Investor.ge
A MAGAZINE OF THE AMERICAN CHAMBER OF COMMERCE IN GEORGIA
ISSUE 36
DEC.-JAN. 2013/14

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Rekindling a Culture of Charity

The Business of Christmas Trees

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Special thanks to the AmCham Editorial Board and the AmCham staff, as well as to Dog Organization Georgia, ISET, EPRC, Grant Thorton and the McLain Association for Children (MAC) for their submissions

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Investor.ge is printed by CEZANNE

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US Ambassador Richard Norland and Irakli Baidiashvili, the senior vice president of GMT Group and the vice president/treasurer of AmCham Georgia, speak during the AmCham roundtable event on December 4 at Radisson Iveria Blu.

US Ambassador Richard Norland: "The Stage is Set" for More Investment in Georgia

Investor.ge spoke to US Ambassador Richard Norland about his first year in office, the prospects of a free trade agreement with the United States, and how the initialing in Vilnius could bolster Georgia's role as a transit country and the future of US investment in Georgia.

A consolidation of reforms over the past year, highlighted by the presidential election, is paving the way for more investment in Georgia from foreign companies, according to US Ambassador Richard Norland.

Norland, who came to Georgia in the run-up to the 2012 parliamentary elections, said there is increased interest from American companies to invest in Georgia. The potential of the Deep and Comprehensive Trade Agreement with the European Union also helps bolster Georgia's attractiveness for businesses, he noted.

"I think the stage… is set for Georgian politics to become more stable and I think that will translate into a more attractive investment climate," he said in an interview with Investor.ge.

"They know that the basics are here. …They have been holding back because of what they see as a less than ideal climate. Now they know, they are seeing, they read the headlines that the climate is stabilizing. What they want is a reality check on that, is that how foreign diplomats and other observers see the situation. And when they ask me that, I say 'Yes, I think it is.'"

Georgia's initialing of its Association Agreement opens up new opportunities to build on the country's transit role in the region, Norland noted. Especially, he added, since the United States is working with the European Union on its own trade agreement.

"[G]eorgia is a key part of this new silk road trade corridor and as the United States talks about a pivot to Asia, it is really important to remember for us this means going around the Pacific route but also going through Eurasia, and Georgia sits on the western terminus of the new silk road," he said, stressing that in part, the infrastructure built during the war in Afghanistan goes through Georgia – which could provide additional trade and transit possibilities if it can become commercially sustainable.

"China and India … are very interested in this western terminus because for them it holds great significance for their trading relationships, just as it does for us."

Any talk about a US-Georgia Free Trade Agreement, however, is still too premature. The idea was originally floated during former President Mikheil-Saakashvili's trip to Washington in 2012. Norland said that while the "dialogue" about a trade agreement continues, it remains a "moving target."

"During this period the United States also decided to launch the trade dialogue with Europe which is a much broader picture. The question might become how could a free trade agreement with Georgia fit into a broader trade agreement with Europe, and that is something that remains to be seen," he said.

"But I think it is fair to say there is room for that dialogue to intensify and it helps that the government is able to focus now more exclusively on the task of governing and managing Georgia's internationalrelations and a little less than the dramas that have been associated withcohabitation over the past year."

The Ambassador added that economics, as a whole, is an area where there is still "work to do."

"The economic area continues to be one where we can do more," he said.

"Economics is one area where Georgia is still lagging …the agriculture sector, the rural economy – these are still suffering. Job creation is not what it could be and the United States certainly believes we can contribute to those issues. We would like to do more and we think that [the Strategic] Partnership and the economic working group discussions we have, and the high level trade dialogue, will help on that front."

Regarding the United States' own domestic drama over the debt ceiling and spending cuts, Norland said it should not result in any radical shifts for foreign aid or development projects in Georgia.

"In the context of what is happening in the region now … I think Washington is aware that there are things that we still need to be doing for Georgia to bolster them in their particular situation," he said.

"For a country of around 4.5 million people, you are going to continue to see an outsized assistance effort in relation to the size of the country. There isn't going to be a billion dollar pledge but we are going to continue to have quite a substantial assistance program here for a while."

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What Condition Our Condition Is In

Now, after Georgia initialed the European Union's Association Agreement (AA) and the Deep and Comprehensive Free Trade Agreement (DCFTA), now, more than ever, all eyes are on the Georgian economy. In this environment of speculation -- to paraphrase the great Kenny Rogers -- Investor.ge turned to the specialists to find out what condition the Georgian economy is in.

For a developing country like Georgia, it is no surprise that the economy makes headlines. An increase in foreign direct investment, or a drop in tax revenue, can set the stage for months of hesitation or usher in a period of increased consumer confidence.

What impact could the AA/DCFTA have on the Georgian economy? Will it be enough to develop Georgia's potential to be a great transit hub for Europe and Asia?

How are Georgian consumers and businesses handling the ups and downs of the economy in 2013? What are the prospects for a stronger economy in 2014?

To answer those questions, Investor.ge turned to the experts. Political scientist Cordelia Ponczek looks at the potential impact of the AA/DCFTA on the Georgian economy and its attractiveness to outside investors. Grant Thorton explains business confidence looking forward – and how confidence around the globe could impact Georgia.

Local think tanks – ISET and the Economic Policy Research Center (EPRC) – weigh in with their analysis on the latest economic trends at home, and what they mean for the next year.

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The Re-Export Prospect: Georgia Should Use the DCFTA to Invest in its Future

In November 2013, Georgia initialed its Association Agreement with the EU—part of which included negotiations for a Deep and Comprehensive Free Trade Area (DCFTA). The DCFTA has significant implications for Georgia's economy; namely, Georgia is expected to become a portal to the EU for surrounding countries: a re-export hub of Eurasian products and investment.

CORDELIA PONCZEK

Georgia has finally carved out space for its self-promoted trajectory. It's about time. On the negative side of the balance sheet, unemployment numbers are up, GDP and growth numbers are down, and the public is restless. But a solid foundation for progress has been laid. Bolstered by two recent events – the democratic presidential elections in October and the recent Eastern Partnership Summit in Vilnius – Georgia has taken positive steps to modernize its political system and stabilize its social structure.

The October elections confirmed the sustainability of Georgia's political reforms and garnered international approval from organizations such as the OSCE and from various Western governments. The November Eastern Partnership Summit in Vilnius signified Georgia's initialing of the Association Agreement (AA) and the official adoption of a pro-European trajectory. The combination of the two was a tangible return on investment for those stakeholder countries and organizations that have sunk financial and political capital into the country's future.

International recognition is exactly the prescription Georgia needs to mend its ailing economy. Thomas de Waal, a senior association at the Carnegie Endowment for International Peace, asserted in an article on November 20, 2013, that "Foreign perception is definitely key: … [Georgia]'s chief economic value is in its ability to be a hub and entrepot for the wider Caucasus and Black Sea neighborhood."

So, how does Georgia make itself a hub?

November's Association Agreement includes the Deep and Comprehensive Free Trade Area (DCFTA), a program that fosters improved trade balance in exchange for mandating EU legislation in areas like trade law cohesion, consumer protection, hygiene standards for agricultural products, and environmental regulation. Signatories are required to adopt approximately 350 EU laws within a time span of ten years – no small feat, but with big rewards. It would behoove the Caucasian country to use these opportunities to capitalize on its own future.

