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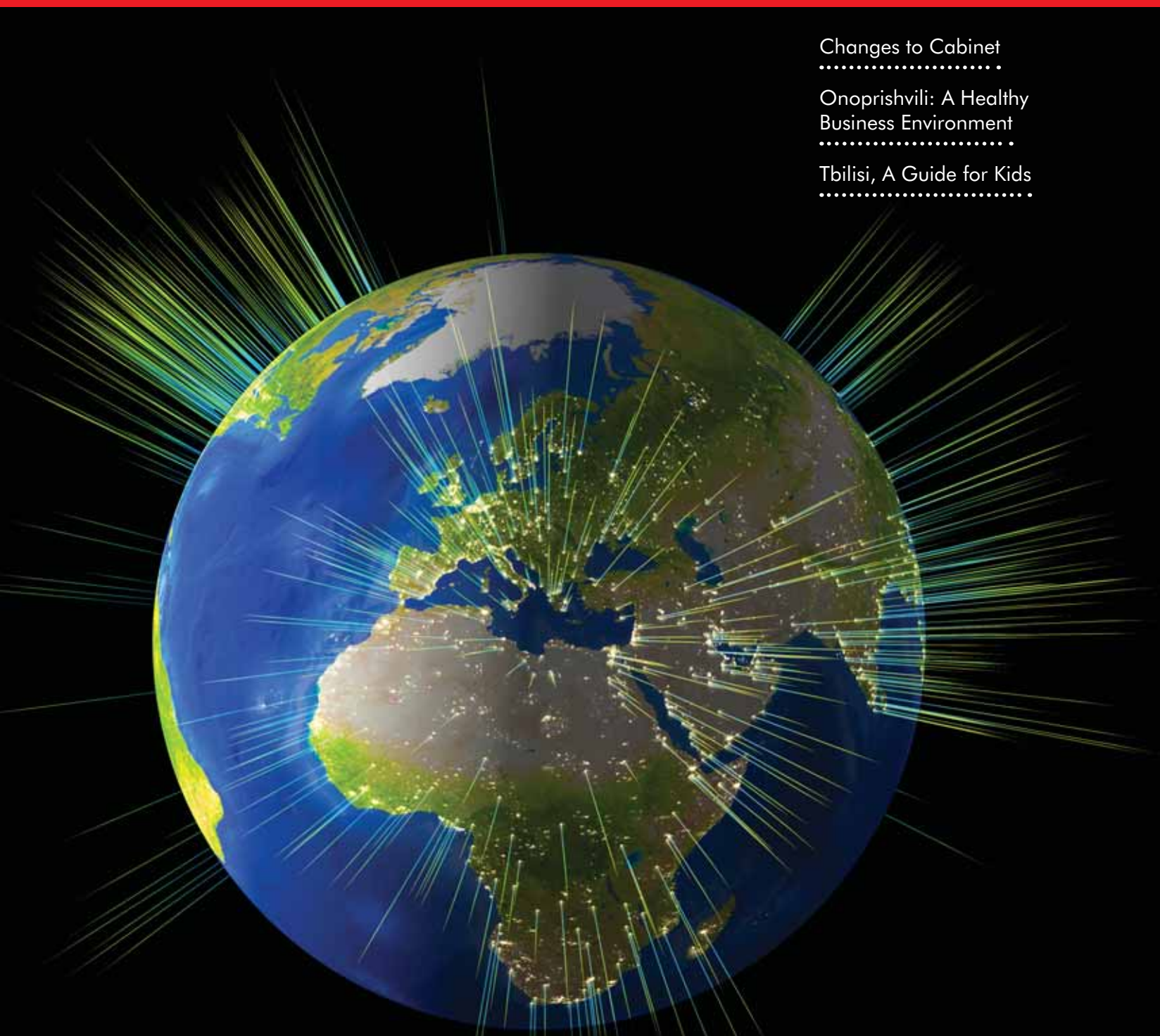
AMCHAM A MAGAZINE OF THE AMERICAN CHAMBER OF COMMERCE IN GEORGIA

ISSUE 29 OCT.-NOV. 2012

Changes to Cabinet

Onoprishvili: A Healthy Business Environment

Tbilisi, A Guide for Kids



Georgia: The Hub Issue

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Special thanks to Sarah Williamson, the AmCham Editorial Board and the AmCham staff, as well as to KPMG and PricewaterhouseCoppers, for their help with this issue.

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Investor.ge is printed by CEZANNE

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Investment in Brief

Bank of Georgia to Host Global Marketing Event in November

The Bank of Georgia will host Marketing Kingdom, a European marketing forum, on November 12-13 at its Tbilisi headquarters, reported Georgia Today. The event, which includes speakers from Yahoo, Pepsico, Coca-Cola Hellenic and Sony Music, is billed as the country's first "global" marketing conference.

TAV Georgia will Invest Another $65 Million Tbilisi International Airport

The company plans to build a new runway, a project that will employ 700 people. The project, which should be completed in two years, will allow the airport to receive all types of aircraft, the Ministry of Sustainable Economic Development reported in September.

More Georgia-Europe Flights Open

Georgia Today reported that FlyGeorgia started Tbilisi-Amsterdam flights in October, with roundtrip flights planned twice a week. In addition, the budget airline Pegasus added a Batumi-Istanbul flight to its schedule, also starting in October.

Temur Chkonia Plans to Open Georgia Palace Hotels in Tbilisi and Mestia

Georgia Palace Hotelswill expand operations and open new hotels in Tbilisi and Mestia, according to the company's owner,Temur Chkonia. In Tbilisi, an 18-room hotel located on Erekle Street is slated to open in 2014. Chkonia noted that he has already invested over $25 million in the hotel development. The Bank of Georgia is financing the construction.

The House of Justice opened in Tbilisi

The new service center can serve on average 15,000 customers a day and offers more than 300 services, including Just drive and Just cafe. Just drive is a drive-thru service for citizens. The Tbilisi Justice House is the 11th in Georgia and has a total area of 32,000 square meters. It was created and designed by the famous Italian architect Massimiliano Fuksas.

Azerbaijani Company to Build Dirsichala Complex in Isani-Samgori District

Azerbaijani development company AS GROUP Investment will construct Dirsichala complex in the Isani-Samgori District of Tbilisi, Trend reports. The 22- house complex will have a single architectural style.

About 2,000 people will be employed for construction, and a staff of 1,500 will remain after it is open.

The complex will include a residential, business, and a recreation zone -- playgrounds, swimming pools and trade outlets -- as well as two public schools and kindergartens.

Carrefour in Tbilisi

On September 13, 2012, the Majid Al Futtaim Group opened its first Carrefour hypermarket in Tbilisi, a $25 million investment. The hypermarket is located on 9,000 square meters in Tbilisi mall and employs 600 people. Carrefour plans to open three more hypermarkets in Georgia.

European Commission Allocated €60 million to Support Agriculture in Georgia

Georgia is set to receive €60 million from the European Commission as part of the 2012EU Action Plan. The grant will finance modernization programs, including economic integration and political association with European institutions, BPI.ge reported.

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მგალობლიშვილი ქიპიანი ძიძიგური

Post Election Cabinet

The list of candidates for cabinet, as presented by Prime Minister candidate Bidzina Ivanishvili. The cabinet will become official after the parliament approves the nominees. For the official list and biographies, see www.government.gov.ge.

- **ALEXI PETRIASHVILI**, State Minister for European and Euro-Atlantic Integration
www.eu-nato.gov.ge, 7 Ingorokva Str., Tel: 293 28 67

- **PAATA ZAKAREISHVILI**, State Minister for Reintegration
www.smr.gov.ge, 7 Ingorokva Str., Tel:292 18 81

- **DAVIT NARMANIA**, Minister of Regional Development and Infrastructure
www.mrdi.gov.ge, 12 Al.Kazbegi ave., Tel: 251 05 91, 251 06 88

- **NODAR KHADURI**, Minister of Finance
www.mof.ge, 16 V. Gorgasali Str., Tel: 226 14 44

- **KOTE SURGULADZE**, State Minister on the Diaspora Issues
www.diaspora.gov.ge, 7 Ingorokva Str., Tel: 218 13 70

- **GIORGI MARGVELASHVILI**, Minister of Education and Science
www.mes.gov.ge, 52 D. Uznadze str., Tel: 243 88 19

- **LEVAN KIPIANI**, Minister of Sports and Youh Affairs
http://msy.gov.ge/, 9 Cholokashvili str, Tel: 223 54 33, 223 02 03

- **KHATUNA GOGALADZE**, Minister of Environmental Protection
www.moe.gov.ge, 6 Gulia Str., Tel: 272 57 00, 272 57 20

- **GIORGI KVIRIKASHVILI**, Minister of Economic and Sustainable Development
www.economy.ge, 12 Chanturia Str., Tel: 299 77 77

- **KAKHA KALADZE**, Minister of Energy and Natural Resources
www.menr.gov.ge, 6 Gulua str, Tel: 235 78 00

- **IRAKLI ALASANIA**, Minister of Defense
www.mod.gov.ge, 20 General Kvinitadze Str.,
Tel: 291 19 63, 291 04 21

- **TEA TSULUKIANI**, Minister of Justice
www.justice.gov.ge, 24 Gorgasali Str., Tel: 240 52 02

- **GURAM ODISHARIA**, Minister of Culture and Monument Protection
www.mcs.gov.ge, 14 Sanapiro str., Tel: 293 22 55

- **DAVIT DARAKHVELIDZE**, Minister of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia
www.mra.gov.ge, 15a Tamarashvili Str., Tel: 238 47 98

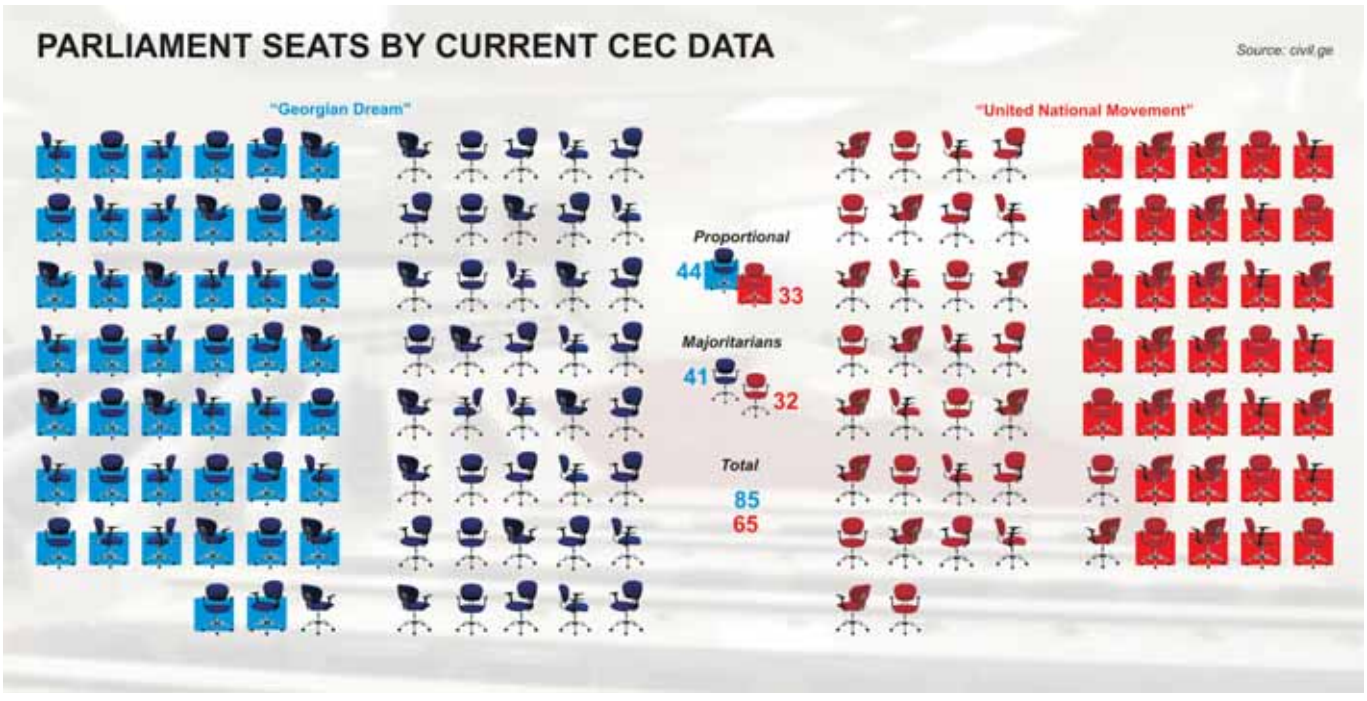
- **MAIA PANJIKIDZE**, Minister of Foreign Affairs of Georgia
www.mfa.gov.ge, 4 Sh. Chitadze str., Tel: 228 47 47

- **DAVIT KIRVALIDZE**, Minister of Agriculture
www.moa.gov.ge, 6 Marshal Gelovani Str.,
Tel: 237 80 13, 237 80 09

- **IRAKLI GHARIBASHVILI**, Minister of Internal Affairs of Georgia
www.police.ge, 10 Gulua Str., Tel: 299 53 50, 298 39 43

- **DAVIT SERGIENKO**, Minister of Health, Labour and Social Affairs
www.moh.gov.ge, 144 A. Tsereteli Ave., Tel: 236 90 26

- **SOZAR SUBARI**, Minister of Corrections and Legal
www.mcla.gov.ge, 42 Al. Kazbegi Ave, Tel: 231 27 37



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Five Questions with...
WB Regional Director Henry Kerali

Henry Kerali is the World Bank's (WB) new Regional Director for the South Caucasus. Before coming to Georgia, he was the bank's manager for transport sector activities in all countries in the European and Central Asian regions. In an interview with Investor.ge, Kerali outlines the WB's plans for 2013.

