilitation of community infrastructure, youth and education support, capacity building of government to improve services at central and municipal levels as well as microcredit, business and income generation grants for individuals, small and medium sized enterprises.

www.drc.dk

International School of Economics at TSU

Non-Profit Organization

ISET is an elite institution training leaders for academia, the public and private sectors in the entire South Caucasus region. ISET brings to the region an international university culture that combines education with research and social engagement.

www.iset.ge

Bank Constanta

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www.constanta.ge

Luca Polare (G&G Corporation)

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www.lucapolare.com

Nodia, Urumashvili & Partners

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Nodia, Urumashvili & Partners was founded in 2005 and soon, the Company came to the front as one of the leaders in the field of legal advice provided to major industrial and commercial entities. The Company's practice is supported by the legal pros in charge of the local and international business, which possess the truly balanced knowledge of distinctions of the various fields of law both within the local and international environment.

www.nplaw.ge

Thermarsenal Ltd.

Corporate B Member

The major activities of the company include projecting, selling and installation of heating/cooling, ventilation and water supply systems. Company is the official distributor of BOSCH Thermotechnik and GRUNDFOS Pumps in Georgia. The Tbilisi, Batumi and Kutaisi centers of the company provide consultations with highly skilled personal.

www.arsenal.ge

Bella Makaridze: "After more than nine years at AmCham, I've decided to move on."

Those were dynamic nine years. I started in 2003 only a few months before the Rose Revolution would change the flow of the history in Georgia, and have seen this country grow from what they quite heartbreakingly called a failed state to a rapidly growing western-oriented democratic country that has already won recognition for its outstanding achievements by many international observers, a country that I am proud of.

AmCham has contributed significantly to those achievements, and I am happy to have been part of it. I will always recommend AmCham as the strongest business association in this country that continues to play a vital role in facilitating a favorable business environment in Georgia.

But the most precious thing I have gained throughout these years are my many dear friends both in the team of AmCham and among the members and partners of the Chamber, and I really look forward to keeping these warm ties close as time flows on.

I leave a part of my heart with you and wish you good luck, dear AmCham Georgia!

Meet AmCham's New Relationship and Events Manager

Salome Tkeshelashvili, the relationship and events manager who replaced Bella Makaridze, is no stranger to AmCham. As the head of marketing for BDO, and more recently, as the events coordinator for Holiday Inn, Salome was a frequent guest at AmCham meetings and events. With her new position as relationship and events manger at AmCham, Salome said her years of experience in public relations, and as a member of the Chamber, will assist her to help businesses get the most out of their membership. "As a new member of the team, I will try to add as much value as possible to AmCham by being involved in issues that are important to members and helping them in every aspect," she said.

"The most important thing is that members should feel that AmCham is beside them; that we support the growth and broadening process and help to make changes for better. Being a member of the AmCham is already a great benefit on a corporate as well as personal level."

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STUCKY provides services in consultancy, engineering and project management from planning right up to commissioning. STUCKY has references in over 100 hydropower projects. Its main fields of activities are:

- Identification and development of general concepts;
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- Environmental impact assessment and analysis;
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- Upgrade rehabilitation and optimization;
- Operation and maintenance of structures;
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- Hydraulic schemes and water transfers;
- Tunnels and underground structures;
- Power plants (hydroelectrical and thermal);
- Power transmission (lines, substations and control systems);
- Water and natural risks management;
- Watercourse planning and the environment;

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SOCIAL PAGE

The American Chamber of Commerce in Georgia celebrated its 14th Anniversary by hosting its members, Senior Officials of the Georgian Government and Diplomatic Corp as well as other top business leaders at an elegant Dinner-Dance Gala on Saturday, June 2.

SOCIAL PAGE

SOCIAL PAGE

7th Golden Brand Awards Ceremony Held at the Radisson

On April 4, 2012 Global Idea and newspaper The FINANCIAL, with support from the Georgian Chamber of Commerce and Industry, the American Chamber of Commerce in Georgia and Tbilsi City Hall, held the 7th yearly Golden Brand 2011 awards ceremony revealing the best brands of the past year at the Radisson Blue Iveria Hotel. This year event was attended by more than 150 top managers of the leading companies.

SOCIAL PAGE

Winners of the Golden Brand Awards 2011 include AmCham members like 577 by Geocell - Mobile Communications - Favorite Brand; Geocell - Platinum Brand Of The Year; Soplis Nobati - Dairy products - Favorite Brand;Airzena Georgian Airways - Airlines - Favorite Georgian Brand; TBC PAY - Fast Payment System - Favorite Brand; GPI Holding - Insurance Company - Favorite Brand; Wissol Petroleum Georgia - Oil Company - Favorite Brand

From May 28 to June 3, Hope Box (HBX) held special activities for children and youngsters on the New Boulevard in Batumi. HBX is a mobile art project collecting creative minds from all over the world. It specializes in community art, and is particularly dedicated to bringing art to the lives of disadvantaged youth.

BP signed agreements with Georgian National Olympic Committee and National Paralympic Committee to support the country's national teams and a group of selected athletes in the run up to the London 2012 Olympic and Paralympic Games.

SOCIAL PAGE

APM Terminals Poti congratulated Children's International Day to local kids. Our "Safety Activist" (puppet) distributed presents along with other puppets. Additionally, APM Terminals Poti sponsored 8 children to participate in Bulgaria International Song contest June 15-25.