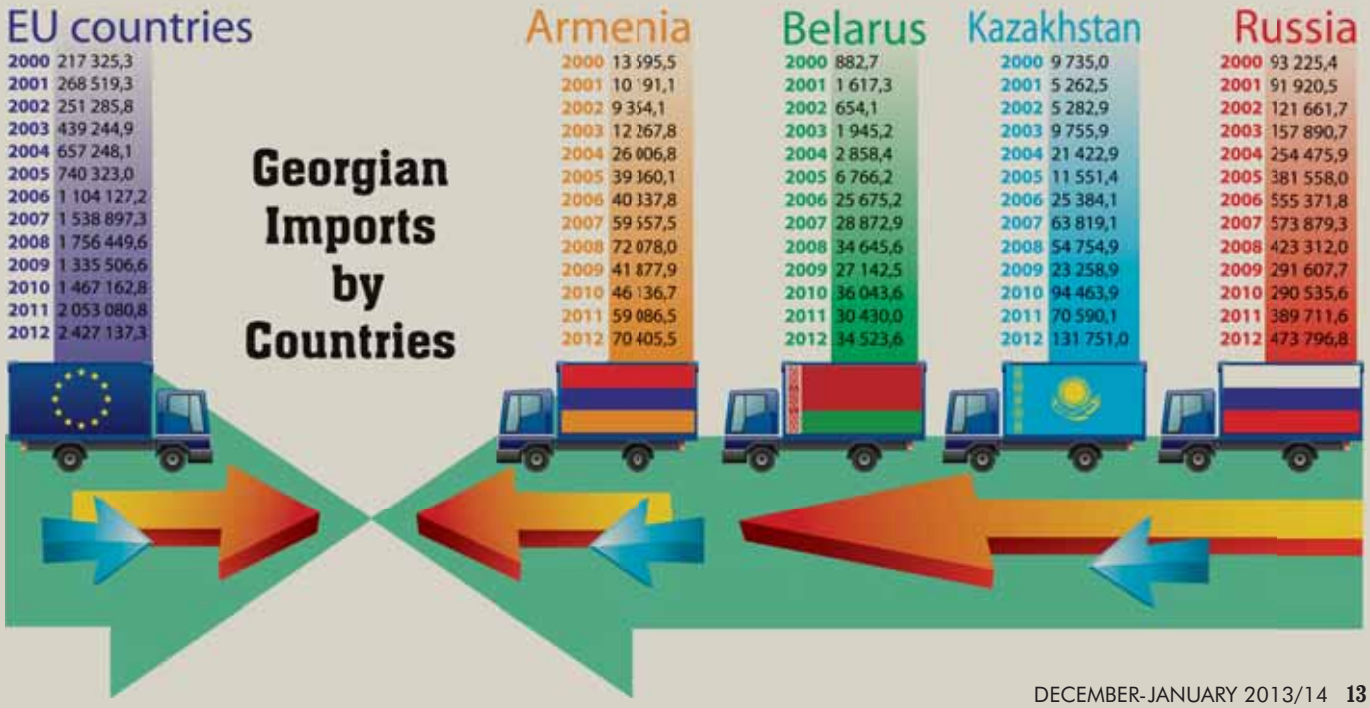
According to the Trade Sustainability Impact Assessment, a report published by the Warsaw-based CASE Center for Social and Economic Research, the DCFTA has the potential to increase Georgia's exports to the EU by 12% and increase imports from the EU by 7.5%. Furthermore, Georgia's national income is predicted to rise to around 292 million euros, which represents a 4.3% growth in Georgia's GDP. Numbers like this will have ripple effects in consumer purchasing power and labor wages.

The biggest gains of the DCFTA are found in the reduction of Non-Tariff Barriers to trade (NTBs). As in the WTO and NAFTA agreements, the DCFTA incorporates fundamental principles such as favorable national treatment, prohibition of import and export restrictions, disciplines on state trade, etc. Export duties will be prohibited from day one, which will have a significant impact on Georgia's economic activity and trade ▸▸

The EU VS the Eurasian Union: By the numbers

The AA/DCFTA with the European Union is about a lot more than just trade. It is about opportunities for education, investment, reform; it is about Georgia moving forward. But, it is also about imports and exports. Investor.ge asked Gega Paksashvili, a local designer and artist, to illustrate Georgia's trade relations with the countries of the planned Eurasian Union compared with the current trade conducted with members of EU. The numbers make it clear the EU is Georgia's biggest trading partner: $2.78 million in trade in 2012, compared with just $1.11 million in trade with Armenia, Belarus, Kazakhstan, and Russia – the countries currently slated to join the Eurasian Union.

In terms of potential markets, the EU also wins hands down, with a population of 500 million and a much higher purchasing power than the Eurasian Customs Union. EU's GDP at purchasing power parity is "5.67 times" that of the Eurasian Union, based on calculations made by the Eastern European Studies Center.



between itself and the EU. Furthermore, such measures will create immense opportunities for trade by lowering tariffs on imports to Georgia and exports from Georgia to the EU. The policies of the DCFTA aim to improve competitiveness through efforts to enhance market access for exports and foreign investment, facilitate trade, and strengthen the investment climate.

In its adaptation of the DCFTA, Georgia will undertake a three-pronged strategy to place itself as a hub for exports and investment: (1) by capitalizing on the benefits of unified EU-based policy, which will help to create standards for products and transparency of business in Georgia to attract new commerce; (2) by facilitating an increase in exports from Georgia to the EU and vise verca, which will normalize the flow of business; and (3) by using the reduction of NTBs to promote open dialogue with foreign neighbors, which will incentivize these countries to use Georgia as a re-export base, given its new preferential status with the EU.

Such reforms must be reinforced by increased trade, particularly in exports from Georgia. Georgia is the only county in its geopolitical zone to have new-found clout with the EU. Armenia, Azerbaijan, and Ukraine are waitlisted for any further steps, and did not initial Association Agreements at the November summit. Turkey's path to the EU is frozen, pending the deadlock over its proposal for integration, and Russia has not vocalized an intention to move forward with any association plan. Georgia's position allows it to be the initiator for increased trade in the region by presenting itself as a safe, business-friendly zone for surrounding countries wanting to do business with the EU. Its current business should facilitate the greater access of goods to the European market.

Georgia needs to come into the deal prepared. It can do this by capitalizing on the three-pronged strategy and deciding, up front, what it can do to strengthen its position. First, the country needs to determine both its areas of interest (e.g., agriculture, metals) and its negotiation objectives with respect to these areas of interest. It then must act on this strategy, keeping lines of communication open between the government, civil society, media, and the Georgian people. This can be done via information campaigns and a high level of transparency in the policy enactment process. Second, Georgia will need to educate and train its workforce (both white-collar and blue-collar) on not only the technical aspects of the soon-to-be-adopted policies, but also on the skills needed to facilitate business and inspire international confidence. Furthermore, Georgia will need to evaluate the operational costs of implementing the EU reforms and how those reforms can be most effectively structured into Georgian business. Finally, smile! Georgia is home to a charming and unique people: it will be up to the Georgian people and leaders to woo businesses and ramp up investor confidence in the area by touting its newfound economic advantage.

In November, the American Chamber of Commerce in Georgia sent a business delegation to Washington, D.C. There, the group of businessmen and women met with senators and congressmen and took part in a roundtable event co-hosted by the Carnegie Endowment for International Peace and the Atlantic Council. Its presence in the epicenter of US politics corresponds to Georgia's moment to sustain its international confidence. The ripple effects of the DCFTA need not be limited to trade between the EU and Georgia: in his December trip to China, David Cameron, the Prime Minister to the UK, more than hinted that the EU was very interested in trade agreements with China. Meanwhile, the US and the EU are already favorable trading partners, and by balancing out its trade strategy, Georgia may have more doors open to it in the future.

Keeping long-term goals in mind is essential, because the proviso to the DCFTA is that these prescribed events will not take place in a vacuum. The DCFTA is not a magic potion to change Georgia's international status, or its economy, overnight. Thus, the burden of action is on Georgia, along with its allies, to have the foresight to evolve with the effects that will result from its new trade agreement, both the good and the bad. It will be left to the negotiating parties to enhance any gains and lessen any potential losses by maintaining a cohesive strategy – the answers aren't on the table, but the tools for success are there.

Cordelia Ponczek is a researcher based in Warsaw and formerly taught in Georgia, where she was stationed outside of Zugdidi and later in Batumi. She earned her B.A. in Political Science at Miami University in Ohio, USA.

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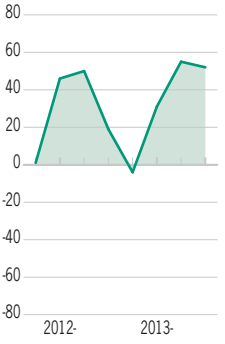
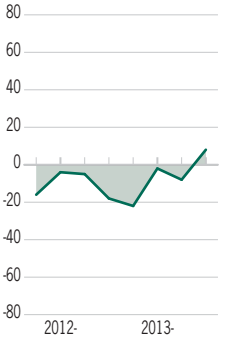
Grant Thornton IBR Q3-2013 results

How optimistic are you for your economy over the next 12 months?

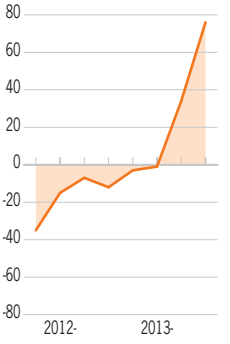
United States
Business optimism remains robust at 52% despite continued partisan wrangling over the budget which led to a partial government shutdown.



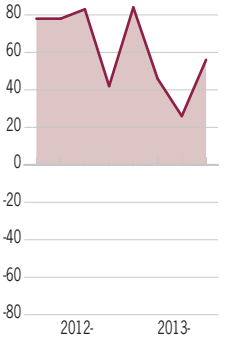
eurozone
Confidence remains low, but Dutch (-14%), French (-17%) German (51%), Italian (-2%) and Spanish (-10%) businesses all registered increases in optimism from Q2.



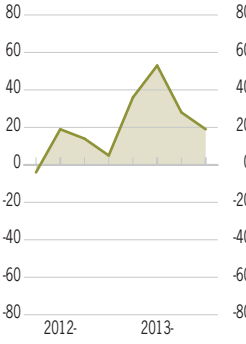
United Kingdom
UK business leaders are now the fourth most optimistic globally; the net 76% figure is a record high, driven by a pick-up in the pace of the recovery.



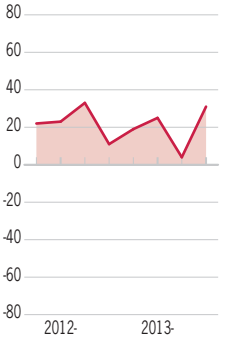
Georgia
Having hit a record low of 26% in Q2, Georgian business optimism rebounded to 56% in Q3, although it remains below the long-run average.