MAIA EDILASHVILI

Q: How would you describe WB's role and strategy in the region? Do you think that there is a need to change anything or introduce new initiatives?

A: For Georgia, the current World Bank Group (WBG) Country Partnership Strategy (CPS) for the period up to 2013 was prepared against the backdrop of the twin crises of the August 2008 conflict with Russia and the global economic downturn. The Georgia CPS remains relevant and is built around two pillars: meeting the post-conflict and vulnerability needs; and strengthening competitiveness for post-crisis recovery and growth. The CPS envisages total WBG support of about $600–$750 million for the period of 2009 to 2013, including support to private-sector investments through the International Finance Corporation. The bank will soon start consultations with the government, civil society, and other stakeholders on the framework for the next CPS covering the four-year period from 2014.

The common objectives in all three countries of the South Caucasus are the need to diversify the economies, increase productivity, strengthen institutional capacity, and to increase physical and human capital. We will be working with a broad range of stakeholders in all three countries to see if there is a need to fine tune the respective partnership strategies or to introduce new initiatives.

Q: What is WB's top agenda in Georgia for 2012 and 2013? In particular, which projects are you working on presently?

A: The World Bank's current portfolio of operations — total lending of $680 million — comprises a combination of investment projects and development policy operations. Through a programmatic development policy operation series, with the first installment of $60 million delivered in July 2012, the bank is supporting the government's reform measures that are critical to the achievement of competitiveness and inclusive growth. The main policy areas supported by this operation are: competitiveness; public financial management; and effectiveness of social spending. The reform strategy adopted by the government is to promote a virtuous cycle of productivity improvements, higher investment and exports, to generate growth and employment, and to strengthen social safety nets.

Looking forward, the bank is now working on preparation of another Regional Development Project to be delivered in 2013 that will focus on the Imereti region and provide investments for renewal of cultural heritage treasures, such as Tskaltubo city and the village of Vani. In addition, the bank will continue a policy dialogue and support ofkey reforms through a planned second development policy operation currently under preparation. The bank remains ready to support the government to enhance human capital in the areas of education, health, pensions or social protection, since Georgia's people will always be its most precious resource.

Q: During your first press conference in Tbilisi you said that infrastructural and heritage projects, as well as the tourism sector, are the WB's key sectors of interest in Georgia. What projects are planned to continue supporting these sectors?

A: The bank will continue to support these sectors through three programmatic investments:

The East-West Highway Program: We are considering financing a fourth project under this program to upgrade the E60 highway from Gori to the Khashuri bypass. The Secondary and Local Road Program: Earlier this year the bank approved a new project that will finance several road segments throughout the country and pilot the use of performance-based contracts for road maintenance. The Regional Development Program: The first project, focusing on the Kakheti region, was approved in the amount of $60 million from the bank and $15 million from the government and is now under implementation. The objective of the project is to improve infrastructure services and institutional capacity, including workforce development, to support the expansion of tourism-based

businesses and cultural heritage circuits in the Kakheti region. A second project, focusing on the Imereti region, is expected to be approved by the bank in November 2012. The overall Regional Development Program aims to encourage the private sector, small and large, to start new businesses or expand their current projects so as to create jobs and support Georgia's socioeconomic development.

In addition to the above, the bank is also supporting: the Regional and Municipal Infrastructure Development Project, which has improved water services and urban roads in several Kakheti towns and villages; the Rural Development Project, which has helped to support lines of credit to microfinance institutions in the region; and the Irrigation and Drainage Project, which has rehabilitated head works and the main irrigation channels in Kvemo Alazani.

Among the knowledge products that the World Bank plans to deliver this year are an assessment of potential sources of growth, options for a "green" transport policy, a strategy for regional development, an assessment of Public Expenditure and Financial Accountability, as well as a series of surveys on household and firm skills and workforce development aimed at enhancing the link between the supply and demand for labor.

Q: How important is regional economic integration for Armenia, Azerbaijan and Georgia? Which should have a higher priority — regional or international integration?

A: Both regional and international integration are important. The South Caucasus countries are not large. The combined population is less than 20 million, and the combined gross domestic product (GDP) is less than $100 million. However, they do have the potential to be high-growth economies for a sustained period. In order to achieve that, tapping ▸▸

regional and international markets and production networks will be critical.

Turkey is one example where regional economic integration can yield significant dividends. Turkey is the world's second -largest exporter of apparel and a very successful exporter overall. Integrating with Turkish production networks offers significant potential for boosting exports and employment in Georgia. This is just one example. Georgia is also pursuing a Deep and Comprehensive Free Trade Agreement with the European Union. Similar efforts are underway in Armenia and Azerbaijan. These initiatives would enhance market access and integration with the EU. The South Caucasus also must look eastward to high-growth markets in East, Central, and South Asia with a combined population of three billion.

The South Caucasus countries are also ideally positioned on the historic Silk Road, at the intersection of east and west, to take advantage of this integration. If one draws a straight line between the center of economic mass in Asia and the center of economic mass in Europe, that line would almost certainly have to pass through the South Caucasus. Leveraging this geographical advantage should be an important component of the development strategies of the South Caucasus countries.

Q: You have worked in nearly every continent. What are the main trends in the global economy? How are current developments in international markets affecting economies and economic policies in the region?

A: The global economy is passing through an increasingly uncertain period. The euro-area sovereign debt crisis, along with fiscal challenges and banking-sector deleveraging in advanced economies, are keeping the global-growth outlook weak in 2012. Overall, global GDP is projected to increase by 2.4 percent in 2012. Growth for developing countries is projected to be 5.3 percent, and for advanced economies, 1.4 percent, with the eurozone projected to contract by 0.3 percent.

This has two important implications for developing countries. The first is that foreign direct investment and other capital inflows are likely to remain uncertain for the foreseeable future in an environment of heightened investor uncertainty, so that more domestic savings will need to be mobilized to finance growth. The second is that developing countries will need to double their efforts to sustain export growth, by tapping new markets and diversifying their production base. The focus should remain on improving competitiveness and enhancing integration to achieve sustainable growth and employment generation in the medium term. For the South Caucasus countries, the eurozone crisis poses a potential threat, although this is much less than the potential impacts of the crisis on other countries in Eastern and Central Europe. ■

Davit Onoprishvili: Creating a "healthy and competitive" business environment

Investor.ge sat down with Columbia University-educated economist Davit Onoprishvili, PM candidate Bidzina Ivanishvili's nominee to chair the Committee for Finances and Budgetary Issues, to talk about the Georgian Dream's plans to overhaul the country's anti-monopoly laws, reconfigure the labor code, and reset relations with the business community.

One week after sweeping to power in parliament, billionaire Bidzina Ivanishvili, the nominee for prime minister, promised Georgian business leaders and foreign investors that his coalition will put an end to monopolies, cartels, and price fixing in the country.

Davit Onoprishvili, one of the architects for Ivanishvili's economic platform, told Investor.ge the new coalition government is ready to overhaul the country"s anti-monopoly laws.

It is a subject Onoprishvili knows well. He helped write the country's

pre-2005 law on monopolies when he was a member of parliament during the government of former President Eduard Shevardnadze.

"What the National Movement did … they decided this regulation could be harmful for developing businesses and business itself can regulate the market and there is no necessity to have some [oversight] from the state," he said.

"And after this, after two or three years, we really got a bad picture. In many areas of the economy, there rose monopolistic structures, it was not a pure monopoly -- it was a much more complicated, sophisticated cartels."

The coalition believes the fuel industry, pharmaceuticals, and telecommunications are key areas for restructuring once a new law is passed.

But Onoprishvili stressed that businesses do not have to fear a repeat of the mass arrests and government-sponsored show trials that marked the first years of the Saakashvili government.

"In our case, we are not going to punish anybody because of their political views or some other interest which is legal. Just if somebody violated laws and has a problem … they have to pay taxes or (whatever) fines regulated by laws, they should pay. That is it," he said.

In addition to the anti-monopoly law, Onoprishvili said the coalition is planning to review the labor code and other United National Movement initiatives, such as the Partnership Fund which was established last year to help attract greenfield investment.

The labor code should be reformed to meet International Labor Organization (ILO) standards, noted Onoprishvili – a move that should help expedite negotiations with the United States and the European Union over trade agreements.

The Partnership Fund, a major government initiative to leverage state assets and budgetary funds to help finance greenfield investments, is a project that deserves close "review," Onoprishvili said.

"[W]e have the impression this is to make a hidden privatization of those shares of those companies that are now [in state control]," he said.

"Plus we should see what the benefit is from that, what the benefit is to the state from this. We will make a careful review, and then we will make the decision to leave it or not."

The coalition itself is planning to create two funds – a billion dollar agriculture fund and a SME development fund.

Approving the budget, reassessing tax fines, pension reform, and the creation of a pension fund are also on the agenda – a lot of work for a coalition that has to pass a budget before the end of the year, and has just under a year to implement its platform before the next election.

Onoprishvili underscored that regardless of the sector, the coalition's goal with all the reforms is to improve the business climate – and improve relations between businesses and the government.

Now, he said, business associations and the government needs to find a bridge to foster more communication.

"We will be for such an open relationship and we have to create a good business environment and attract investment," he said.

"The prime minister himself is a business person and he knows better than anybody how it is better to create a business environment and be beneficial to the business itself and the state and also to solve at the same time substantial social issues."

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Georgia Set to Become Bio Research Leader

Georgia will become a regional center for advanced biological research with the long-awaited commencement of activities at the Richard G. Lugar Center for Public Health Research.

CHARLIE FLETCHER

The Richard G. Lugar Center for Public Health Research, named for the U.S. Senator, was built to bolster global health security through the identification of infectious disease threats and the development of vaccines and other interventions to mitigate those threats.

Georgia was a natural partner for this effort, says Nata Avaliani, Georgia's leader of the Global Disease Detection Regional Center.

"There has been an aspiration in this country to play the role of a hub, a leader in the region in certain areas," she said.

"Because Georgia is endemic for some of the pathogens for potential biological threat, there has been ongoing research studying plague, tularemia, anthrax and other diseases. This combination of factors and also the very strong partnership with the U.S. government that exists in a number of other sectors, contributed to the idea of establishing the center here."

Avaliani added that the center would also be a safer, more secure repository for pathogens that had been stored at the National Center for Disease Control. The new facility will allow more sophisticated research on these and other emerging pathogens.

The facility boasts a state of the art biocontainment laboratory that has no equal anywhere in Georgia or the region, she stressed.

"The center provides Georgia with a great opportunity to be on the front line of this global health effort and also establish a long-standing and very important cooperation for the Georgian public health system with U.S. institutions, such as the U.S. Centers for Disease Control and Prevention, Walter Reed Army Institute of Research, and other partner organizations that will help establish these capacities in Georgia," Avaliani said.

Identification and Prevention

The overall purpose of the center is to prevent and mitigate global epidemics by working in concert with the World Health Organization (WHO). The WHO's International Health Regulations require renewed cooperation and coordination between countries for full and effective implementation

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The original partnership started with the Nunn-Lugar Cooperative Threat Reduction program building the laboratory. As the testing and validation of the laboratory concludes, the partnerships between the Georgian National Center for Disease Control and Public Health and various partner organizations, including the U.S. U.S. Centers for Disease Control and Prevention and Walter Reed Army Institute of Research are expanding. Both the U.S. Army's medical research unit and the U.S. CDC will be tenants within the facility.

But the faculty itself is Georgian controlled by a board of governors chaired by the Georgian Prime Minister and comprising representation from the Georgian ministries of Health, Agriculture, Defense, Finance, and Education & Science.

With the completion of Georgia's center, there will be10 such CDC regional centers worldwide. The facilities are organized in partnership with the U.S. CDC Division of Global Disease Detection and Emergency Response.

The other nine regional centers are in Thailand, Kenya, China, Guatemala, Egypt, Kazakhstan, India, South Africa and Bangladesh. Each of these labs works closely with Walter Reed, the U.S. CDC, and with each other to develop vaccines and other therapeutics and to provide information about infectious diseases of military and public health importance, according to an official with the Georgian unit of the U.S. Defense Threat Reduction Agency, which has been responsible for the development, construction, testing and validation of the facility.

The initial ground breaking for the center occurred in 2004 and construction of the 8,000 square meter facility began in 2006. Most major construction was completed in 2010. It is not operational yet, however.

Because of the complexity of the center's laboratories, extensive testing and validation is required before much of the facility can be fully utilized. Final validation of the Biosafety Level 3 biocontainment labs is expected to be completed this winter.

Currently there are 15 full-time employees at the center and approximately 50 consultants conducting validation and testing, according to Vakhtang Berishvili, the center's deputy director.

The center's small staff is currently developing policies and procedures. "Our science people are now thinking about what we are going to do and how we are going to do it. Our admin people are working to create infrastructures and systems," he said. By 2014, the facility is expected to employ more than 200 people, including scientists, laboratory technicians and administrative staff.

First Project: Genomic Mapping

Although the center will not be fully operational for some time, officials expect to begin tackling some projects as early as October, including the genomic mapping of a bacteriophage active against anthrax that was developed by long-time Georgian research laboratory, George Eliava Institute of Bacteriophages, Microbiology and Virology.