Valued volunteers and supporters were honored during the Salvation Army 2011 Annual Report, at the Radisson on May 23. (Photographs by Tata Tomadze)

Board Of Directors 2012

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

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

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

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

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

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

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

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

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

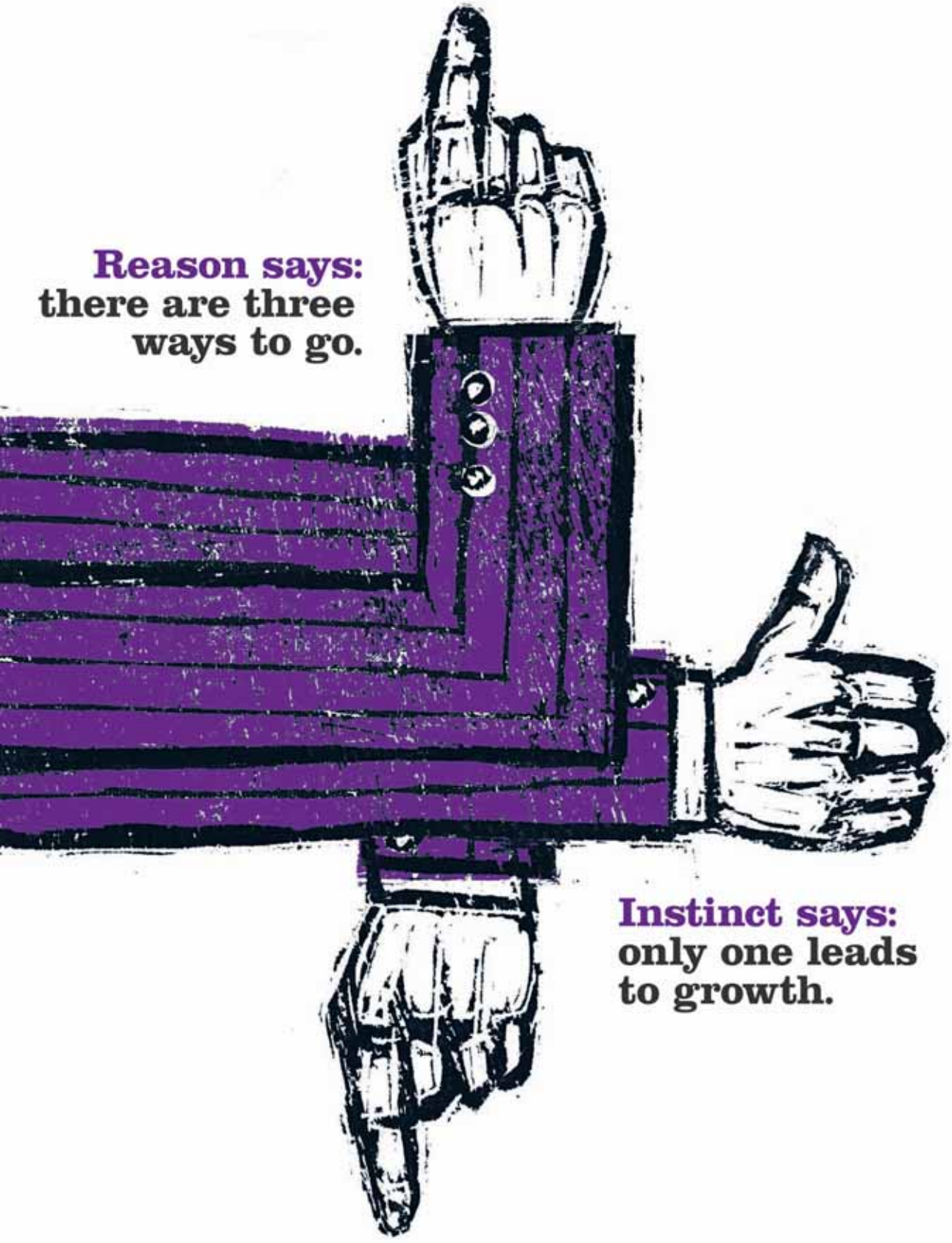
Ketti Kvartskhava, Director
Ketti Kvartskhava is a Partner of BLC Law Office. Her professional experience includes her work as a Commercial Law Advisor at the USAID Georgia and as an instructor at Tbilisi State University. She also worked as a Legal Counsel for the US-Georgian Commercial Bank JSC Absolute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

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

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

We have acted on behalf of major oil and gas companies in the negotiation and implementation of host government agreements and associated special tax regimes for large midstream arrangements. This includes the provision of legal and tax advice on the planning, construction and operation of oil and gas transit pipelines through Georgia. Our upstream work is equally extensive, including the design, negotiation and implementation on behalf of foreign oil companies of most of Georgia's production sharing agreements, including the first Black Sea off-shore concession.

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- Joint ventures in energy-related projects
- Comprehensive energy-related due diligence
- Mineral license issues
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- Oil and gas industry commercial agreements and transactions
- Litigation and arbitration of energy-related disputes
- Strategic advice on planning, development and permitting issues, as well as the legislative, political and regulatory environment
- Acquisitions and disposals of energy-related assets and companies

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