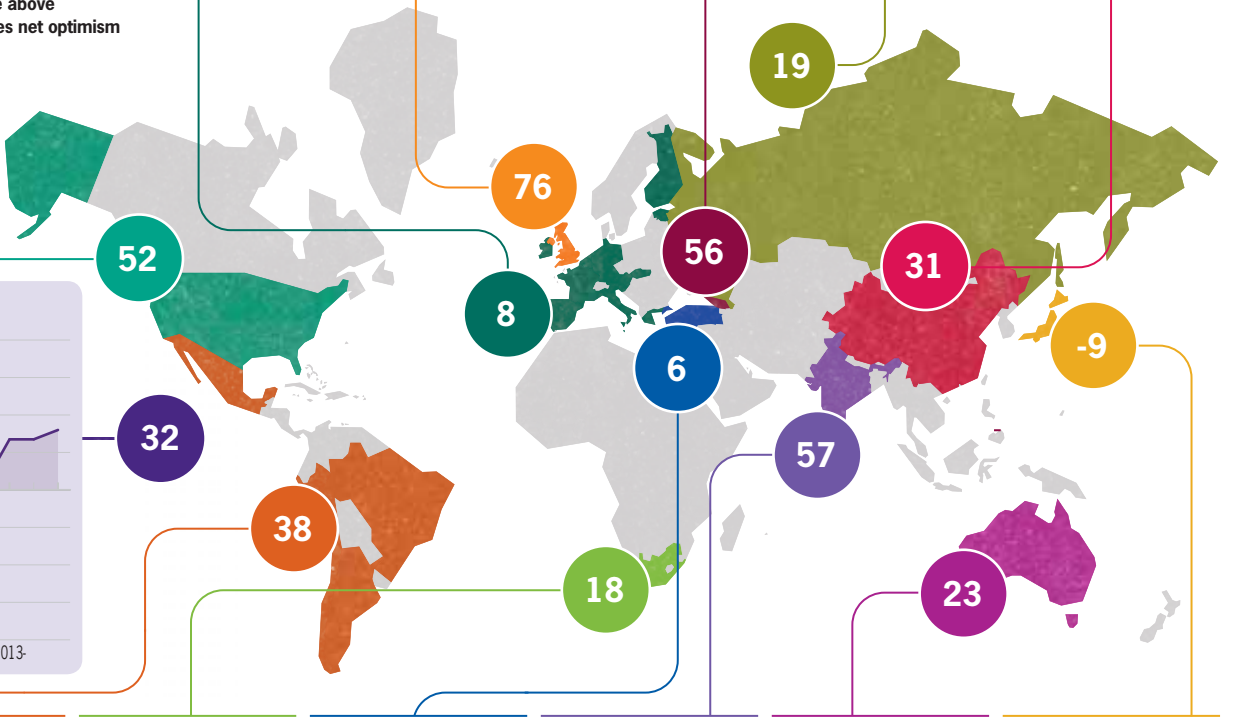
Russia
Russian business optimism fell for the third straight quarter as economic growth and reform efforts continue to disappoint.



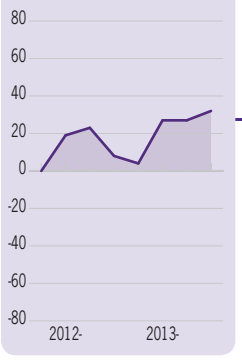
China
Having slipped to a record low in Q2, Chinese business optimism rebounded in Q3 following a raft of more positive economic data which suggests sustained growth.



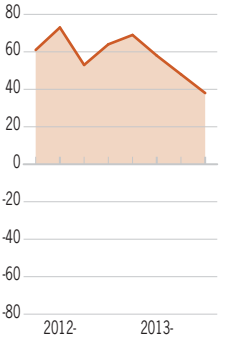
Key: A score above zero indicates net optimism



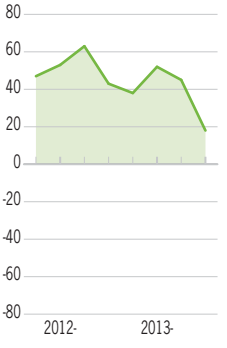
Global



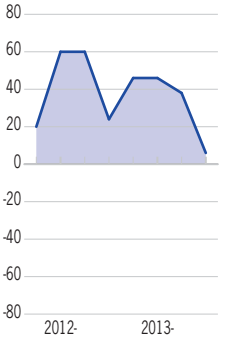
Latin America
Confidence in Latin America fell to its lowest since 2009, with all five economies posting declines and Brazilian business optimism dropping to a record low of 31%.



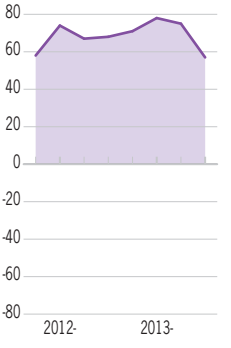
South Africa
Business optimism fell to a record low of 18% in Q3; one of the emerging markets to suffer as the US Federal Reserve looks to begin tapering asset purchases this year.



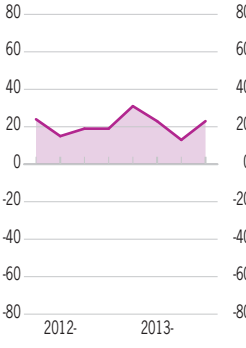
Turkey
Turkish business leaders are now at their least optimistic since 2009 as social unrest bubbles and investors fret about the reliance on foreign capital inflows.



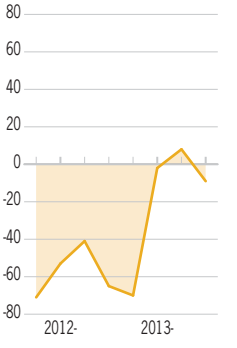
India
Indian business optimism fell for a third straight quarter in Q3, dropping to a record low of 57% as slower growth and persistent inflation cloud the economic outlook.



Australia
The election of Tony Abbott came as Australian business optimism ticked back upwards, although it remains well short of pre-crisis levels.



Japan
Japanese business optimism fell back into negative territory again in Q3 as concerns rise about the effects of a planned rise in the consumption tax rate on renewed growth.



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Sample: 3,300 mid-market business leaders interviewed in 45 economies

Source: Grant Thornton IBR 2013

US and UK Drive "U-Turn" in Global Business Growth Prospects

Georgia's business optimisim rebounds

Grant Thorton International Business Report

New research from Grant Thornton's International Business Report (IBR) reveals that with many emerging economies slowing, it is now the UK and US driving global business growth prospects. This "U-turn" in sentiment suggests a shift in the global dynamic, with business growth opportunities set to increase in mature economies while emerging peers adjust to the prospect of slower growth than in recent years. However, Grant Thornton warns that further partisanship in the US over the budget and debt ceiling could yet derail the global economy over the next few months.

The IBR reveals UK business optimism has shot up from net 34% in Q2 this year to 76% in Q3. This is the highest figure recorded for the UK in 22 years, and makes its business community the third most optimistic in the 45-economy survey. Business optimism in the US remains high too, at 52% in Q3, although marginally down from 55% in Q2.

By comparison, having hit a record low of 26% in Q2, Georgian business optimism rebounded to 56% in Q3, although it remains below the long-run average.

Businesses in emerging economies are markedly less confident. Brazilian optimism fell from 43% to 31% in the last quarter, while across Latin America as a whole optimism fell from 48% to 38%. Elsewhere, Indian optimism (57%) fell to its lowest since 2003. Russia slid from 28% to 19%, and Turkey (6%) dropped to its lowest since the financial crisis. Though China seems to be one step ahead of other major emerging nations, having fallen to a record low of 4% in Q2, business optimism improved to 31% in Q3.

The results highlight a subtle but significant shift in global economic growth patterns, with some rebalancing toward developed markets like the US and UK. Together these two economies account for a quarter of global output so any recovery should have positive repercussions around the world. Businesses across the globe need to be alive to this shift in momentum, and the growth opportunities it offers.

Businesses in Georgia have been through an uneasy year but the increasing confidence bodes well for growth; more certainty should lead to more investment in capital assets and human capital.

Renewed confidence in Georgia is clearly feeding through to business growth prospects. It is encouraging to see export growth expected to play an important role in business expansion plans, while increased investment will boost the long-term competiveness of Georgia's businesses.

Clearly,businesses should not write off emerging economies in their search for growth, but results highlight the reversal of fortunes in developed countries. The BRICs and other frontier markets need to tackle issues such as rising inflation and substandard infrastructure if they are to maintain the rapid growth seen in recent years and avoid the so-called "middle income trap."

The one caveat is the situation in the US. Weeks of budget and debt ceiling negotiations have only resulted in the can being kicked down the road, with the budget only agreed upon until mid-January and the debt ceiling until mid-February. Businesses both in the US and across the world face a nervous few months.