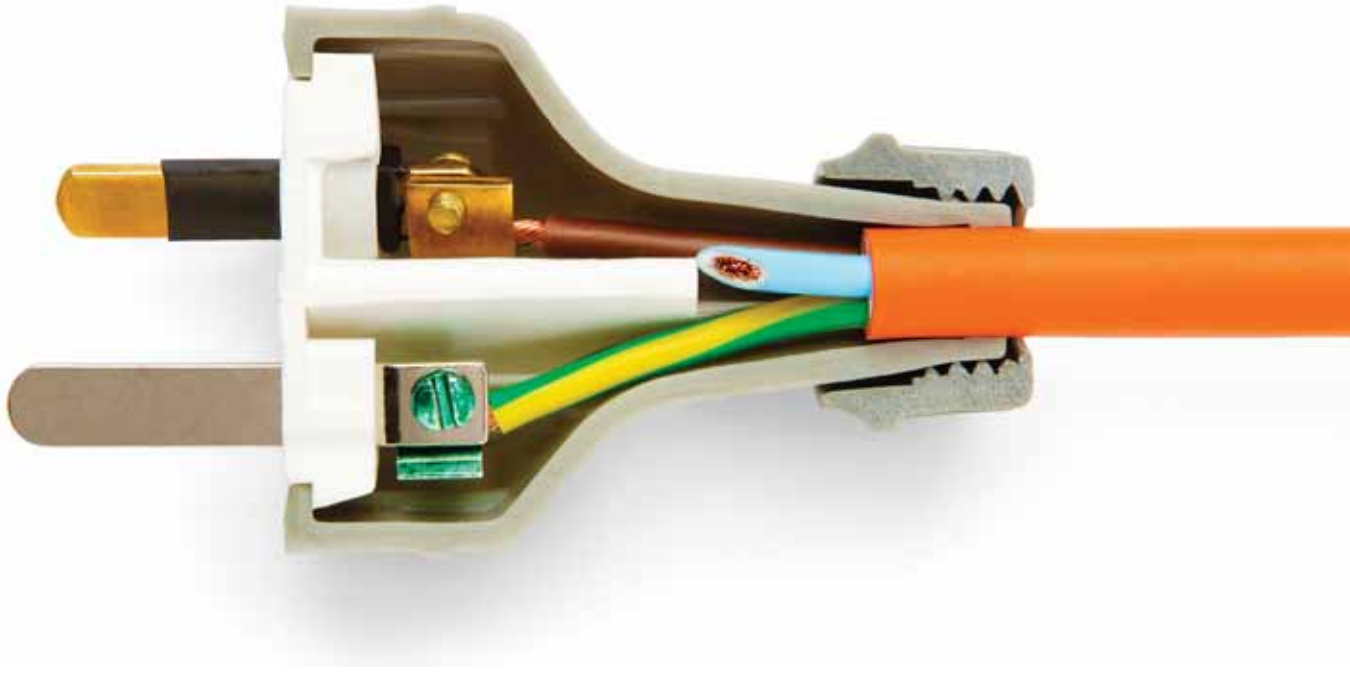
Revaz Adamia, the institute's director, is optimistic about the potential the center holds for Georgia.

"In general, the idea of creating this center is very good. Initially it was created as a center of excellence for detecting any kind of biohazard in this region of the world, natural or artificial. But now its tasking has been changed. It's now more oriented toward public health, and it is more oriented toward scientific work," he said.

"I personally like that more emphasis is being placed on scientific work rather than pure epidemiological surveillance. I think that it is vitally necessary for this country to have several good scientific centers where high-level experimental work can be done."

When fully operational, the center will be capable of performing expanded gene sequencing, which will be crucial for today's basic biological research, noted Avaliani.

"There are no borders for infections and for public health threats, or for biological threats," she said. "So countries should be equipped with the capacity, both technical and human resources capacity to be able to detect, report and respond to outbreaks in a timely manner. The center provides Georgia with a great opportunity to be on the front line of this global health effort."



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Creating a Hub

Georgia is a natural hub for the Caucasus and Central Asia region. After years of painful reforms, the country has the geography, open borders, streamlined legislation, and growing ports to carve out a niche as a hub for goods, ideas, and transit. Investor.ge spoke with business people, economists, and the acting head of the national investment agency about how Georgia can capitalize on its potential to be a regional hub.

For centuries Georgia has been a hub for trade and transit. Today, thanks to a synergy of reforms, promotion, and new possibilities, the country has the potential to become the regional center for even more: it can also become a hub for education, agriculture, energy, tourism, investment, and even reforms.

After years of reporting on Georgia's economic policies and investment climate, Investor.ge decided to dedicate an issue to exploring the country's potential to grow and adopt a regional role.

"There are a few obvious reasons that stand out [for Georgia to become a regional hub]," noted Sarah ▸▸

Williamson, the president of AmCham Georgia and the vice president of UGT.

At the core of its promise is simple geography – Georgia is the perfect bridge between the markets of Europe and Central Asia. But years of reforms, in addition to investor interest and large donor projects, are helping the country build on its natural borders.

Tradition also helps. Historically, Georgia has been on the crossroads of trade routes, a legacy that helped create the old Silk Road, and has made trade and transit a vital part of Georgia's economy for centuries, noted Eric Livny, the director of the International School of Economics at Tbilisi State University.

"Georgia is not a country that has been traditionally manufacturing or producing goods. This is a country that has been historically on the transit route, servicing the flows of caravans, passengers, goods. In fact, that may be the source of the wonderful Georgian hospitality," he added.

Williamson said that, in addition to geography and good relations with Azerbaijan, Armenia, and Turkey, the government's strong desire to make the country a regional player give it an added push.

That role can serve Georgia in the future, Livny emphasized. Georgia can grow by building on its traditional value as a transit route. One case in point is the country's new role as a regional hub for car sales.

In 2003, there were zero car exports from Georgia. As the state started to crack down on crime following the Rose Revolution, the reexport of cars grew to an $8 million business in 2004. By August of this year, it was worth $562 million – 24 percent of all exports, and creating a regional hub on par with Dubai, according to a report by Renaissance Capital.

Robin McCone, PricewaterhouseCooper's tax and legal practices leader in Georgia and Armenia, said the impact of the reforms is starting to trickle down to investors looking at the region.

"I am amazed at how many requests I am getting from major multinationals from all industry sectors to speak with them about doing business in Georgia. I am also increasingly seeing multinational companies who are already in the region, looking to change their business model to move many of their activities through Georgia," he said, noting that so far most interest comes from fast moving consumer goods companies that are attracted by the ease of doing business in Georgia.

But even more than that, McCone noted that the combination of services and reforms Georgia offers is unique – and is making the country uniquely attractive to investors.

"This convergence of factors is increasingly being noticed by companies looking to establish shared service centers or back offices in Georgia," he said.

The car reexport industry is one example of an industry that grew out of Georgia's strategic location and the potential created by the reforms on the ground. Renaissance Capital reported in October that the combination of simplified trade regimes and streamlined registration laws (it takes just 15 minutes to register a car) are helping Georgia usurp Dubai as a car reexport hub in the region.

If the government and private sector can work together, there is the potential for even more, Livny said.

Livny and his colleagues at ISET Policy Institute are working on a national competitiveness report on Georgia for the USAID G-PAC and EPI projects. The report includes a special chapter on Georgia's potential as a regional hub. Georgia could play that role in a variety of areas including trade and transport, but also education, tourism and even healthcare.

"Look there are all kinds of things that could be done. At the moment we are very far from being any one of these," he said.

McCone and other business consultants noted that even basic improvements in the labor force, such as more skilled workers and English-language speakers could make a difference for investors.

More investment in infrastructure, more investment in private businesses, and more coordination between public and private actions will be key to turning Georgia's potential into a reality, Livny stressed.

"Coordination is something that doesn't always require investment, it doesn't always require money. It is just the ability of government to bring all the stakeholders to the same table and coordinate their actions," he said.

"Internally, you need coordination between the government and the private sector, that is the key."

Gateway to the Caucasus: Georgia as Investment Hub?

The Georgian government has focused on reforming the business climate in order to attract foreign direct investment. After eight years of reforms, Investor.ge looks at Georgia's potential to be a hub for international companies looking to invest in the region.

MONICA ELLENA

In his heyday, former U.S. Vice President Dick Cheney claimed that America had to become "the best place in the world to do business."

Georgia has been quick to follow suit. The country has a stellar record in establishing the conditions for investors to set up shop. Accolades include the World Bank's number-one reformer, to number one in enterprise surveys in spending the least time dealing with regulations, to 12th in ease of doing business in 2011, and seventh-least corrupt country according to Transparency International.

But is that enough?

For EsbenEmborg, the Tbilisi-based partner of the Washington firm, SEAF-Management LLC, it is a no-brainer. Logistically, politically, and operationally Georgia is a natural hub for the region."You've got it all: a port, transportation network, stable politics, low levels of corruption, investor-friendly environment and good relationships with both Armenia and Azerbaijan. Taken one by one, these countries' economies are too small, but if you combine them, you have quite an interesting and sizeable market."

Moving here: What are the advantages?

Initiatives are mushrooming, from private projects to government measures. Projects such as the recently-built Tbilisi Logistic Center can boost the movement of goods with its state-of-the-art, 90,000 square meter container terminal with rail and road access, a container depot and TIR Parking. Actions like the double-taxation avoidance treaties are an ▸▸

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incentive for companies to locate here. Georgia currently has double-tax avoidance agreements with 31 countries.

Oriflame Cosmetics SA, a Swedish cosmetics and beauty products company, entered the South Caucasus via oil-rich Azerbaijan in 1998, opening in Georgia in 2000. The company took a step ahead this year by registering Oriflame Caucasus as a special trading company (STC), which it located in Tbilisi. An STC is a special corporate category in Georgia that uses special taxing rules designed to facilitate reexport of its products. "This new entity takes advantage of the government's efforts to encourage companies to use Georgia as a regional center," saidLevan Bokuchava, Oriflame Georgia's country director."At the moment Oriflame has management offices in both Yerevan and Baku," he said."But operationally, it's Tbilisi that feeds the Caucasus."

Georgia's favorable tax system is yet another incentive for multinationals to operate here. Last year, Japan Tobacco Inc., the world's third-largest tobacco company by sales, moved its top and middle management for the Caucasus from Kiev to Tbilisi. "The market has grown significantly over the last decade. It simply made sense to manage it on the spot rather than remotely," said Dmitriy Lovenetskiy , the company's chief financial officer for the Caucasus region. "Currently the legal entity is limited to operate in Georgia, but our plan is to expand into the neighboring republics in 2013. The Caucasus economies are growing fast, so you need a center to feed them. Georgia is the default center."

JTI considered using an STC tax regime in Georgia, however they decided that there is still some ambiguity in the legislation and a lack of practical experience with it that make it a risky option for the company. However, they did make use of Georgia's Advanced Tax Ruling (ATR) system."The ATR allowed us to get clarity on the taxation for our operations and mitigate risk of possible future tensions with tax authorities," Lovenetskiy said. "It helps both parties to have a clear frame of understanding, at least in the medium term."

Nonetheless, because Ukraine has a stronger manufacturing industry and infrastructure than Georgia, JTI decided to keep their operation there. As retail, services, hospitality, and even agriculture are expanding in Georgia, the manufacturing sector is struggling to keep the pace here, they said.

Government investment attraction or deterrence for private investment?

The Georgian government launched the Partnership Fund in June 2011, adding to its various efforts to give the sector a push. However, of the four portfolios comprising the fund, the manufacturing portfolio so far remains the only one without funded projects. The other three — real estate, agriculture and energy — are up and running.

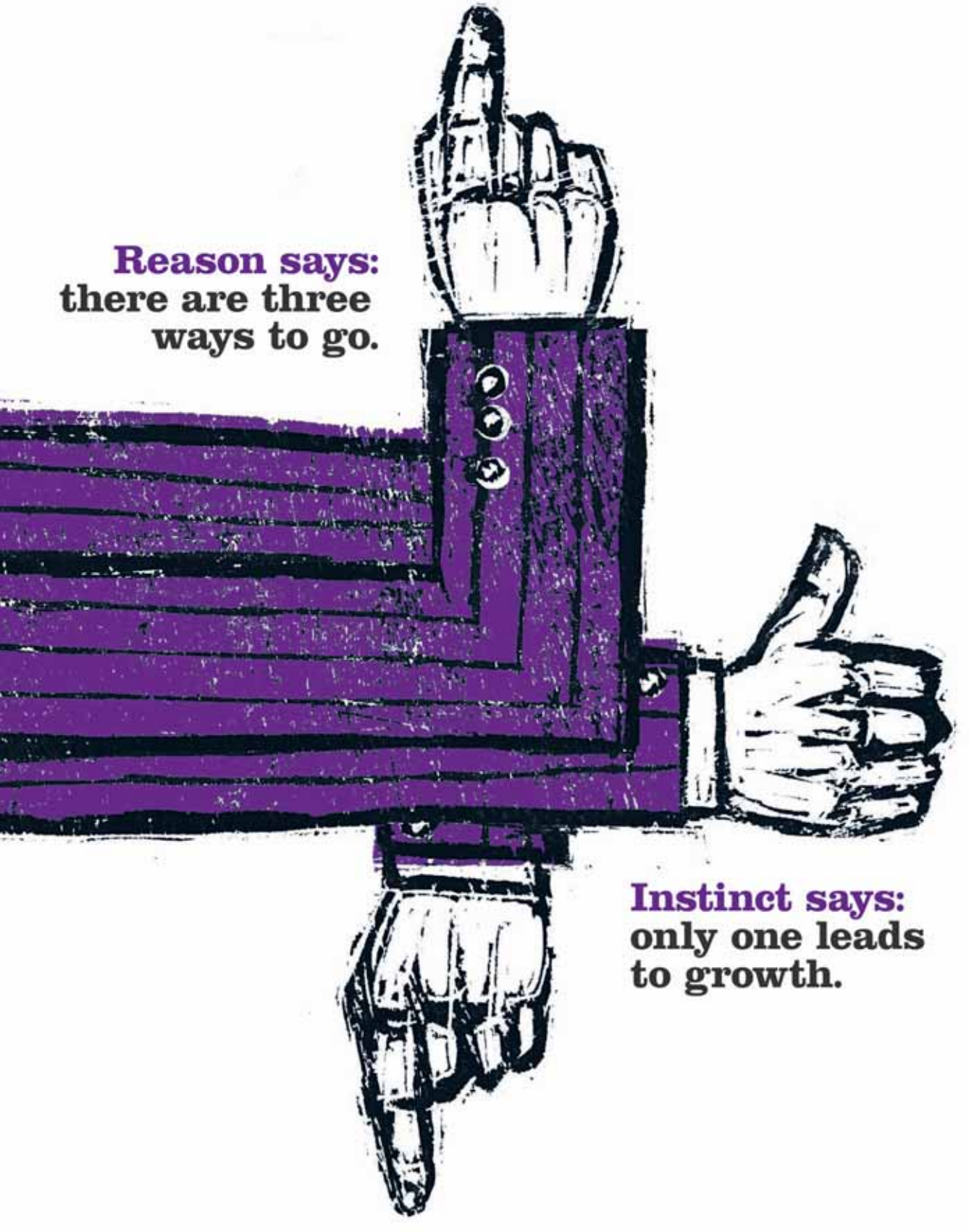
"The challenges are the sizeable investments needed and the small market Georgia represents," said Kakha Hizanishvili, the fund's chief investment officer. "That's why pushing the regional hub idea can also boost the sector. We need investors to look at Georgia as the entry point to the Caucasus as a whole, providing them with the conditions to build plants and factories. Textiles and pharmaceuticals have real potential. These sectors have access to a friendly tax regime, cheap energy, a cheap but educated labor force and transport links."