The IBR results are substantiated by recent growth forecasts issued by the International Monetary Fund (IMF), which revised its growth forecasts for the UK up last month -- 1.4% in 2013 and 1.9% in 2014. The IMF also said it expects the US to drive global economic growth, although the IMF lowered their 2014 forecast by 0.2% due to fears over debt negotiations. The IMF also warned that global expansion was being hampered by the slowdown in emerging economies like Brazil, China and India.

The IBR data also suggest the resurgence in business optimism and growth prospects could boost jobs. In the UK, net 45% of businesses expect to hire people over the next 12 months, up from 28% in Q2. In the US, the figure has jumped from 33% to 42% over the past quarter.

Any increase in jobs figures is positive. Rising employment prospects feed back into consumer confidence, further boosting growth. But the global economic outlook remains finely balanced. Take the US and the UK out of the equation, ▸▸

and business growth prospects look a lot less healthy. With growth rates coming off their peaks in the emerging economies, another deadlock in the US is something the global business community can ill-afford.

The Grant Thornton International Business Report (IBR) provides insight into the views and expectations of more than 12,500 businesses per year across 44 economies. This unique survey draws upon 22 years of trend data for most European participants and 11 years for many non-European economies. For more information, please visit: www.internationalbusinessreport.com

Data collection

Data collection is managed by Grant Thornton's core research partner, Experian. Questionnaires are translated into local languages with each participating countryhaving the option to ask a small number of country specific questions in addition to the core questionnaire. Fieldwork is undertaken on a quarterly basis. The research is carried out primarily by telephone.

Sample

IBR is a survey of both listed and privately held businesses. The data for this release are drawn from interviews with 3,300 chief executive officers, managing directors, chairmen or other senior executivesfrom all industry sectors conducted between August and September 2013. ■

The Georgian Economy: Stagnation or Not?

The Georgian economy is slowing, due to a troubling mixture of low investment, high political uncertainty, and a general contraction in transitional economies throughout the region. The Economic Policy Research Center (EPRC) looks at how these factors are affecting Georgia and what they could mean for future growth.

Economic growth in Georgia slowed down starting from the end of 2012 due to decreased FDI and election-related uncertainty.

In fact, three out of four economic indicators have decreased: there has been a decrease in aggregate demand, investments, and government spending. The only indicator that has improved is net exports; however, this improvement has not been drastic enough to outweigh the fall in all other categories.

External trade tendencies have shown a positive trend in terms of an 11% increase in exports in the first eight months of 2013, compared to the same period last year. However, even this level of growth is not very remarkable: Georgian exports grew by 30% from 2010 to 2011, and another 8% from 2011 to 2012.

As EPRC predicted, the projected 6% Gross Domestic Product (GDP) rate of growth will not reached in 2013, and even the adjusted estimate of 3-4% real annual growth is questionable.

At the same time, 2013 budget performance also presents a challenge, since the government is struggling to collect the previously projected revenues (as of the first nine months of the year up to 700 million GEL), which is likely to result in a spending cut. Currently, the EBRD forecasts 3% economic growth in 2013; the IMF prognosis is even lower, at 2.5%.

International Economic Slowdown

The last time that the country's economy has experienced a slowdown or negative growth was following the global crisis and the war of 2008.

Now, however, countries in transition are experiencing a slowdown, particularly Russia and Turkey – a trend that might have also caused a worsened economic outlook for Georgia. Average economic growth of countries in transition is projected to be 2.2% in 2013, with a modest recovery expected in 2014.

In the region, growth in Armenia is also predicted to decelerate this year, due to slower growth in agricultural sector and budgetary underspending – which has also been a major cause for the slowdown in Georgia.

The Start of a Deflationary Cycle?

In fact, for most of the past year, the Georgian economy has been facing deflation. From a layperson's perspective deflation is a good thing, since it leads to lower prices and increases real income, and thus the purchasing power of the citizens.

While both inflation and deflation interfere with the smooth running of the economy, economists, however, believe that moderate deflation is more damaging than moderate inflation.

Deflation can be harmful since falling prices actually inflate the real burden of debt and reduce incentives to produce.

This has negative implications on the effectiveness of monetary policy. Moreover, deflation is fundamentally related to the risk of major systemic shocks in the financial markets.

Deflation and a Decrease in Demand

The main cause of deflation in Georgia is a decrease in demand. For Georgia, the drop in demand was followed by political uncertainty in the country stemming from the 2012 parliamentary elections and continuing until the presidential elections in October 2013.

In addition, low government spending, coupled with a decrease in investments, can also intensify deflation. That was the case over the past year, when the government drastically decreased spending on infrastructure works. The increase in government spending in social services is not enough to offset the difference: according to Geostat, the largest impact on price levels was due to the introduction of universal healthcare as well as government subsidies for child delivery services. Persistent deflation can lead to a number of negative outcomes, such as falling profits for enterprises, resulting in higher unemployment and a cut in income for the population at large.

The issue of unemployment – or, more precisely, low levels of formal employment – is an ongoing issue in Georgian reality. Out of Georgia's total workforce, only 32% of its citizens are formally employed – more than half of the labor force is self-employed – while the unemployment indicator is as high as 15% and projected to grow to above 17% in 2014, according to the latest data by thr IMF. Even though unemployment figures for 2013 are not yet available, there was a decrease in the number of employed in the business sector by roughly 6% as of the second quarter of 2013, compared to the previous year. If we look at business-sector employees according to activity types, the largest decrease is observed in construction: the number of those employed in the sector has decreased by 34%.

Almost all fields saw a decrease in their numbers of employees except for agriculture, due to the active governmental programs directed at this field and a much smaller formal employment base than in other sectors of the economy.

Conclusion

Given the global downturn and inauspicious growth prospects, the task of the government should be to pursue prudent fiscal and monetary policies.

The EPRC believes that the government should work on the preparation of a long-term economic strategy to present clear development directions and create a predictable environment for businesses and investors. This will be especially important as the government seeks to increase foreign direct investment. At the same time, the EPRC believes that the state taking on additional social liabilities – a trend visible in the 2014 budget – is not the way to proceed. Additional social liabilities will be justified only after the economic situation is improved and more or less sustainable growth is achieved. Scaling down infrastructural projects before the private sector takes over is unjustified, as we have seen by the economic and budgetary indicators that Georgia faces today. This is especially relevant given the fact that Georgia still needs large basic infrastructure projects, which are rarely financed by the private sector only. In this regard, the creation and implementation of public-private partnership schemes might be desirable.

Consistent policy initiatives will promote a sense of stability and certainty, thus increasing business activities and overcoming demand-driven shocks. An important point is pursuing activities for easing market entry for newly established businesses and fostering a truly competitive environment.

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Recent Macroeconomic Developments in Georgia - Trends and Policies

IA VARDISHVILI, GIORGI KELBAKIANI, AND YAROSLAVA V. BABYCH

After a period of negative growth following the 2008 war and the global economic crisis, the Georgian economy recovered in 2010. For ten consecutive quarters the country's economy grew at an average rate of nearly 7%. This rapid growth spurt lasted until the 4th quarter of 2012. Almost immediately after the official change of political power following the 2012 parliamentary elections, the quarterly growth rate of real GDP posted a dramatic drop – from 7.5% (Q3, 2012) to 2.8% (Q4, 2012). The subsequent three quarters of 2013 showed lackluster 2.4%, 1.5% and 1.3% rates of economic growth, respectively. This sharp decline in growth rates has since become the major underlying theme for political bickering between the rival parties.

Political considerations aside, which economic factors can explain the rapid slowdown in the growth rate of GDP? This article analyzes the economic rationale behind the downturn in the GDP growth rate and discusses the measures undertaken by the government to deal with the worsened macroeconomic environment.

Gross Domestic Product by Categories

The Final Consumption Expenditure category (which includes household and general government finalexpenditure on goods and services, and has the largest share in GDP) was one of the main contributors to the GDP growth rate in 2011. (A 1% increase in this category increases the overall growth rate by approximately 0.9%).

After the elections of 2012, the Final Consumption Expenditure was affected by two principal factors: first, the sharp decline in consumer confidence due to political and policy uncertainty, and secondly, by a pullback of government spending. Hence, the contribution of this category to the overall growth rate declined from 15.3% (Q1,2011) to 1.8% (Q1,2013). Moreover, the Final Consumption Expenditure declined in Q2 of 2013 (relative to the same period in 2012), pulling the overall y/y GDP growth rate downward by 1.5%.

Another income expenditure component responsible for the decline in the GDP growth rate is Gross Capital Formation. This category includes investment expenditure by both private and government entities. Starting from 2011, this category of expenditure had a significant positive effect on economic growth, while in the 1st and 2nd quarters of 2013 its growth contribution dropped to 1.7% and -1.5% respectively. This is mainly due to the sharp decline in the growth of public and private investments following the October 2012 elections. The reasons for such a sharp investment drop after the elections are fairly straightforward: policy uncertainty and the prolonged and ineffective process of political cohabitation have impeded private-sector investments in Georgia. In addition, the new government, which had made criticism of "wasteful capital projects" part of its election campaign agenda,sharply reduced capital budget spending after the elections. The contraction was mainly reflected in a significant slowdown of the construction sector. An interesting question would be whether the drop in this category was mainly due to a drop in private or public investment spending. Unfortunately, the existing data do not separate the two categories of capital expenditure.