The state transferred stakes in key infrastructure companies to the fund to provide its initial, paid-in capital, including, 24% of Georgian Railway LLC, 100% of Georgian Oil and Gas Corporation LLC, 100% of Georgian State Electro System LLC, and 49% of Electricity System Commercial Operator LLC. Currently the fund has a total capitalization of roughly $2 billion.

Nevertheless, some fear this could be a deterrent for private investors. "The risk is that foreign investors will feel put off at entering a market where the government is already present with an equity fund that size," says Emborg, of SEAF, whose company operates two funds with assets totaling $72 million, invested in 15 companies focusing mainly on retail.

Economies of scale

"Size is one of the three main differences between us and private funds, the other differences being the sectors and the types of companies we decide to invest in,"Hizanishvili said. "As a governmental body, we are able to invest in areas and on a scale that foreign investors could not get into. None of our projects are smaller than $30 million, apart from agriculture, where the bottom limit is $5 million." The fund invests mainly in so-called greenfields, or start-up companies. By contrast, private equity funds tend to focus more on brownfields, or already existing firms.The bottom line is that Georgia's Partnership Fund facilitates the creation of new companies and encourages other funds to buy minority ownership shares as selling stakes, says Hizanishvili. "The government has done everything it can to bolster foreign investments in Georgia," stresses Nicole Jordania, an investment advisor at the Tbilisi-based consultancy firm, The Noè Group. "The results are clear, with potential investors from countries that range from the United States to India," she said. "The challenge now is to make Georgia an investment center for the whole South Caucasus region."



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Georgian Agriculture: the birth of a hub?

Entrepreneurs and policy makers are betting on new initiatives to bolster agriculture production in the country – and take the first steps to turning Georgia into an export and reexport hub for food products.

NINO PATSURIA

With Georgia's unique climates, soil types, and delicious produce, few disagree with Georgia's potential as a regional center for agricultural goods. The question, however, is how to tap into it.

Currently the statistics are not encouraging: Georgia imports 80 percent of the food it consumes, according to official statistics. In addition, the agriculture sector has been steadily shrinking — from 47 percent of GDP in 1995 to just nine percent today.

Giorgi Tsikolia, the director of the Department of Investment and Export Policy at the Ministry of Economic and Sustainable Development, believes Georgia's current — and future — trade agreements provide a valuable key to get out of the country's import rut by making exports more affordable.

Georgia has long standing agreements with some former Soviet republics as part of the Commonwealth of Independent States (CIS). In addition, Tbilisi benefits from long-standing, duty-free agreements with the United States and the European Union, and is in the process of negotiating comprehensive free-trade agreement with Brussels. All of these agreements and negotiations should make exporting more profitable.

"Since the Rose Revolution, Georgia made it a priority to become a regional hub from many directions, including agriculture and logistic, as well as financial and tourism," he said. "[Trade agreements] coupled with our simple business-oriented taxation policy, corruption-free environment, low-cost labor force, and geographic location, will boost plenty of new enterprises, logistic centers and other industries to be developed in Georgia."

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However, agriculture specialist, Davit Shervashidze, a senior advisor in Agribusiness Sector at Georgian Regional Development Fund of SEAF (Small Enterprise Assistance Funds), noted that if Georgia received a free trade agreement with the EU today, it would not have the goods to export.

Part of the problem boils down to financing. Farmers do not have sufficient access to affordable bank loans. But an equally challenging problem is quality.Entrepreneur, David Lee, the general manager of MagtiCom Ltd. and the owner of a large farm in Imereti, said that, with the proper strategy, Georgian agriculture can find a market overseas. Armenia and Azerbaijan are both promising markets for meat, he noted, and selling wine and out-of-season vegetables to Europe and other countries could be profitable niche markets.

"With six climatic zones and 26,000 rivers, I believe the businesses themselves will find and develop markets once we get the focus and strategy better defined and some pilot projects underway," he said.

A new government initiative — part of the 10-year strategy for agriculture that was approved in the spring — will help, officials say. Currently the Ministry of Agriculture, together with the United Nations Food and Agriculture Organization, are devising a four-year action plan to improve irrigation, increase access to modern farming techniques, develop export infrastructure, and set up new enterprises.

One of the first steps in this strategy was creating the State Fruit and Vegetables Export Company LLC. Launched during the summer, the company is charged with helping farmers export their goods to markets overseas by taking care of marketing and logistics.

The first test for the new policy will be in the Ukrainian market, where the company is focused on ensuring quality — and quantity — delivery, noted Giorgi Jakhutashvili, the head of the export company.

Jakhutashvili believes his company will serve as an "ice-breaker" for the private sector. Businesses can benefit from the state's market research and logistics policy, not to mention its work breaking into new markets, he says.

The state-owned company is also investing in cold-storage facilities in Ukraine to help ensure high quality. Jakhutashvili noted that once Ukrainian traders were convinced that Georgia could provide for the middle and hig segment of the market, demand increased from other countries too.

"We ensure marketing and logistics of the harvested product from the fields to the shelves of the export market in line with international standards," he said, adding that the state company's budget allows it to ensurethat there are enough goods exported to meet the demand in the new markets.

Among the other initiatives also at work in the private sector is the use of education to change farming practices. Kakha Bendukidze, a former economic minister, is working to reform the private sector from the ground up. Last year he purchased the Georgian Agricultural University.

The newly renovated university will prepare Georgians to modernize the country's agriculture sector, according to Lasha Gotsiridze, the university's rector. "It is an open secret that successful agricultural business hires foreign technologists," he said. "Now we prepare cadres who get western educational skills in all the agriculture-related jobs, both land farming and food processing, and so forth."

The university hopes to become the leading scientific-research center in the South Caucasus.With a full spectrum of labs for both educational and scientific-research purposes, it is trying to attract Georgian scientists working at leading universities abroad.

Scientists at the university are working to develop a new species of endemic wheat and grapes. They are even experimenting with the creation of a new type of Georgian bee as part of the genetic research happening at the lab.

These efforts are expected to help Georgia establish a brand name on the international market, said Kakha Didebulidze, the head of the educational microbiology lab at the university.

"Everybody knows that Chinese silk is the best. The world should learn that Georgian wine and Georgian wheat are very good once and for all," he said.

"On the innovation side, we prefer to focus on an endemic Georgian specimen from a pure marketing point of view, to embed a Georgian product at the market. Based on these researches we actually make a passport to our endemic product to raise awareness of Georgian wine brands, vine, wheat, honey and bee, like everybody knows that the Chinese silk is the best, the world should learn that Georgian wine and Georgian wheat is very good once and for all." ■

Georgia Seeking its Niche as Regional Education Hub

New universities, new international partnerships, and new programs are bolstering hope that Georgia can become a regional hub for education.

MAIA EDILASHVILI

Education can play a critical role in Georgia's economic growth — particularly as a hub for regional students, according to education specialists.

The number of foreign students at Georgia's higher education institutions in the 2000-2001 academic year was just 420, according to GeoStat, the state statistics office. Ten years later, there are more than 1,700 -- 408 of whom come from India, 337 from Russia, and 336 from Azerbaijan. In addition, 297 Turkish students, 24 Ukrainians, 20 Greeks, nine Americans, and six Germans registered, according to official data.

"Georgia's geographical location is a big plus and can attract students from both the East and West," says Michael Cowgill, the president and co-founder of the Georgian American University (GAU), which opened in Tbilisi in 2005. Each year, GAU has five to 10 non-Georgian students out the 1,000 registered full time students at the university. ISET has a steady number of foreign students, as well.

Tbilisi State Medical University (TSMU) gets the biggest share of non-Georgian students,1,000 from more than 30 countries this year. TSMU stands out not only in the Caucasus region, but also as a leader in the entire Eastern European region and in post-Soviet countries for its westernized teaching system and traditions, says Giorgi Giorgobiani, head of the Department for Foreign Students.

Degree programs at TMSU last for six years. The annual tuition fee for the English-language faculty is $3,500, about twice what it would cost for similar course work at a Georgian-language faculty. "Tuition rates in Georgian institutions are lower than most other countries and Georgia has excellent western-based programs that have room for regional students," said Cowgill, who is also the vice-president of AmCham Georgia. "The visa regime is very student friendly as well. Further, Georgian students benefit from the exposure to students from other countries and gain a better understanding of their cultures and ideologies, which is invaluable in a global economy."

More universities, more students?

Ideas for increasing Georgia's potential as a regional education hub have ▸▸

taken root in the government. President Mikheil Saakashvili announced this summer that the European Commission may open a University in Georgia, similar to the College of Europe in Belgium. Consultations are ongoing in Brussels, according to the Delegation of the European Union.

Other new universities in Georgia are also planned. Construction of the new American IT University in Batumi was opened on September 22. The Ministry of Education and Science of Georgia has issued a tender to select a partner university from the United States. The list of bidders includes Michigan State University, University of Missouri, New York Institute for Technology, and Texas International Education Consortium, among others.

The new university, which is expected to meet Georgia's growing demand for qualified personnel in IT, engineering, and natural sciences, will offer bachelor's, master's and possibly doctoral degrees in these fields. It will target students from Armenia, Azerbaijan, Ukraine, Turkey, Iran and Central Asia, according to the ministry.

The new Multimedia Education Center (MEC) is also set to serve as a hub to educate future journalists. Students come from countries throughout the region.The project was developed as part of the USAID-funded and IREX implemented G-MEDIA program (Georgian Media Enhance Democracy, Informed Citizenry and Accountability), which focuses on media development in Georgia. The estimated cost for building renovation, equipment, software and furnishings was about $600,000.

Currently, along with Georgian peers, Azeri and Armenian students from the Tbilisi-based Caucasus School of Journalism and Media Management (GIPA) are studying at the MEC.

"We know there is a high demand for professional journalism training throughout the region and we are confident the MEC will attract additional users as more people become aware of its capabilities and availability," said Matt Shelley, chief of party at IREX G-MEDIA, said.

Iv. Javakhishvili Tbilisi State University (TSU) is also a favorite of foreign students, both for humanitarian studies and economics. For the 2011-2012 years, the total number of non-local students at TSU is 233 in bachelor's programs and 50 studying in master's programs. "The highest demand is for social and political sciences — in particular for the Russian faculty of Journalism, as well as English-language classes for MA studies in economics at International School of Economics at TSU," said Nana Mamagulishvili, head of public relations at TSU.

Zeeshan Arshad, 25, coming from Pakistan's city of Jhelum, arrived in Tbilisi in 2006 and is studying at Medical University to become a physician. He picked Georgia on the advice of his friends who had been studying here. Zeeshan, who plans to return to Pakistan after graduation, is happy with his decision and appreciates the "good professors, security and friendly people." However he would like to get more practical knowledge in clinical skills. ■

Georgia: the Southern Caucasus regional banking hub

Georgia is currently ranked in 64th place in the world according to Transparency International's Corruption Index 2011, and has made progressive steps towards to diplomatic and economic relations with the United States and Western European Countries. These positive trends are reflected In the Georgian banking and financial sector.

BESIK SANAIA

Increased investor protections, strong economic fundamentals, low corruption, government reforms, significant progress in economic and business development processes had a positive impact on the Georgian economy and banking sector.

Georgia's strong economic recovery is reflected in its standing among the various financial rating services. Georgia's sovereign debt is rated BB- by Standard & Poor's Financial Services LLC and B by Fitch Inc. S&P raised its rating to BB from B+ in November, 2011, and Fitch raised its outlook from stable to positive in March, 2011. Moody's Investors Service Inc. first assigned a Ba3 rating in October 2010. The ratings echo a reduction in both the budget and current

account deficits, an improvement in the financial sector's health and easing of political risk.