It is worth noting that, unlike in previous years, an improvement in the

Chart 1. GDP y/y Growth Rate. *Source: GeoStat*

external sector contributed positively to economic growthin 2013. According to a recent release by the GeoStat, the external trade sector in the first nine months of 2013 has seen an increase in exports (14% annual growth), while imports declined by 4%. The slowdown in imports is consistent with the general weakening of aggregate demand conditions observed throughout the year. As a result, the trade balance improved significantly and added 5.5% and 8.2% to nominal GDP growth in the 1st and 2nd quarters of 2013, respectively.

To conclude, the decrease in Final Consumption Expenditure and Gross Capital Formation were the two main driving forces behind the decrease in GDP growth rates, while positive developments in the external sector have played a crucial role in supporting real economic growth. If we suppose that the decreases in Final Consumption Expenditure and Gross Capital Formation were mainly due to the reduced consumer/investor confidence stemming from the policy uncertainty of the post-election period, then we might expect some progress in GDP growth after thepolitical transition has been fully realized.

Gross domestic product by Sectors

The previous government was blamed for excessive spending on construction just before the 2012 elections. This argument seems to be supported by the growth dynamics of the construction sector.The growth rates in thissector dramatically increased one year prior to the parliamentary elections and immediately dropped after the elections, thereby affectingoverall growth rates.

A proper cross-sectional analysis, however, requires consideration of the "weight" of each sector in overall GDP. This would allow us to see how much each sector contributed to overall economic growth, and how each sector's dynamics affected the growth slowdown.

Our analysis looks at at the aggregate measures of the first two quarters of 2013 and the corresponding period from the previous year (Q1 2012 – Q2 2012).

As one can see, considering the share (weight) of the construction sector in total GDP (less than 5%), its high growth rates were contributing 2 percentage points, on average to the 7.5% average GDP growth during first two quarters of 2012. This means that the growth in the construction sector constituted 26.7% of total GDP growth, the second highest contribution after the 2.5 percentage point contribution (33.3% of total GDP growth) coming from the manufacturing sector. Since the manufacturing sector did not show any unusual growth patterns before the elections, it would be hard to argue that the 2012 growth was mainly driven by the "political business cycle" effect.

Yet, in the first two quarters of 2013, the construction sector had the most significant negative impact (0.9 percentage points) on the average total growth rate. While the average slowdown in growth rate during the first two quarters of 2013 was 5.6%, 2.9 percentage points (i.e. 43.5% of the total drop) came from the drop in the construction sector.

While the fall in the construction sector did play a significant role, developments in other sectors were important as well. Another drop is especially evident in the manufacturing sector, which was, and still is, the main contributor to Georgian economic growth.

As mentioned before, manufacturing was contributing 2.5 percentage points on average to the total GDP growth of the first half of 2012, while for the same period in 2013, it contributed only 0.8 percentage points. The contributions from the wholesale and retail trade sector also showed a significant decrease (from 1.2% to 0.7%).The transportation sector slowed down as well, contributing negatively (-0.2%) in 2013 after a solid positive (1.2%) contribution in 2012.

Fiscal and Monetary Policy

The effectiveness of the fiscal and monetary policy response to the growth slowdown is subject to debate.

The Georgian government's fiscal policy remained quite conservative in spite of the economic slowdown. Government expenditure in the first nine months of 2013 declined by 3.3% as compared withthe same period of 2012. ▸▸

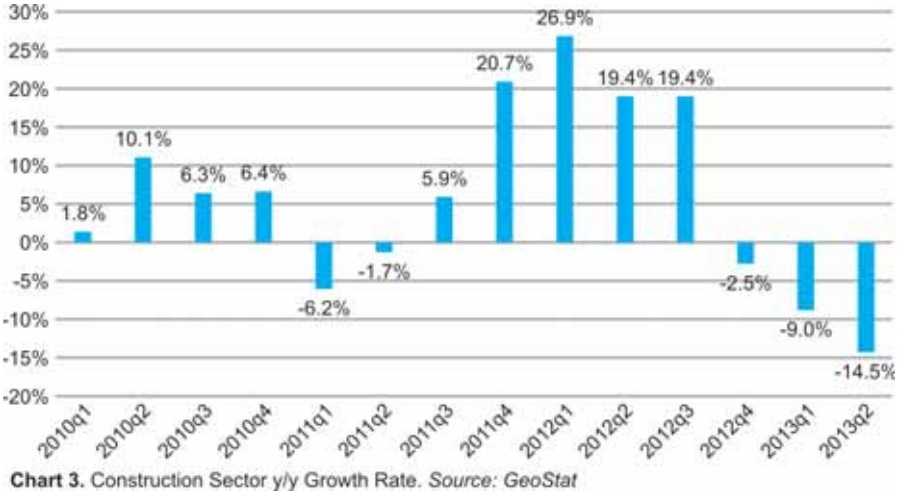

Chart 3. Construction Sector y/y Growth Rate. *Source: GeoStat*

Most importantly, expenditures on the purchase of goods and services were slashed by 34.5%, whereas compensation to employees and social expenditure increased by 15.5% and 18.4%, respectively.

Cash receipts from operating activities (revenues) decreased by 3.4% over the same nine-month period, mainly due to a drop in the tax revenues and other receipts categories.

From the macroeconomic perspective, the decline in government expenditure surely impedes GDP growth by decreasing aggregate demand in the economy. On the other hand, decreasing some of the non-productive expenditures could help increase the effectiveness of government income and thus aid economic growth over the long run. Overall, a balanced approach to government expenditure is needed in order to both smooth out the output fluctuations, and ensure sustainable growth in the future.

On the monetary policy front, the National Bank of Georgia (NBG) has pursued expansionary monetary policy to combat deflation and stimulate the economy as a whole. From June to August 2013, the NBG monetary policy rate decreased by 0.25 percentage points to reach a historical minimum of 3.75 percent. Yet, the policy had little impact on prices and interest rates, mainly due to the high dollarization rates of credit and deposits.

In September 2013, the real effective exchange rate continued to fall (depreciate) by 3.2% y/y, while the nominal exchange rate increased (appreciated) 1.5% over the same period in September 2012. This means that inflation is higher in Georgia's major partner countries, and that Georgian goods have thus become cheaper relative to foreign alternatives, which further stimulates exports and decreases imports.

Future Trends:

The most recent out European Bank for Reconstruction and Development (EBRD) research paper "Economic Forecasts and Other Regional Economic Prospects Data" highlights the fact that, besides the domestic instability and political uncertainty, the whole region of Eastern Europe and Caucasus (EEC) was affected by an unfavorable global macroeconomic environment. The EBRD expects that real economic growth in Georgia will accelerate in 2014 as political and policy uncertainty subsides after the presidential election. In addition, one might hope that further improvements in the Georgian-Russian commercial relationship will also hasten economic growth.

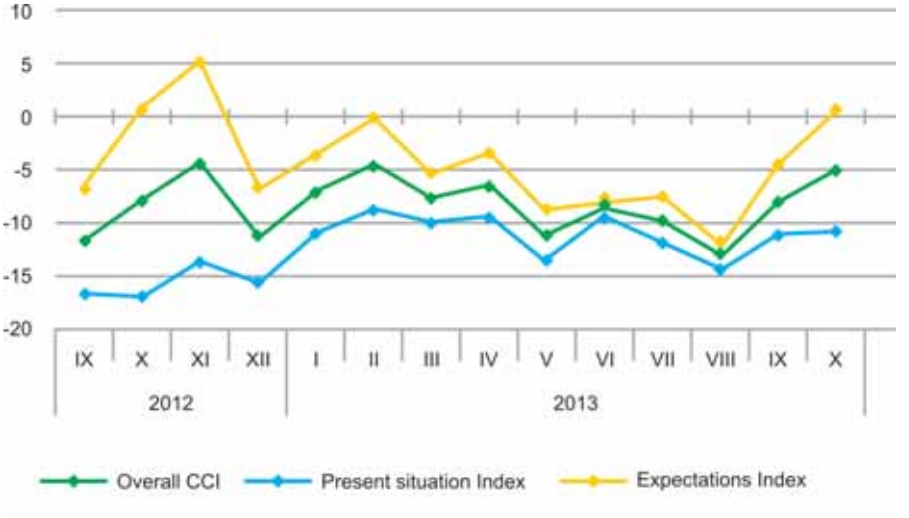

Chart 7. Consumer Confidence Index. *Source: ISET-PI Calculations.*

ISET-PI Forecast:

GDP forecast:

ISET-PI has updated its forecasts for Georgia's real GDP growth rates using the September 2013 releases of predictor indices. The updated growth forecast for the 4th quarter of 2013 was revised downward from 5.2% to 4.5%, though it still stands much higher than the growth rates from previous quarters.The forecast for the yearly growth rate currently stands at 2.4%. This projection is in line with the 2.5% annual growth forecast that the IMF announced for Georgia in their most recent October 2013 report.

Consumer Confidence Index:

The most recent data on the Consumer Confidence Index (CCI) are quite encouraging. The aggregate demand weakness appears to have eased after September. After two months of continuous decline in consumer confidence (with the historical minimum being reached in August 2013), the index increased by 5 points, settling at the -7.9 point mark in September. Consumer confidence continued to climb in October 2013 as well. Overall, the CCI gained 2.9 points over the September 2013 figures, to reach the -5 point mark in total.

While some of the improvements in CCI may be related to seasonal factors (such as "rtveli," the traditional grape harvest), the pickup in consumer sentiment is welcome news for the economy. According to the ISET Consumer Confidence Index (CCI), the monthly change in consumer sentiment was mainly due to a sharp improvement in peoples' expectations about the future, while the annual gains in CCI are mainly associated with a rise in the Present Situation Index.

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HOW THE ROLE OF THE PRESIDENT WILL CHANGE IN GEORGIA?

GEORGIA IS ELECTING A NEW PRESIDENT ON OCTOBER 27, 2013. ACCORDING TO A NUMBER OF NEW CONSTITUTIONAL AMENDMENTS, THE AUTHORITY OF THE PRESIDENT WILL BE DIFFERENT AND REDUCED.

WHAT REMAINS OF THE AUTHORITY OF THE PRESIDENT

- Title of head of the state
- Title of commander-in-chief
- Representing Georgia in foreign affairs
- Granting awards or special ranks
- Pardoning prisoners
- Granting citizenship
- Presenting annual reports to Parliament
- Signing laws

THE PRESIDENT IS DEPRIVED OF THE RIGHT TO:

- Hold additional posts outside the presidency
- Suspend acts issued by the government
- Convene an emergency session of Parliament
- Initiate draft laws

NEEDS THE SIGNATURE OF THE PRIME MINISTER

- Declaring war or state of emengency
- Calling elections
- Ratifying international agreements
- Signing constitutional agreements with the Orthodox Church
- In some cases, requesting Parliament to ratify or anul international treaties

SHIFT IN POWER TO THE PRIME MINISTER

- Appointing or dismissing members of the government, including the defense and interior ministers

NEEDS AN AGREEMENT WITH THE GOVERNMENT

- Appointing or dismissing the chief of staff of the armed forces and other top military commanders
- Appointing or dismissing the chief of staff of the armed forces and other top military commanders
- Nominating the head of the government of the Autonomous Republic of Ajara
- Appointing or dismissing ambassadors and other diplomats

SHIFT IN POWER TO THE GOVERNMENT

- Directing and executing the country's foreign and domestic policy
- Submiting state budget to Parliament for consideration
- Requesting Parliament to ratify or anul international treaties
- Appointing or dismissing provincial governors
- Calling for a referendum

Source: The Constitution of Georgia
Centre for Eastern studies
Democracy & Freedom Watch
Civil.ge
netgazeti

JumpStart Ge

Georgian Entrepreneurs: An Interview with Lado Gurgenidze

Investor.ge is launching a new series of interviews exploring the biggest trends in Georgian business innovation and entrepreneurialism. In each issue, the best and brightest minds in Georgian business will discuss their ideas, market trends, and the obstacles that face Georgian entrepreneurs today. In the second conversation, Investor.ge's Maia Edilashvili spoke with Lado Gurgenidze, a former Prime Minister of Georgia and the Executive Chairman of the Supervisory Board at Liberty Bank.

The Smartest Startup

Lado Gurgenidze is a big name in the small world of Georgian financiers.

But after making a name for himself in international finance circles, Gurgenidze is now banking on unknown start ups as the next frontier for business.

Gurgenidze, a major shareholder in Smartex, is using the Tbilisi-based investment vehicle to seed and invest in startups both in Georgia and beyond since 2011.

Georgia, he said, is and will remain "a very, very small market," but with the growing influence of smartphones and tablets, consumer-focused online startups could become a viable and profitable form of business.

The three main focus areas of Smartex are digital wallets and payments, local deals and search engines, and VoIP communications.

"Being early into this rather small niche makes sense," Gurgenidze told Investor.ge.

"Smartex has been profitable for the past two years, which is rare so early in the game for startup incubators, and its annual profit is roughly 50% of the aggregate amount we have invested in our startups, so, as long as we maintain the profitability and sustain some growth in our core companies, we expect to make some good money in the medium term."

Small, peripheral markets with a shallow talent pool for software engineers and developers like Georgia are unlikely to produce a universal innovation that changes the world, Gurgenidze noted.

But, he said, Smartex is focused on finding talented local entrepreneurs who are capably adapting some well-established business models to Georgian realities.

"I would not bet on globally disruptive innovators arising out of the Georgian startup scene; it is important to set realistic expectations," Gurgenidze noted.

He stressed Smartex practices a hybrid approach: while acquiring majority stakes in local Georgian startups and then helping them develop and grow, they also make "angel investments" –that is, they participate in very early investment rounds of some international companies that could become global sensations.

For now, that means Smartex focuses abroad as much as it seeks out local talent. For instance, Smartex has invested in TransferWise (UK), started by two Estonian founders, which Gurgenidze describes as "probably the highest-profile online financial services startup of the year."

In addition, Smartex has invested in Saving Global; weltsparen.de, a German-based online platform for placing bank deposits in banks in peripheral/emerging economies; and Coinbase (US).

They are also looking regionally: for ▸▸

instance they have invested in FriendlyMe (befriendly.me) for its potential to "become a leading social gifting player in Ukraine, Russia and the rest of the FSU region," Gurgenidze said.

"None of these companies have any problem accessing capital, and we have been invited to co-invest with some very smart VC money with very deep pockets," he said. "Where possible we try to bring to Georgia the service or know-how these companies have, so it is a two-way street."

The Georgian lari is already one of the currencies in which TransferWise operates through its partnership with Liberty Bank, and Swoop, Smartex's local deals and search service, will be launching the FriendlyMe service soon in Georgia, with plans to expand it to Armenia and Azerbaijan.

To inspire Georgian startups, Gurgenidze's Liberty Bank and Smartex brought to Tbilisi Startup Weekend, a globally acclaimed weekend-long event in November, to brainstorm new startup ideas. The goal was to help young, talented people "to have a fair shot" at creating the business of their dreams.

Gurgenidze also hopes the event will raise the general awareness of startups and "angel investing" in Georgia.

Being innovative in Georgia is not always easy. The World Bank's Fostering Entrepreneurship in Georgia 2013 report, a study of 300 micro-, small- and medium-sized companies registered in Georgia between 2002 and 2012, found that the product innovation rate in Georgia is lower than in the South Caucasus as a whole and in European and Central Asian countries.

The report also stressed that most Georgian firms are non-innovators and have low productivity. As a rule, innovation spells success for companies and the economy: innovative firms create 30 percent more jobs and are much more competitive in the domestic small and medium enterprise global markets than the non-innovative firms.

Gurgenidze noted that obstacles facing innovative development in Georgia include "a pretty standard list" typical of any small, low-middle income economy: a small market; limited broadband, smartphone and tablet penetration; a shallow talent pool of software engineers and few universities that have modern IT curricula.

But he stressed the best course of action for the government to help is to stay "out of the way." He believes that "the surest way to kill what little tech entrepreneurial activity there is in this country is to start piling on unneeded regulations."

The key to inspiring innovation, he said, is for business startups to succeed. Others will follow.

"The more entrepreneurs realize that those Georgian startups that meet certain criteria actually have gotten funding – and we have so far invested in about 15 local startups – the more incentivized they will be to try their hand at building viable online businesses," he told Investor.ge.

Transfer Pricing Prospects in Georgia

Taxation of Multinational Enterprises (MNEs) has always been an important challenge for governments and they try to overcome it through various instruments, most notably double tax agreements and transfer pricing rules. The Georgian government is grappling with how to create a transfer pricing model that fits the country's needs. Lawyer and tax specialist Giorgi Narmania looks at international best practices and how they could be used in Georgia.

GIORGI NARMANIA

Introduction

Due to globalization and increased economic integration, it is estimated that more than 30 percent of all international business transactions take place between multinational enterprises (MNEs) and their own constituent members. In order to control the transfer price for goods and services in the intragroup transactions,tax authorities regulate prices for transactions involving the transfer of property or services between the members of same MNE (referred as associated enterprises or related parties), known as transfer pricing. The goal of such legislation is to protect the country's tax base and tackle tax evasion or avoidance by channeling revenues to low- or no-tax jurisdictions.

Transfer Pricing in Georgia and Abroad

Currently the issue of transfer pricing is very high on the global agenda. Prominent corporations, such as Apple, Amazon, Starbucks, and Google have been accused of using gaps in transfer pricing rules to avoid paying tax. The cost to economies has not gone unnoticed: Starbucks, for example, has not

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reported taxable profits in the UK for the last five years, despite sales of £400 million only in 2012.