Positive trends, potential risks and financial stability

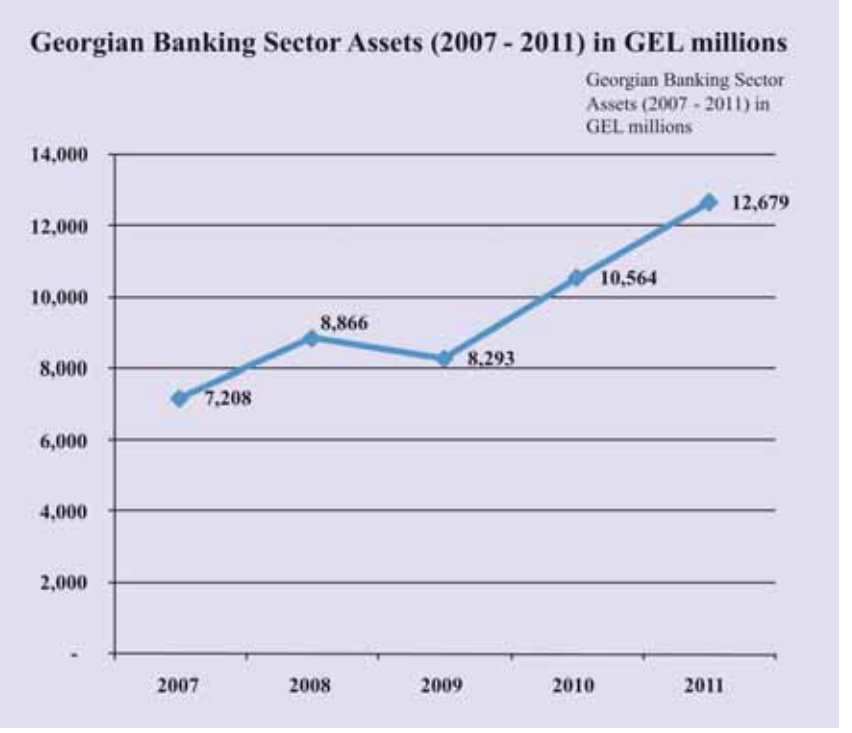
Since 2004, the Georgian banking sector has achieved remarkable growth due to economic reforms, foreign investments and aggressive lending. However, consistent with most small economies, the Georgian financial sector was negatively affected by the 2008 global financial crisis. The negative effects resulted from losses and asset reductions banks experienced during the third and fourth quarters of 2008. Banking assets decreased 6.5 percent in 2009. Nevertheless, the banking sector rebounded from the global financial crisis, with assets growing 27.4 percent in 2010 and 20 percent in 2011.

Significant growth in assets of certain Georgian banks has resulted in having two so-called systematically-important banks in Georgia. The Bank of Georgia, the second-largest bank in the Caucasus by assets, and TBC Bank, which represented 62.9 percent of banking sector assets in 2011. The question is, are there banks in Georgia that are too big to fail?

The advantage of banks becoming bigger is that in a global economy there is a need for financial institutions with scale and global capacity. Large banks can offer their customers products, services and infrastructure that smaller banks simply cannot match, from multicity branch networks to global coverage. These factors act to lower costs to the customer.

However Simon Johnson, a former chief economist for the International Monetary Fund, who is now a professor at the MIT's Sloan School of Management and a contributor to Bloomberg View, believes that in line with the current developments in regulations of financial services firms (Dodd-Frank Wall Street Reform and Consumer Protection Act, Basel III, etc.) there should be regulatory limits on the size of bank assets. Johnson points out that size limits "provide protection against both the systemic risk and the competitive distortions created by financial institutions that are too-big-to-fail, which are not adequately addressed by existing regulations. We believe these limits should work out to no more than four percent of GDP for all banks and two percent of GDP for investment banks, but that is a debate we are willing to have." If we analyze the Georgian banking sector on the basis of Johnson's calculations, we get the following picture: Total assets of the Bank of Georgia as of Dec. 31, 2011, amounted to 22.5 percent of Georgia's GDP in 2011 and TBC Bank's total assets amounted 15.9 percent of GDP for the same period. Please note that everywhere GDP is used in this publication, it represents GDP at current prices and not real GDP, unless explicitly mentioned otherwise.

As Fitch ratings noted in 2012, "Georgia is one of few emerging mar- ▸▸



kets with zero government ownership of banking system, which is very important for the banking sector".

Given the unique nature of the Georgian banking sector and its strong economic fundamentals, we believe that currently too-big-to-fail is not an issue of concern for the local banking sector. However, the NBG must monitor the expansion of asset bases of these two banks in order to avoid what happened in small developing economies (e.g. Iceland) and what became one of the major criticisms of developed countries (United States, United Kingdom, Switzerland, etc.) in 2008.

The point is that once cumulative numbers of several big banks exceed the country's GDP, those banks may become too big to save.

Total assets of the Georgian banking system have grown from approximately 31 percent of GDP in 2006 to more than 52 percent in 2011, which is significant, but not out of line with small countries that have become international financial centers, such as, Hong Kong, the Netherlands, and Switzerland).

By comparison, total assets of the Azerbaijan banking system as of December, 2011, was 28.5 percent of GDP, and total assets of the Armenian banking sector was 54.7 percent of GDP for the same period.

Standard & Poor's, in its publication "Banking Industry Country Risk Assessment: Georgia," which was published in July 2012, lists the following major strengths of the Georgian Banking Industry.

- Strong long-term macroeconomic growth prospects.
- Advanced regulation compared with regional peers and recent progress in structural economic reforms.
- Sound banking-sector governance and high transparency because of high foreign ownership.
- Low private-sector leverage.

Standard & Poor's reviewed the Georgian banking sector under its updated Banking Industry Country Risk Assessment (BICRA) methodology, and Georgia ranks in BICRA group 8, along with countries such as Argentina, Azerbaijan, Kazakhstan, Latvia, Nigeria and Tunisia.

Small economies are exposed to the risk of what economists refer to as multiple equilibria, meaning that concerns about a country's potential financial meltdown could lead to massive withdrawals out of a small country's assets, which would then lead to a financial meltdown, even if their banking systems' fundamentals are strong. Normally, this is the result of traders' speculative actions by betting on the country's default and driving its credit default swaps, or CDS, spreads artificially.

However, Georgia's linkage to the world financial markets is not that significant. We have not been able to identify any financial institutions who sell CDS on Georgian sovereign debt. Therefore, we believe that the probability of Georgia being exposed to this risk is remote.

Premium listing on London Stock Exchange

In June 2012, the Bank of Georgia, became the second foreign bank to have a premium listing on the London Stock Exchange. The bank became a part of FTSE 250 and FTSE 250 All Shares index, a step widely assessed to be a move toward strengthening the liquidity position of the bank and increasing its recognition in financial markets.

Georgia, regional banking hub

According to Fitch ratings officials, overall, the Georgian banking sector is well capitalized and comfortably liquid, pre-impairment performance is strong, and asset quality is stable.

The sector is undergoing substantial liberalization. It has already become a regional banking hub, which was evidenced by interest expressed in the Georgian banking sector by international financial institutions.

In general, the investor protection index is significantly higher in Georgia compared to other countries in the region. According to the World Bank's "Doing business in Georgia – 2012," Georgia is ranked 17 out of 183 economies for the strength of its investor protection index. While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger investor protections against self-dealing in the areas measured.

Georgia's path from ex-Soviet state to noticeably developing economy can be explained by a general liberalization of the economy, privatization, globalization — with significant investments made by international financial institutions in the Georgian banking sector — and well-educated young people who often receive schooling abroad and are trained in a financial market that is disproportionate to the size of the country. The result has been an increased optimism and a positive trend in the Georgian financial and banking industry. The above analysis of Georgia's banking sector suggests that it has the potential to be transformed from one that is focused primarily on its domestic markets to one providing financial services in the region, into Europe and, perhaps, the rest of the world.

Besik Sanaia is a senior associate at KPMG Georgia. The opinions expressed are his own.

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Georgian Banking in Numbers

Number of banks: As of Dec.31, 2011, there were 19 commercial banks (including JSC HSBC Bank Georgia which subsequently ceased operations in April 2012) with total assets of 12.7 billion lari. Among these, 13 are foreign controlled. The high proportion of foreign-controlled banks can be attributed to the combination of positive business environment and policies, a relatively high degree of transparency of the financial system, high profitability and Georgia's overall growth. Currently, there are no ownership restrictions set by the government or the National Bank of Georgia (NBG).

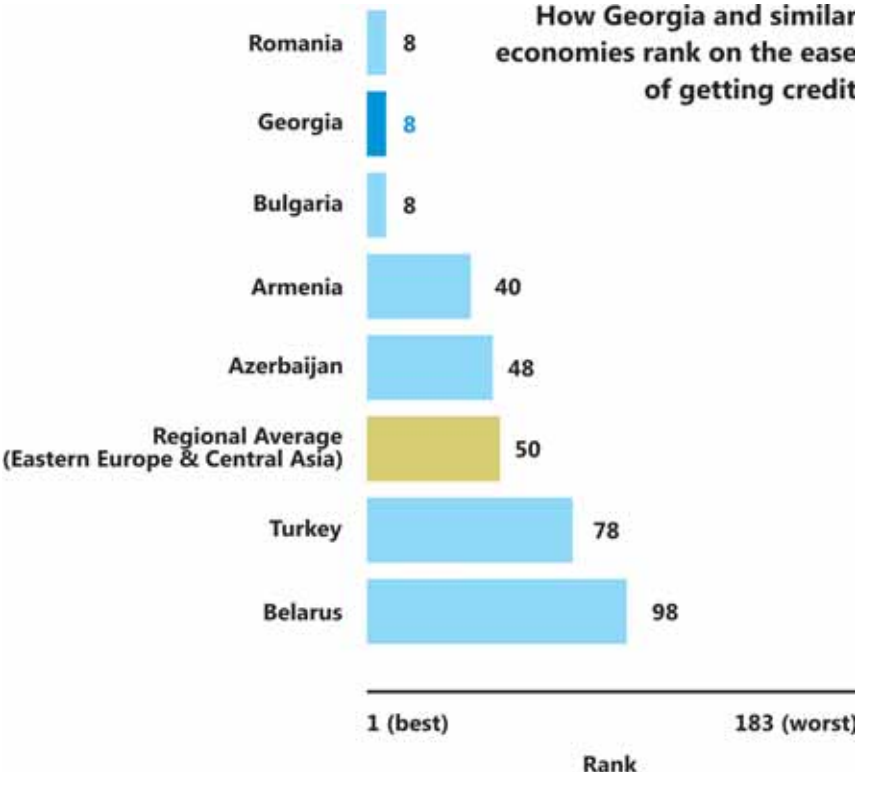
High concentration of assets: The top five Georgian banks by total assets are: Bank of Georgia, TBC Bank, ProCredit Bank, Liberty Bank and Bank Republic (Société Générale Group). On December 31, 2011, the market share of these banks by total bank assets was high at 81.8 percent. The market share of the two leading banks (Bank of Georgia and TBC Bank) amounted to 62.9 percent at the end of 2011, as compared to 59.4 percent at the end of 2010.

Growth of loan portfolio: Georgian banks have successfully increased their lending volume in the last few years to 7.739 billion lari as of December 31, 2011, an increase of 23.6 percent, year over year. The loan portfolio growth was 20.7 percent in 2010.

Profitability: From September 2008 through December 2009, the Georgian banking sector registered significant losses, which reached 215.7 million lari in December 2008 and 65.3 millionlari in December 2009. These were the result of an economic downturn that started in August 2008 linked to the military conflict with Russia and the global financial crisis. Beginning in March 2010, the Georgian banking sector has demonstrated impressive growth in profitability. Overall, net profit for 2010 amounted 156.3 millionlari, followed by 323.0 million lariof profits in 2011, which represented a 106.7 percent increase year over year.

Return on equity, for the Georgian banking sector overall was 17.3 percent in 2011, up from 9.6 percent in 2010.

Regulatory environment and international investors: Since 2004, international financial institutions, such as the European Bank for Reconstruction and Development, the World Bank, the International Financial Corporation, the Dutch Development Bank, the German Development bank, and other institutions have made significant investments in the Georgian banking industry, which resulted in increased confidence from existing international and potential investors. Capital requirements for commercial banks are consistent with the standards of the Basel Committee on Banking Supervision and corresponding EU directives. The level of minimum capital for commercial banks is set by the NBG at 12 million lari for newly founded commercial banks and branches of foreign banks. Recently, NBG proposed to adopt Basel II implementation for all Georgian banks in 2013.



David Marsagishvili
Freestyle Wrestling

BP congratulates David Marsagishvili on his success at the London 2012 Olympic Games

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Building on the Georgian Miracle

Economists with the new government are focused on continuing to improve the Georgian economy — and its role as a regional hub for pro-business reforms and policy.

Sarphi Border Crossing

NICHOLAS CLAYTON

Over the past eight years, Georgia's economic policy has been marked by waves of reform.

Now expectations are high that billionaire, Bidzina Ivanishvili, and his Georgian Dream coalition will build on the country's reputation as a regional hub and incubator for pro-business laws and innovations.

While much has been done to free up Georgia's economy and improve its public services, the coalition still has work to do. Tax policy has been widely praised, but institutions like the judiciary lack the transparency and independence necessary for a free and open market.

Georgia's scores on World Bank "Ease of Doing Business" indexes soared under the previous government, but Georgian Dream representatives point out that the country is still ranked 88th out of 142 countries in the World Economic Forum's 2011-2012 Global Competitiveness Report.

Within the report, Georgia scores high in a number of areas including seventh in the overall burden of government regulation, third in trade tariff burdens and third in number of days to start a business.

However, it also ranks near the bottom on such indicators as "protection of minority shareholders' interests" (119th), "effectiveness of anti-monopoly legislation" (135th) and "intensity of local competition" (128th).

Nodar Khaduri, who co-authored the coalition's platform, said the new government will seek to increase transparency and competition across the board.

For now, he said, it is difficult to propose particular policy changes because the previous government was often opaque in its regulatory policies and their implementations — an assertion backed up by the World Bank's Country Partnership Strategy for 2010-2013.

In the report, the World Bank also said that many government institutions remain weak and "continued efforts are needed to reduce the perception that [the judiciary] is not independent, and that it can be heavy-handed in its approach."

A more independent judiciary in Georgia would be a great improvement, says Lasha Gogiberidze, a partner at BGI Legal. BGI primarily handles transaction finance and corporate M&A deals. High-ranking officials now rarely interfere with low-level cases, such as unemployment disputes, he says. Still, he said he regularly sees decisions that are "totally out of whack."

Nonetheless, Georgia's reforms in a number of areas have made a stark impression on its neighbors.