During the recent G-20 summit in Moscow, the world's richest economies decided to take action. The OECD is working on an Action Plan on Base Erosion and Profit Shifting (BEPS) which will tackle tax planning strategies that exploit gaps and mismatches in the tax rules.

For Georgia, however, transfer pricing is a relatively new concept. While it was introduced in the 2011 tax code, no detailed regulations to implement it were developed. Application of transfer pricing rules is limited to cross-border transactions under Georgia law.

Now, however, the Revenue Service (RS) is working on a draft order to outline how transfer pricing will be regulated in Georgia. In addition, the RS now recognizes OECD Guidelines for transfer pricing, so any issue not addressed in the Draft Order can be interpreted on the basis of international rules.

After adoption of the Draft Order, Georgian companies and representative offices will have to comply with transfer pricing rules when they undertake international transactions with related entities. As the RS constructs a strategy, it is vital it follow the international best practices that allow the government to protect its interests without obstructing the flow of business and capital into and out of the country.

Transfer pricing is considered to be a major international taxation issue and a difficult challenge faced by both governments and companies today. It usually requires significant resources, including skilled human resources and costs of compliance. Therefore, the Georgian government should adopt regulations that will ensure effective administration by the government and minimize compliance costs for taxpayers, including implementing "Arm's Length Standards" and other proven methodologies.

Transfer Pricing: International Best Practices

Arm's Length Standard

The principle of transfer pricing is based on an "arm's length" standard for the pricing of inter-company transactions. Included in the legislation of most countries, it is essentially the market price. Under the arm's length principle, transactions between associated enterprises are compared to transactions between unrelated entities under comparable circumstances to determine acceptable transfer prices. Arm's length price is the price for goods or services to which unrelated parties would agree. It is acomplex task to identify this price and transfer pricing rules provide guidance in this process.

Comparability Analysis

The first step to determine the arm's length price is to locate a comparable transaction between independent parties (an uncontrolled transaction). Finding comparable transactions is an important practical challenge in developing countries, like Georgia, since there is lack of comparable agreements and necessary data. This process is sometimes equated to finding a needle in a haystack.

The comparability between controlled and uncontrolled transactions is mainly determined on the basis of following five factors adopted by OECD Guidelines:

1. Characteristics of the property or service transferred;

2. Functions performed by the parties taking into account assets employed and risks assumed;

3. Contractual terms;

Transfer Pricing Methods

- Comparable Uncontrolled Price Method – this transfer-pricing method compares the price charged for goods or services transferred in a controlled transaction to the price charged for comparable goods or services transferred in a comparable uncontrolled transaction;
- Resale Price Method – it compares the resale margin in a controlled transaction with the resale margin earned in a comparable uncontrolled resale transaction;
- Cost Plus Method – this method compares the mark-up on the costs incurred for the supply of goods or services in a controlled transaction with the mark-up charged in a comparable uncontrolled transaction;
- Transactional Net Margin Method – it compares the net profit margin gained by a taxpayer in a controlled transaction with the net profit margin received in a comparable uncontrolled transaction;
- Profit Split Method – under this method combined profit of associated enterprises is split between them as it would be divided between independent parties in a comparable transaction.

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4. Economic circumstances; and
5. Business strategies of the companies.

If the above factors are similar, anuncontrolled transaction is comparable to a controlled transaction and the relevant arm's length price can be determined. Subsequent to the comparability analysis, transfer pricing methods are used to determine the arm's length price of a transaction. Georgian legislation follows the approach of OECD Guidelines and recognizes five methods to determine arm's length price.

Documentation Requirements

Tax authorities need a number of business documents to determine the arm's length price of a transaction between related parties.

These documents are typically prepared by the taxpayers in the process of comparability analysis. The requirement to produce and maintain necessary documents constitutes one of the most expensive compliance costs for taxpayers. Under the OECD Guidelines the following documents must be prepared: information about the associated enterprises; business structure of the group; description of the controlled transaction; information on pricing, etc. The Georgian Draft Order follows this approach and the list of required documents is comparable to the list provided in the OECD Guidelines.

While adopting themandatory documentation list, tax authorities usually pay attention to the similar requirements of other countries, especially in the same region. Different and inconsistent rules increase the compliance burden for the taxpayers operating in these countries. Besides, several countries–including France, the Netherlands,and Germany–apply simplified documentation requirements for smaller enterprises. Such a flexible approach is used to reduce the compliance burden.

Creating Efficient Transfer Pricing System

In order to create efficient transfer pricing systems, governments employ various instruments, such as Safe Harbor rules and Advance Pricing Agreements (APAs). Safe Harbor rules provide that ifa taxpayer's profits are within a certain percentage or under a certain amount, the taxpayer is not required to follow the complex transfer pricing regulations. The goal of such a provision is to provide certainty and reduce compliance costs for smaller taxpayers, as well as to ensure administrative simplicity for tax authorities. The Georgian Draft Order does not include Safe Harbor rules. The RS should work on this topic as such rules provide an advantage for developing countries to design a transfer pricing compliance environment that makes optimal use of the limited resources available.

Advance Pricing Agreements (APAs) provide the possibility for taxpayers and tax authorities to agree in advanceon the transfer pricing methodologies of forthcoming transactions. Such a regime leads to greater certainty for the taxpayer and it is considered as the safest way to establish the arm's length price.The Georgian Tax Code envisages the APA procedure, which is a legally binding agremenetbetween taxpayer and tax authorities.

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Khudoni: The Future of Georgia's Energy Supply

MAIA EDILASHVILI

While there is fierce opposition to plans for the Khudoni Hydro Power Plant in Svaneti, the government and hydro power specialists maintain that it is a project that could revolutionize the future of Georgia's energy sector.

Georgia has an estimated 300 rivers with the potential to create energy, but is using just ten percent of them – a fraction of the 70 percent used by European countries, noted Nodar Begalishvili, the chairman of the Scientific Council at Georgian Institute of Hydrometeorology.

Begalishvili, who has spent 44 years studying hydroelectric energy, believes hydroelectric energy – particularly large hydroelectric projects – are Georgia's future. Currently, Georgia's annual electricity production is 10 billion kw/h. Begalishvili, however, believes Georgia can produce ten times that if Khudoni and other hydro power projects are built.

"Of cause, we must construct Khudoni and as many more Hydro Power Plants [HPPs] as possible if we want to develop as a country," he said. "[O]ur only natural wealth is water and hydro resources ..."

Foreign investors appear to agree.

Trans Electrica Ltd, an Indian company, plans to construct the Khudoni HPP in the Enguri river gorge in Mestia Municipality. The HPP's planned capac-

ity is in excess of 700 MW and planned annual generation is estimated at 1.5 billion kw/h. If constructed, Khudoni will become the country's second largest HPP after Enguri, a 270-meter cascade HPP dam with a capacity of 1,320 MW and annual production potential of 3.8 billion kw/h. Enguri currently comprises approximately 35-40 percent of Georgia's total electricity generation.

By comparison, the Khudoni project includes a 200-meter high dam, currently slated to be constructed 31 kilometers from Enguri dam. Trans Electrica started constructionin 2012 and is expected to put the HPP into operation in 2018.

Opposition to the dam includes locals who worry that their communities, homes and cemeteries will be flooded as a result of the dam. The controversy is not new: under the Soviet government, a similar project was planned in the late 1980s. It was halted, however, due to mass protests led by late Prime Minister Zurab Zhvania.

However, faced with pressure to diversity energy sources and increase electricity exports, in 2008 the Georgian government revisited the idea of building a new major hydro power station.

When the Saakashvili government approved the Renewable Energy 2008 strategy, it included a list of hydro projects, including the Khudoni project, citing the need to create enough energy to export to bolster the country's economy and self-sustainability. NGOs, many specializing in human rights and environment rather than in economic analysis and energy, have blasted the new project for its potential harm to the environment and property rights.

A big concern of environmentalists is that going ahead with Khudoni project – spanning 1,538 hectares in total - would leave 528 hectares of land under water, displacing 2,000 people or 184 households from indigenous Svan communities.

"The villages Khaishi and Chuberi, agricultural lands, pastures, parts of the forest, two churches, cemeteries, significant historical sites, including-Khaishi fortress [dating from the Middle Ages] and another still-to-be-studied archeological monument dating back to the first century … will be either flooded or indirectly affected," reported Green Alternative, a Tbilisi-based NGO and a major opponent of the project.

Additionally, opponents argue that both the government and investors have failed to provide sufficient arguments ▸▸

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concerning what makes Khudoni a "strategically important" project.

Why Does Georgia Need Khudoni?

For nine months out of the year, Georgia is self-sufficient in electricity. The majority of the country's hydro energy comes from run-of-river plants, which benefit from Georgia's rains and snow melts. Energy production is so high, even with small plants, that Georgia is an energy exporter in the summer.