Stepan Grigoryan, director of the Analytical Centre on Globalization and Regional Cooperation, in Yerevan, Armenia, said that Georgia's police reform is "legendary" in the region. Every year, hundreds of thousands of Armenians ▸▸

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travel to Georgia, and most come back impressed with the business environment, the quality of public services and especially Georgia's streamlined customs system at the border, which Grigoryan said is incomparable with Armenia's.

Officials around the region have also approached the private sector in Georgia for advice on replicating the country's successes.

David Tomadze, a manager and tax expert at the Georgia branch of PricewaterhouseCoopers, said that his office fields inquiries from abroad about Georgian policies on a daily basis. Earlier this year, Tomadze, who used to work in the state revenue service, traveled to Kyrgyzstan to give a presentation on Georgia's renovated tax system.

In April, Georgia announced that it was taking a model approach to its reputation as an effective reformer — turning reforms into an export product. "We've had numerous visits from countries like Kyrgyzstan and Moldova, where they learn all the basics with which we started the reforms of our government, judiciary, ports and customs, interior police system, tax reforms, fighting corruption," said Giorgi Tsikolia, director of the investment and export policy department at the Ministry of Economy and Sustainable Development.

Robin McCone, director of PricewaterhouseCoopers in Georgia, said that two specific tax reforms stand out above the rest, the Alternative Tax Audit (ATA) and the Advanced Tax Ruling (ATR). ATA allows companies in Georgia to use independent accounting firms to comprehensively audit them for open tax years.

Meanwhile, the ATR allows companies to determine their future tax positions. This is particularly useful for companies thinking to relocate to Georgia or those already in the country that are considering reorganization, McCone said. He pointed out that these reforms also improve the asking price for Georgian companies, whose bidders may be worried about historic exposures.

"If a target company has done an ATA then these risks are removed. This means the normally lengthy and expensive tax due-diligence process can largely be avoided," McCone said. "In my view these developments reflect the attitude and objectives of the revenue service which is to cooperate with taxpayers and create an environment where there is more certainty to do business."

Advisors to the Georgian Dream coalition say that they intend to expand upon the previous government's tax reforms, with particular emphasis on the judicial system. In the coalition's campaign platform, it pledged to create specialized tax judges to "restrict the dominant role of the state in tax-disputes" and promised to end the practice of sequestering businesses' bank accounts and assets amid ongoing audits and rulings.

McCone remains hopeful that countries across the former Soviet Union will begin adopting some of Georgia's more effective innovations, although he stresses that much of the country's success arose from a confluence of factors that include having a small population and a historic level of public will to totally overhaul the system.

"I think it was the will and the desire to get rid of corruption that was more important, not the changing of the system. You've got to get to the edge of the cliff," he said, noting that other countries, such as his native New Zealand, have gone through similar processes. "The country was basically bankrupt, so that meant that the population was willing for everyone to take a bit of pain and suffer for two to three years to turn everything around.

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Georgia's Untapped Potential for Trade and Transit

Of all Georgia's possible roles in the region, trade and transit are the most natural fit. Reforms and investment in infrastructure have bolstered the country's regional role moving oil and gas, as well as other commodities, to Central Asia. But transit and trade specialists believe even more is necessary if the country is to develop into its full potential as a hub for regional commerce.

For centuries Georgia's greatest wealth has been in its location. While it lacks oil, gas, and precious metals, its invaluable ports allowed the nation to play a treasured role in moving neighbors' goods to far flung markets.

Before that meant caravans. Today it means pipelines, railways, and container trucks.

The oil and gas pipeline projects put Georgia back on the world's transit map after decades of closed borders under the soviets. But corruption and crime kept the country from reaching its potential before the Rose Revolution.

President Mikheil Saakashvili and his government, however, made customs and trade a priority: massive reforms have streamlined bureaucratic hurdles and insured no crime or corruption hindered cargo moving through the country.

Today, trade is a major industry for Georgia. Last year the Caucasus Transit Corridor (CTC) handled 8.5 million tons of liquid bulk and 8,457 20 foot long containers by rail (TEU) – a unit of measure used by customs officials – and 8,010 TEU's by road, according to a report by Deloitte Consulting.

The data, published in the "Competitiveness Analysis of the Caucasus Transit Corridor Improving Transit Potential for Central Asia-Europe Traffic," was written as part of the USAID Economic Prosperity Initiative (EPI).

Georgia has the potential to be a regional center for trade and transit goods – a regional center for moving goods between large markets in Europe, Central Asia, and even China, noted transport specialist Vakhtang Marsagishvili.

Marsagishvili, who works for Deloitte on trade and transportation issues for USAID's Economic Prosperity Initiative (EPI), said the country has made significant progress streamlining laws and limiting burdens -- solid steps toward facilitating the trade and transit industry.

To fulfill its potential, however, Georgia needs more investment in logistics and infrastructure – the building blocks to creating inexpensive and efficient routes for cargo.

"I think the country needs to develop infrastructure projects, like a logistical center," he said. "This will be very helpful to attract more cargo, to accumulate more cargo, to add value in this logistic center to the cargo and then redistribute it to the different markets in the region. This is very important."

Giorgi Doborjginidze, a senior representative Caucasus TransCare and the chairman for the Georgian Logistics Association, is working on a $35 million logistics center project created by TransCare. "The cargo potential of Georgia is relatively small," Doborjginidze said.

"[T]o have a profitable ports and profitable companies you need additional cargo, so to attract this cargo you need good infrastructure, you need good people in efficient management, and you

need good prices … I think this will come step by step."

Logistic centers will allow goods brought in by rail and container to be processed in one location – and should make the process faster and cheaper.

Reducing the time and cost of customs is vital if Georgia wants to compete with other transit corridors heading east, like the popular Baltic-Russian route, noted John Braeckeveldt, the director at Gosselin Georgia and the co-chair of the AmCham Trade & Transportation committee.

"This was always the idea – transportation hub, distribution hub. To make Georgia the best," he said. But despite good reforms, the Baltic route is still cheaper – and Georgia is losing potential clients due to the cost and effectiveness.

Tom Kennedy, an EPI consultant in transport & logistics and the author of the "Competitiveness Analysis of the Caucasus Transit Corridor" study, found that if the cost of going through the CTC went down 10 percent, processing time was reduced by one week, and the ferries on the Caspian became more efficient, the corridor through Georgia would be competitive – opening it up to cargo heading to and from Europe, Central Asia, and China.

"More than 0.5 million tons of Central Asian traffic now moves through Baltic ports. If a regular schedule for the Caspian Sea ferries could be implemented and a more transparent pricing policy at Baku port, it would be possible to reduce the cost and decrease transit time over the CTC route, resulting in increased transit traffic," Kennedy wrote.

"While the additional traffic which could be attracted to the CTC from these other routes cannot be determined with precision, it can be concluded that, based on discussions with existing and potential users, it is quite significant."

Developing Georgia's Potential as Transit Hub: A hit list of actions

Specific Recommendations to improve Georgia's capacity as a transit hub from the "Competitiveness Analysis of the Caucasus Transit Corridor Improving Transit Potential for Central Asia-Europe Traffic" a report published by Deloitte Consulting LLP as part of the USAID Economic Prosperity Initiative (EPI).

- Further modernization of Georgian Railways infrastructure and motive power;
- Expansion of container handling capacity of Poti port
- Deepening of the channel at Poti allowing liner vessels to call at the port providing direct services to Asia, North America and Northern Europe
- Provide additional warehousing capacity at Poti for specialty cargos, such as export cotton, additionally there may be opportunities for further processing of cotton at Poti resulting in added value in Georgia
- Increase the professionalism and efficiency of the logistics industry in Georgia
- More transparency and stability in the assessment of port and customs charges at Poti port.
- Creation of a bi – national corridor working group that would not only develop working solutions to the issues of Baku Port and the Caspian Sea ferries, but would also be instrumental is developing, among the various participants, a single seamless pricing system so customers see only a single organization, as the customers of Plask using the Viking service between Klaipeda and Odessa as well as the other private container trains operated over thousands of kilometers from Baltic Ports to Almaty and other destinations in Central Asia. These organizations provide the one – stop window for railway pricing and are the real vision of the future of the Trans Caucasus Corridor becoming increasingly price and service competitive.
- Provide additional ferry capacity on the Caspian Sea and establish greater service regularity

Tbilisi: A Regional Capital

Tbilisi — home to over 30 percent of the population and 70 percent of the country's industry — is already an economic hub for the country. The city government, however, believes the city has the potential to become a hub for the entire region. Investor.ge spoke with Zviad Archuadze, the head of the economic policy agency at Tbilisi City Hall, about City Hall's plans to turn Tbilisi into a regional capital.

MAIA EDILASHVILI

Tbilisi, according to Zviad Archuadze, the head of the economic policy agency at Tbilisi City Hall, is already an important economic, social and cultural actor in the Eastern Europe and the Caucasus region.

"Our goal is to make Tbilisi the main center for regional cooperation," Archuadze said, adding that the city already offers investors several business benefits. "The costs of running a business are lower in Georgia compared to Europe's big cities. In addition, we have a highly-qualified and cheaper workforce."

Studies have highlighted Tbilisi's growing potential for service, financial, industry and real-estate sectors. The government thinks that attracting more capital should stay a priority. The plan to increase Tbilisi's income and profile includes ambitious rehabilitation programs, plus huge infrastructure and construction plans. In 2010 the Asian Development Bank approved a $300 million loan to assist the mayor's office's transportation master plan.

"Projects are underway to revamp not only the facades of the buildings but also a total rehabilitation has been ongoing," Archuadze said. "We launched the revitalization of entire neighborhoods, and when the projects are over, these neighborhoods will have new economic and tourist functions."

To ease traffic, a long standing headache for residents in the capital, Tbilisi City Hall has invested heavily in new bridges and tunnels along the right bank of the River Mtkvari — a plan that should help traffic flow faster. Under this project, new bridges and tunnels have been constructed in five places along the bank, including a 248-meter bridge connecting traffic from Ortachala to Heroes Square, and a 100-meter tunnel at the entrance of Tbilisi linking Aghmashenebeli Alley with Gelovani Avenue in Saburtalo.

The creation of new attractions and recreational spots — like the continued development of Rike Park, a 10-hectare recreational zone in downtown Tbilisi — are also on the agenda. In June a new gondola route between Rike Park and Narikala fortress opened, allowing visitors to enjoy the marvelous views of the Old Town for just one lari for a one-way ticket.

More plans are coming. The city intends to restore some of the Soviet-era cable cars and add several new commuter routes to make aerial tramways part of the capital city's transport infrastructure — a system that has been defunct for nearly two decades. A new cable car system between the Rose Revolution Square and the Funicular in Mtatsminda will be opened by spring 2013, according to city officials.

Another major task has been to capitalize on Tbilisi's tourism potential, including a campaign to offer free WiFi on Tbilisi streets, squares and public transportation, starting from June. The system will use the Tbilisi Loves You server. The service is expected to be available in all city districts by the end of this year.

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Ten Things You Didn't Know About...

Tbilisi For Kids

In the race to see Georgia, there is a tendency to forget Tbilisi. Despite popular opinion, the capital is more than just Vake, Vera, and Meidani Square. Like any small city, Tbilisi is full of colorful neighborhoods and, over the next several issues, Investor.ge will (re)introduce you to their charms.

You have been to the zoo, seen the fountain at Rike Park, and rode the rides at Mtatsminda Park. Georgians love children, Tbilisi is a great city.

So why is it so hard to come up with things to do with your kid on the weekend?

While there are more and more guidebooks about Georgia and Tbilisi, there is still a lack of literature about the city's attractions for children. To fill the vacuum, Investor.ge spoke with parents, entrepreneurs, and nursery school operators about the city's hidden treasures for the underage set. For links to maps

detailing the locations, please go to www.investor.ge.

1 Planes, trains, automobiles. For all the locomotive lovers out there, there is a train that runs from the central train station to the airport and back again, for two-lari a ticket. The scenery is urban, and the train is definitely Soviet, but with few passengers and friendly conductors, it is a fun trip. Plus, the train station at the airport is new and trés Star Trek.

Times and train numbers are available at www.railway.ge, under the traffic schedule menu. The metro is also a treat, especially for toddlers. Many of the stations are old and lack the glamour of Moscow but Tavisuplebis Moedani (Liberty Square) and Tseretli metro stops have both been renovated. Plus there are outdoor stations on the first line between Vagzlis Moedani (Station Square) and Didube, which offer a cool perspective on the city. Metro rides cost 50 tetri,and children ride free. A Metromoney card is

required. It costs two lari to activate and is only available at the metro station) to purchase tickets.

2 Parks, rides. There are three famous parks in Tbilisi: Mtatsminda Park, the amusement and strolling park located on the top of Mtatsminda Mountain above the city center; Rike Park, the new park on the bank of the Mtkvari River, reachable by the glass bridge that connects the two river banks near Sioni Church in Old Town; and Vake Park, the large park that stretches from Chavchavadze Avenue to Kus Tba. But Tbilisi is also full of smaller, neighborhood parks that are worth a second look, such as Red Park on Kazbegi Avenue in Saburtalo. The park equipment is old and in disrepair, but there are great tennis courts, and lovely wooded (ungroomed) trails that are great for exploring. Rose Park, off of Aghmashenebeli Avenue, is a treasure of small amusement park rides and quiet paths. Mushtaid Park, behind Dinamo Stadium, was recently renovated and includes rides and a cafe. Vere Park is located across Kostava Avenue from the Philharmonia concert hall. Closed off to traffic, the park is full of wide boulevards that are perfect for strolling and bike riding. There are public chess boards in case you want to polish your game, as well. Lisi Lake, although less popular than Kus Tba, is undergoing some renovations and is a great starting off place for hikes around in the beautiful nature that surrounds the city. Mziuri Park, located off Chavchavadze Avenue, is also a lovely respite from the hustle and bustle of the city. There is new playground equipment in the park and new walkways smooth enough for riding.

3 Fountains, pools. Vere Park has a great set of fountains for splashing and cooling off in the heat, as does the lovely Jansugh Kakhidze Garden at 136 Aghmashenebeli. Tbilisi is also full of pools, although not many are the all-seasons, all-ages pools families are used to in the United States. So it is best to call ahead to check age requirements, as well as water temperature, and pool conditions. Swimming lessons, both private and group, are available at pools around the city, although few allow parents to be present in the pool during the class. For pool addresses and contact numbers, check out the city's great online yellow pages, www.yell.ge.

4 Museums. Museums in Tbilisi are an inexpensive day out and what they lack in polish, they make up for in friendliness. The great history museum, now called the Janashia Museum, 3 Rustaveli Avenue, has a child friendly permanent collection of gold artifacts unearthed during the Baku-Tbilisi-Ceyhan pipeline construction. In addition, for older children and history buffs, the top-floor exhibit Museum of Occupation is a must. The Ethnographic Museum near Kus Tba, is an outdoor exhibition of Georgian houses from every region in the country. The trails leading from house to house are good for strollers and safe from traffic. The Money Museum, located next to the National Bank of Georgia, 3/5 Leonidze, is a neat trip through Georgian history via all the different types of coins used — from the ancient Greeks to the Soviets and the days of hyperinflation following independence. The city also has a lovely doll museum, but it is currently closed for repairs and set to reopen on Aghmashenebeli Avenue later this year. When more information is available, Investor.ge will post it to its

website and fb page.

5 Theater. Children are a welcome part of theater life in Georgia, and families attend performances at the ballet, www.opera.ge, and the Philharmonia, www.concerthall.ge, as well as the city's other great theaters. Matinees are inexpensive, and, as a rule, children under 3 can attend for free. There are also children's theaters like Meori Sakhli (Second Hand), 58 Aghmashenebeli, and Nodar Dumbadze Theater, 99/1 Aghmashenebeli, and the Fingers Theater, 8 Marjanishvili. Plus, if you are in the Old Town, every day at noon and 7pm there are mini performances at the large clock on Shavteli Street.

6 Feeding small bellies. Eating out is a family affair in Georgia, and children are welcome at restaurants and cafes. Smoking is allowed in most eateries in Tbilisi, but if you go before the dinner rush, i.e. before 8pm, there are normally fewer people, and fewer smokers. While restaurants are child friendly, few have high chairs or booster seats, so if you don't fancy eating with a child in your lap or feeding them from the stroller, come prepared. Children's menus are also a rarity (they do have them at the Tbilisi Marriott and some chain restaurants). However getting an extra plate and splitting a dish is usually not a problem. Georgian cuisine and western style burgers and pizza – as well as a growing number of Italian, Indian, Thai, Iranian, and Turkish eateries – are opening (and closing) with dizzying regularity so it pays to check out some of the city's great online restaurant guides, including www.info-tbilisi.com, www.tripadvisor.com, and www.apetito.ge. Sunday brunch is gaining popularity in the city. All the major hotel chains offer them, normally with special deals for younger children. Betsy's Hotel, 32-34 Makashvili, also offers a Sunday brunch, as does Tartine on Meidani Square and the Hanger Bar on Shavteli Street.

7 Nurturing growing minds. There are a growing number of classes for children of all ages, both by independent providers and organized by preschools. To name a few: Sun Yoga Tbilisi is offering children's yoga and karate classes, as well as family film night, www.sunyogatbilisi.com; Art, gardening, and theater classes are available in English at NataBuachidze's Studio, 599-15-55-13; Hip Hop and other dance classes for children at www.dstarstudio.ge (2220561 and 592703512).

8 Getting out and about. For school-aged children, Tbilikids organizes out of town day trips for school age children (7 and up), and plans to add ski weekends in the winter. More information is available on their Facebook page, facebook.com/Tbilikids. For younger children, Nino Shvelidze-Blauvelt (nshvelidze@yahoo.com), the director of Vake English Daycare, organizes outings and excursions around Tbilisi.

9 Balls, bats, and baskets. There are a multitude of classes available for children of all ages, ranging from tennis to chess. While it can be more difficult to find activities in English, it is not impossible. There are English-language tennis classes at Vake Park, Tika 555-33-52-64; and softball/baseball teams for children: contact Jackie Koney, jackiekoney@gmail.com, for more information. In addition, QSI is holding Saturday sports clinics. For more information, call the school at 253-76-70.

10 Playgroups, parents classes. TIPs, http://ca.groups.yahoo.com/group/TbilisiParents/, is an online parents' forum where expats and locals exchange information and ideas. The local IWA has a playgroup for small childre: contact group organizer Matt Maloney, mattymaloney@gmail.com, for more information. In addition, there is a parenting class, "Mum & Me," held every Monday from 12-4pm at Sun Yoga; visit www.doulatbilisi.com for more information. ■

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AmCham Members Meet New U.S. Ambassador Richard Norland

Giorgi Togonidze, Marriott Hotels, Irakli Baidashvili, GMT Group, U.S. Ambassador Richard Norland

U.S. Ambassador Richard Norland spoke with AmCham members during the first roundtable event of the season on September 25.

During a candid, off the record discussion at the Tbilisi Marriott, Ambassador Norland touched on the October 1 elections, as well as Georgian-American relations, and the upcoming elections in the United States.

Ambassador Norland comes to Georgia after serving in Russia, during perestroika, as well as Latvia, Uzbekistan, and Afghanistan. His most recent assignment was as the International Affairs Advisor/Deputy Commandant at the National War College.

In addition to meeting the ambassador, AmCham members were introduced to the latest developments at the Lisi Lake Project. Kakha Kolelishvili, CEO of the project, explained the project, particularly its goals to provide "green living" in the city.

Division of Powers Underscore Post Election Reality

The Georgian Constitution provides real power for President Mikheil Saakashvili, even as his party loses control of parliament and the cabinet, according to Lasha Gogiberidze, partner, BGI Law Firm, Ted Jonas, managing partner, DLA Piper Georgia, and Ketti Kvartskhava, partner, BLC Law Firm.

The three lawyers, all members of the AmCham Board of Directors, walked members through the intricate legal procedures that dictate which powers will be passed to the new ruling party and which will stay in the hands of the president.

The October 10 meeting was held during the monthly round table at the Sheraton Metechi Palace.

Sarah Williamson, UGT, and Michael Cowgill, GAU, attend PM Bidzina Ivanishvili's meeting with business leaders

CLT Committee's First Year Successes, Plans for the Future

Investor.ge spoke with the co-chair of the CLT Committee Ted Jonas, a member of the AmCham board of directors and managing partner at DLA Piper, and George Welton, the former executive director of AmCham, about the committee's accomplishments in 2012 and its plans moving forward.

Over the past twelve months, AmCham's Commercial Law and Tax (CLT) Committee has been a strong lobbying force for businesses, advocating for better tax practices and working with the government to ease legislation that hurt the business community.

The committee was created after AmCham received a grant from the United States Agency for International Development (USAID), EWMI, and EPF, within the Judicial Independence and Legal Empowerment Project.

Ted Jonas, a co-chair of the committee, noted that a major early success was that the committee helped to convince the government to withdraw amendments to the tax code and the judicial enforcement law that were jeopardizing Georgia's strong banking sector. This happened because the new amendments undermined the previous system for the priority of loan collateral and therefore made it harder for banks to lend money confidently

"I believe we were the key actor in getting the government to withdraw the amendment to the law that had given super-priority to tax liens over bank liens and which was not only potentially – was actually -- becoming very disruptive to the whole banking sector," he said.

AmCham's CLT committee worked behind closed doors with a half dozen government officials, using research and analysis to convince them to change the amendment.Some government officials were openly supportive of repealing the amendment. "We gave them suggestions for legislative language, we gave them justified position papers when they claimed the law was adopted from other countries," Jonas said. "So I think that was very key."

In addition, the committee has become a forum for businesses, auditors, lawyers, and accountants to discuss problems with the tax code – and has turned into a key liaison between the business community and the Revenue Service.

George Welton, a former executive director of AmCham, who helped start the committee, noted that the Revenue Service was extremely receptive to working with the committee. One key demonstration of this relationship is that when the revenue service started writing commentaries to the tax code, they asked the committee to help prioritize which articles of the tax code should be explained first.

Central to the success of the committee, Welton argues, is that it has taken a very pragmatic approach to engagement. "You are trying to figure out those issues and the areas which you can realistically push for change. It is not just 'what is the problem' but 'what is a problem where lobbying will be effective' ," he said.

"Where we have clear and demonstrable impact in that was…on the clarification of certain issues of the tax code."

Jonas noted that writing commentaries for the tax code could help businesses avoid tax penalties based on poor interpretations of the code by taxpayers and inspectors.

The committee is now in the process of "boiling down" an intense analysis of problems businesses face during the process of disputing tax claims so it can offer the Revenue Service concrete recommendations.

Post-election, Jonas said the need for the committee is even larger than before.

"We need to watch very closely whether the new government is going to bring about an improvement in the rule of law, particularly in the independence of the courts and in the use of due process in tax collection and administrative proceedings," he said.

"As always happens when a government changes, they might have a desire to investigate alleged illegality in the previous administration and this will be a critical test case to see they do that legally, using due process. This is important to the business community so that the business and economy of the country will not be disrupted. The best thing the new government can show Georgian and international investors is that they are going to respect the law and the independence of the courts when they pursue their agenda".

AmCham, Commerical Law Development Program Workshop

Commercial Law Development Program (CLDP), which is a division of United States Department of Commerce, organized a workshop in Signagi on October 12-13. The topic of the workshop was Litigation and Adjudication of Copyright and Trademark Disputes. The participants were lawyers, city court and court of appeal judges, employees of Georgian Copyright Agency and Sakpatenti. Special guest from United States participated in workshop – US District Court Judge Edmund Sargus. The event was technically organized and managed by AmCham Georgia.

GEOCAPITAL
MICROFINANCE ORGANIZATION

Education for a Better Tomorrow

GeoCapital is Georgia's fastest-growing, internationally-backed microfinance organization and the largest direct US investment in Kutaisi with American management in place. The Company serves both a social and for profit mission and offers competitive rates, excellent service and basic finance education to the people of Georgia, thus creating opportunities for small business development, job growth, and entrepreneurship, helping Georgia build a better tomorrow.

The company started in Kutaisi in 2011, and recently opened its second, central branch in the center of the city. GeoCapital has about $3 million loaned to the local community, and is planning to expand its operations beyond the city of Kutaisi. It is also planning a promissory note offering, which will allow ordinary Georgians to invest a bit of their money in GeoCapital, and earn a handsome return. As a part of its social mission, this summer GeoCapital (GC) kicked off its financial literacy program for the people of Kutaisi. Recent Harvard graduate Daan Harmsen is acting as both financial manager for the company as well as finance instructor for those who sign up for the free classes, which are open to everyone. More than 100 people participated in the summer sessions.

"Because of its Soviet past, there is no tradition of financial planning and saving. It's common for people to live from hand to mouth, often getting themselves into debt, and not to set any money aside for a rainy day," says Mr. Harmsen.

Many people in Georgia are uncomfortable discussing money. Nobody wants to admit they have little money, but at the same time there can be social pressure to consume conspicuously, with, for example, expensive cars and lavish dinners. Financial planning is on the other hand, fundamentally long term planning. But we often see that people do not understand how the financial decisions they make today -- or the decisions they neglect to make -- will influence their lives tomorrow.

Many people don't need to develop the usual financial discipline, because they do not earn their money themselves, but live on money received from abroad. This can lead people into an incorrect understanding of the finances of their family. Financial literacy education is crucial in helping to resolve these issues.

Only 2 percent of Georgian adults engage in any kind of saving, using either a formal account or a community-based method (World Bank's Measuring Financial Inclusion report). According to the OECD, financially-literate consumers are more likely to save than less financially literate consumers.

In order to expand the curriculum of the free classes as well as make them more accessible, GeoCapital recently founded the non-profit organization GeoCapital Education that aims to give individuals the missing financial, technical, professional and personal health skills needed to succeed in life, through training at the grassroots level.

GeoCapital Education focuses on skills that are not easily accessible to the general population.

In particular, trainings will cover financial management skills, technology, project management, public relations, career skills and promotion, personal health skills, entrepreneurship and other skills required for improved employability, business startup and management.

"Our goal is to build a pipeline that takes existing training curricula and make it easily available to motivated, enthusiastic people in Georgia,"says Ralph Burleson, Chairman of GeoCapital Education.

"Knowledge has a transformative social impact – especially in the areas of finance and health."

When you add even modest technology training to the mix, you give smart motivated people the opportunity to participate in the global marketplace and to build a better tomorrow for themselves and their families.

Saunders Group: Urban Development in the Caucasus

SAUNDERS Group, an engineering consulting concern, has been actively engaged in various development projects in Georgia and the neighbouring countries. Dr.Michael Saunders, a New Zealand and Georgian dual citizen who has a background in urban planning and engineering, established Saunders Group in 2009. Saunders Group is growing rapidly to cover the lack of professional engineering services in the Caucasus and Central Asian region and with a specific focus on an area that has long been overlooked on large projects in developing countries - professional Urban Infrastructure Consulting & Planning with Project Management Support in conjunction with Western Consultancies. It provides efficient local support in emerging markets for large engineering, urban and agriculture development projects. We have a team of 30 local and internationalstaff that cover all aspects of project management, financial and administrative control and support. Saunders Group staff are engineers and specialists with experience from all over the world, including in Brazil, USA, New Zealand, Germany, Holland, Armenia, Algeria, India and Georgia. With such a wide base of experience, Saunders Group can combine Western practices in developing countries with the best results.

Urban & Agricultural Infrastructure – Saunders Group provides urban water supply systems, agricultural water, sewerage or storm water consulting services.It's imperative that the planning phase of the asset lifecycle provides the greatest opportunity for delivering water and sewerage services at the lowest lifecycle cost while also meeting social and environmental requirements. Saunders Group is responsible for rehabilitation and reconstruction of water and waste water systems for over 22 cities covering the entire territory of Georgia.

Infrastructure – engineering services in the fields of bridges, roads, tunnels, rail and the associated administrative support therein. Infrastructure development is essential for economic development, trade opportunities, increased employment potential and faster response during crisis management. Saunders Group holds ample engineers on staff to deal with a wide range of Infrastructure projects and can source additional engineers within any project commencement timeline.

Urban Planning – Energy efficiency planning for total urban layout, layout planning for relieving congestion and ease-of-access for services in urban dwellings and minimising the total transport requirements for access to activities thus ensuring planning that effectively reduces traffic congestion, time for residents to access work places, schools, parks and other vital urban activities.

Public Transport Planning - Super efficient integrated transport systems are possible within every new city or region and the ability to modify existing transport systems to cater to regional growth through computer modelling. Saunders Group has provided local project management support to Georgian Railway for diversion of cargo traffic away from the capital city and assistance in its modernisation programs. It has also provided specialist consulting support to Yerevan Metro in its efforts to restructure its company into a more efficient operation. Batumi and Tbilisi Public Transport Projects funded by the EBRD to improve bus service capacity and introduce European ticketing practices were also successfully completed by Saunders group.

Mining & Natural Resources – Saunders Group provides various engineering services for companies outsourcing their work, resulting in overall cost efficiency and achieving desired results without engaging precious company resources. With a well-qualified engineering pool, Saunders Group caters to the demand for qualified expertise for local companies or international firms seeking expertise for any projects in Georgia or the CIS.

AMERICAN FRIENDS *of* GEORGIA, INC.

Restoring tradition of Philanthropy in Georgia

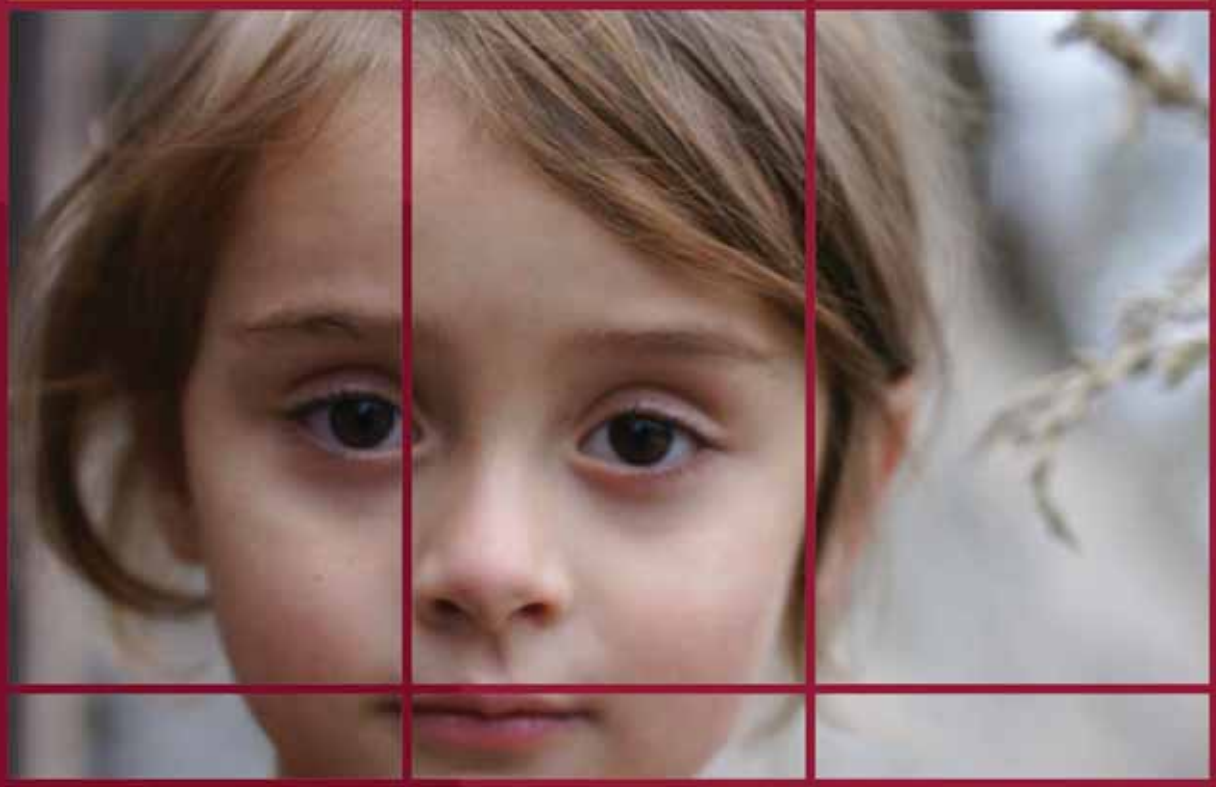
Hope and faith, belief in the power of people, and the strength of communities, Nikozi, in the Shida Kartli region of Georgia reminds us all of the power of individuals and communities committed to living free from fear, able to choose their own destinies. After the destruction of the August 2008 war, Metropolitan Isaiah and the people of Nikozi dedicated themselves to rebuilding their homes and communities, to rebuilding their future.

Just under one kilometer from Tskhivali, in South Ossetia, Nikozi suffered greatly in the August 2008 war.

To support the regrowth of Nikozi and the return of families, **American Friends of Georgia** is helping to the village build an art school and community center – places for children and adults can come together to mend the wounds of war.

The rehabilitation of a building for the Education and Cultural Center in Nikozi will enable the residents of Nikozi and nearby villages to further grow and develop their own community. By helping the children and family of Nikozi, we are helping them to build a better life for themselves and their community.

Support American Friends of Georgia in its effort to raise funds for most needy children in Georgia. Be sponsor, make a difference and join us to celebrate hope, faith and the power of people.



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Dechert Georgia LLC
Corporate A Member

Dechert Georgia LLC, a subsidiary of Dechert LLP, combines local service with the global knowledge that comes with being part of a preeminent worldwide legal practice. Lawyers in Dechert's Georgia-focused team have extensive experience in all types of cross-border transactions and disputes and advise clients on capital markets (both debt and equity transactions), M&A, infrastructure and project finance, international arbitration and dispute resolution and general corporate and commercial matters. Our clients have included various state-owned companies; global, regional and local corporations; banks and other financial institutions; prime international investment banks; private equity sponsors; and investment funds, as well as ministries, agencies and instrumentalities of the sovereign. Lawyers in our Tbilisi office are qualified in Georgia, the U.S., the UK, France and Canada and are fluent in English, Georgian, Russian, French and Italian.

Dechert LLP is an international law firm with more than 800 lawyers in 26 offices throughout Europe, Asia, the Middle East and the United States. Dechert Georgia LLC's office is at Pixel Building, 7th Floor, 34 Chavchavadze Avenue, 0179 Tbilisi. For more information about the firm, please visit

www.dechert.com

Frontera Resources Corporation
Corporate A Member

Frontera is a US-based international oil and gas exploration and production company whose shares are traded on London Stock Exchange AIM market. Frontera's current activities in Georgia are focused on the exploration and development of a large acreage in Kakheti region known as Block 12 where Frontera has the exclusive right to explore for, develop and produce petroleum pursuant to a 25-year Production Sharing Agreement entered into with the Georgian government. With over 190 employees based in the company's Houston, Tbilisi and Kakheti field offices, Frontera is the largest US-based investor in Georgia's upstream oil and gas industry.

www.fronteraresources.com

Dexus
Corporate B Member

Dexus is a business group focused on distressed asset management, property development, construction and property management. Dexus offers its corporate customers a proactive and creative approach in restructuring loan and investment obligations.

Dexus Group considers its human capital as its major asset. The company employs highly skilled managers with extensive real estate experience and consistently invests in their skill development.

One of the company's major projects is the turnaround of Centerr Point Group, the largest property developer of Georgian pre-crises real estate market. The latter owned the assets of approx. 100 million USD, including 25 development projects and 17 land units in the land bank.

According to the latest market research, Dexus nowadays manages the assets of approx. 1/3 of under-construction residential property market in Georgia.

www.dexus.ge

Hualing International Special Economic Zone Corporate B Member

Hualing International Special Economic Zone

It is a comprehensive range of facilities including an industrial park, export processing and logistics area, bonded zone, commercial district, five-star hotel, Olympic Village, residential complex, resort and entertainment areas.

Hualing Free Industrial Zone in Kutaisi

The 52-hectare Hualing Free Industrial Zone is the country's third foreign direct investment business park of its kind. The USD100 million zone enjoys many tax-free concessions. Business activities include production, processing, manufacturing, imports and exports, with convenient transportation links available by air, road, rail and sea.

Banking

In June 2012, the Hualing Group became the first privately owned enterprise in China to acquire an overseas bank when it took over Georgia's JSC Basisbank.

Mining

Along with hydropower and forestry, Hualing Group owns mining and gold mining in Georgia as well.

Forest harvesting /Wood processing

Hualing operates a fully integrated production line, from initial logging and cutting to finishing and building furniture. Some 95% of products are exported with the remaining 5% sold in the domestic market.

www.hualing.cn

Kordzakhia, Jgenti Law Firm Corporate B Member

Kordzakhia, Jgenti GP providing full-service package on real estate, financial, infrastructure and technology sector is one of the leading Law Firms on the Georgian market.

The firm is operating on Georgian market for more than decade after its foundation by David Pataraia, Irakli Kordzakhia and Irakli Jgenti. All of them had advocacy practice and were advanced specialists in their field of practice prior to establishing joint practice.

Kordzakhia, Jgenti provides legal services to Georgian and international entities. At various times the firm was engaged in consultancy services to the World Bank and IFC, US Government, USAID funded projects, diplomatic offices accredited in Georgia. Among corporate clients are large commercial banks and non-bank financial service providers, communication companies and real estate developers. The firm has diversified pro bono services to benefit the community.

www.kjlaw.ge

Statoil Azerbaijan Georgia Branch Corporate B Member

Statoil is an international energy company with operations in 37 countries. Building on 40 years of experience from oil and gas production on the Norwegian continental shelf, we are committed to accommodating the world's energy needs in a responsible manner, applying technology and creating innovative business solutions. Statoil is headquartered in Norway with 21,000 employees worldwide, and is listed on the New York and Oslo stock exchanges. More information onwww.statoil.com

Statoil is, through its subsidiary Statoil Azerbaijan a.s., the commercial operator of the South Caucasus Pipeline Company (SCPC), where BP is the technical operator. SCPC owns the South Caucasus Pipeline (SCP) and is engaged in all activities related to this major gas transportation system. SCP transports natural gas from the Sangachal terminal near Baku in Azerbaijan, crossing through Georgia and ending at the border of Turkey.

Gas sales to Azerbaijan, Georgia and Turkey from Shah Deniz Stage 1 are administered by the Azerbaijan Gas Supply Company (AGSC) which is also operated by Statoil Azerbaijan a.s. Statoil opened its office in Tbilisi in 2006.

www.statoil.com

Theco Limited (Terex Heavy Equipment) Corporate B Member

THECO limited is an international company with a wide experience in the sphere of construction and design. Our company apartments for rent and sale in new elite housing estate «Tbilisia» eco-complex at level of 5 star hotel. Our complex is located in one of the most ecologically clean area of Tbilisi in Vake district, Shatberashvili Street and at the same time just 5 minutes from the centre of the city. All apartments of our complex have beautiful panoramic view of the city from one side and green mountains from the other. For your convenience on the ground floor we have cafe, gym, spa centre, swimming pool and a grocery store. There is an underground parking. All territory is under security for 24 hours. Modern infrastructure, fresh air and first class service make "Tbilisia" eco-complex unique. If you are interested in our offer please contact us:

995 592 107515;
995 599 076 763;
995 597 291 492.
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www.tbilisia.ru

SOCIAL PAGE

On September 6 AmCham members met for poolside drinks during the Chamber's End of Summer reception at the Holiday Inn Tbilisi pool. Friends and colleagues mingled over wine and cocktails, and AmCham President Sarah Williamson welcomed Amy Denman back as executive president. Williamson thanked George Welton for his hard work during Amy's absence.

SOCIAL PAGE

On October 13 at the Radisson Blu Iveria Hotel, schoolchildren and volunteers from local schools including, the American Academy, New School, the French School, the German School, the European School, and QSI, helped vulnerable children select warm clothing for the winter during the annual COATS event. COATS -- Clothing Others Against The Snow -- is a community outreach project geared to engage community youth to become active in helping those less fortunate.

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.

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.

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.

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.

Amy Denman, Exec. Director
Amy Denman came to Georgia in 1996 from Chicago where she worked in the Marketing Department in the secondary education division of publishing company Houghton Mifflin. After working for the IFRC for a year, she became the coordinator then the founding Executive Director of the Chamber.

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OUR BANKING AND FINANCE PRACTICE

Georgia is a regional leader in the banking and finance sector. Well-regulated, transparent banks, a clear system for collateral and mortgages, and an established track record in the performance of international credit documents have combined to attract significant capital to the market.

Since the 1990s our lawyers have worked on international project financings and commercial credit lines into Georgia: from the billion dollar plus financing of its transnational oil and gas pipeline network, to the earliest post-privatization industrial projects and utilities, to the first foreign credit lines to Georgian banks.

Today we continue to represent international financial institutions in their loans to Georgian businesses and banks, as well as Georgian borrowers seeking credits from these same institutions to grow their businesses. Our practice has expanded to include swaps and derivatives and international bond issuances.

Our experience means our lawyers can finish your work fast, efficiently, and with minimum fuss. That means more of the money you raise in international credit markets goes into your pocket, and not to pay the lawyers.

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