But in the winter, when the water flow is low, the country has to import electricity. According to official statistics, in 2012 Georgia imported 614.59 million kw/h electricity, buying most of it from Russia and a minor share from Azerbaijan and Turkey. The same year, Georgia exported 528.15 million kw/h to Russia, Turkey, Armenia and Azerbaijan. The most successful year over the last decade was the rain-rich 2010, when Georgia was able to sell 1.5 billion kw/h electricity, an indicator of further potential for export – especially to energy-hungry Turkey – if Georgia can create the capacity necessary to stabilize its production. Export potential has swayed even former opponents to Khudoni: in 2012, the Georgian Dream Coalition campaigned against the project, as well as large dams in general. But, after coming to power, they have continued the former government's energy policy, including plans for completing Khudoni.

According to Deputy Energy Minister Ilia Eloshvili, currently Georgia pays up to $30 millionper year to Russia to buy electricity, the same as the budget funding for the Ministry of Sport and Youth Affairs in 2012. Official statistics show that Georgia's electricity consumption increased from 8.6 billion kw/h in 2007 to 10 billion kw/hin 2012; hydro power covered 70 percent of that.

"Georgia's electricity deficit increases by 3-4% annually," Eloshvili told Investor.ge "[I]t's a must to use our hydro resources in order to meet the growing need and [avoid] dependence either economically or politically on any neighbor, in particular [considering] what a difficult region we live in."

The government's expectations are high for fiscal indicators as well: the Ministry of Energy estimates that an investment of $1.2 billion will provide revenues in income tax of approximately $3 million annually during the construction period.

"After it has been put into operation economic growth will be boosted by 2.7 percent per year. No other plant can bring such a huge benefit to Georgia; this is why we should do our best to construct Khudoni," Eloshvili said.

Large vs. Small

But critics maintain the government's current policy, known as Build-Own-Operate (BOO) – the company that constructs the dam owns and operates it –puts more profits into investors' pockets, than the government budget. Irakli Galdava, Research Fellow at ISET Policy Institute,believes the currenttransmission tariffis ahumble return on the massive capital outlays and environmental damage. "The build-own-operate (BOO) principle means that investors build a power plant – own it forever – unless he/she decides to sell the HPP, and operates it. This means that the country should not expect to [acquire] a HPP in state ownership," Galdava told Investor.ge.

"Imagine that Enguri and Vardnili HPPs (both under state ownership), producing about half of [Georgia's] total hydro generation and selling electricity at a price lower than 1.5 tetri, is under private ownership. What would be the price in this case? Definitely several times higher ..."

Galdava recommends the government introduce a transfer to state ownership after a set period of time, a practice common in other countries. Green Alternative, which has been campaigning against large dam projects, believes the state will receive so little from Khudoni that it is not worth building.

The government, however, maintains that small- and medium-sized HPPs alone cannot solve Georgia's challenges.

"We need big plants with dams. Electricity is not storable but we do have possibility to store water in reservoirs," Eloshvili said. "This is how Enguri HPP operates – during the spring and summer seasons we keep water at the highest point to use it in winter. Such HPPs are called regulating ones as they help to dole out water resources seasonally. Khudoni will be such a type of HPP." Murnam Margvelashvili, the director of Energy Studies at World Experience for Georgia (WEG), agrees. "Small HPPs are not an alternative to large ones. For instance, Khudoni's capacity would be 700 MW, while Ortachala HPP's (a medium-sized HPP located in Tbilisi and owned by the Czech Company Enrgo-Pro) capacity is 18 MW. This means we would need to construct as many as approximately 40 HPPs of this size to get the same capacity," he said.

Economists have also weighed in on the large-versus-big debate, noted ISET's Galdava, and do not recommend relying only on small hydropower plants – an idea promoted by environmentalists.

Currently, 27 mini HPPs are in operation with a total installed capacity of approximately 90 MW. Margvelashvili stressed that the Khudoni project is an opportunity, not a threat.

"Sixty-five percent of our energy comes from outside sources. How can we miss such an opportunity?" he asked.

Season's Greetings!

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Oh Christmas Tree, How Lovely Are Your Branches...

MONICA ELLENA

Christmas is the season of goodwill, festive cheer – and fat profits for retailers. Like it or not, the commercialization of this Christian holiday offers plenty of opportunities for the discerning businessman (or woman). But could Georgian businesses be doing more to cash in?

Georgia has one lesser-known comparative advantage at this time of year: Christmas trees. The Caucasian Fir – better known as Nordmann Fir or Abies-Nordmanniana, named after Alexander von Nordmann, a Finnish biologist who extensively studied it in the nineteenth century – is a towering evergreen native to the Caucasian mountains. It is also Europe's favorite yuletide tree.

"Georgia dominates this niche market," explained Marianne Bols, social entrepreneur and founder of Fair Trees, the only Fair Trade-certified Christmas tree grower, which is based in Denmark."The Nordmann fir is a house-friendly tree, it

is not sticky, and its needles are softer and less likely to fall off. Plus it is beautiful."

Georgian Seeds, European Trees

But Georgia does not export fully-grown trees. Rather, it sells seeds from Nordmann Firs to growers abroad, who plant them in local nurseries. These seeds account for 90 percent of the roughly 45 million Christmas trees sold every year in Western Europe, according to Fair Trees. Denmark is Europe's largest exporter of Christmas trees, supplying 7 million trees per annum on average.

Could that change? In 2011 the Georgian government's sovereign fund, the Partnership Fund, asked PricewaterhouseCoopers (PwC), the international professional services firm, to conduct a feasibility study into the potential of Christmas tree farming in Georgia.

"The idea came after a close look at seeds trading," explained Nino Cholokoshvili, one of the Fund's senior investment officers. "We thought about expanding to actual tree farming."

According to the study, current planting estimates suggest that Christmas tree production in Denmark will double in the next ten years. Increased production by Denmark and other European countries is likely to result in stable or decreasing Christmas tree prices and aneven greater emphasis on product quality in European markets.

"A full value chain, from seed harvesting to tree farming and export, would create business and employment opportunities in Racha," said Nika Abuashvili, who conducted the research for PwC. "Georgia has cheap and available land and labor, in addition to the seeds."

But it would not be easy. "Georgia, though, lacks the capital and the know-how of Christmas tree growing, which resembles high-tech horticulture," Cholokoshvili continued. Moreover, the time needed for a production cycle – seven to nine years for one generation of trees – is a deterrent for small investors. The business suits European tree growers interested in diversifying their products and markets beyond Europe.

"Europe has a mature and rooted market. Entering in competition with established farms the size of 500 hectares is almost impossible for Georgia. Moreover, a strict phytosanitary regulation is in place making importing live plants into the EU a challenge, although there is track record of exporting live plants and seeds by both local and foreign companies to EU from Georgia," adds Abuashvili. The South Caucasus market may be another story. The study highlights that the market for live Christmas trees is limited due to supply shortages. The main competition comes from artificial trees, which are mainly produced in China. According to the study, Georgian-grown trees would be cheaper.

Risky Business

In the meantime, Georgia could also improve the business of seed collection. Seed collection per se is an old practice, dating back to the early part of last century. In Soviet times it was strictly regulated by the forestry authorities. In the 1960s Danish and European Christmas tree farmers started traveling to the Caucasus to study the tree and develop seed trading between Europe and the USSR. Harvesting seeds on a commercial basis poses a number of challenges.

The first is licensing. Georgia has approximately 130,000 hectares of forests available for licensing. In 2009 the body that regulated forestry management was abolished. Companies still have to apply for a license but inspections are carried out only following specific complaints to the Ministry of Environment. Environmental organizations have been calling for years for a package of legislative changes for forest monitoring, taxation and licensing.

Collecting the seeds can also be dangerous.The best trees are in Racha, and can grow up to 60 meters. Pickers have to climb up to the very top of the trees, where they find the best cones. Safety equipment is rarely used and pickers are paid a pittance (as much as 2 GEL per kilo of cones, but more often 1 GEL per kilo). It takes 10 kilos of cones to make 1 kilo of seed. "We provide insurance and safety training twice a year to our pickers, who have been working with us for years," Bols explains."There is a narrow window of two weeks in September for harvesting, and every year forests around the Shaori Lake are invaded. It is the cone rush. People come from all over the country to pick up cones, risking their lives to make some extra money."

Fair Trees established a foundation aiming at drawing attention to and improve the living and working conditions for the cone pickers in the area. The foundation runs projects like dental care for children, scholarships, and is currently building a new kindergarten. "Racha lacks resources, and those beautiful trees are a treasure," Bolds adds."If we get the seeds, the least we can do is make sure that the community also benefits from this trade."

LITTLE
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Giving and Receiving in Georgia

In July, new amendments to the tax code finally officially defined "donation," a change that should allow taxpayers to deduct not only monetary gifts to charities but also to quantify and deduct the value of pro-bono services and property donations.

Those changes could provide an extra stimulus for charitable giving by incentivizing philanthropic donations through tax breaks. But will that be enough to help non-profits create a culture of charity in Georgia?

Investor.ge asked four non-profits – American Friends of Georgia, D.O.G Shelter, McClain Foundation, and the Salvation Army – to write about the challenges facing charities and how the new amendments, and a proposed draft law, could help.

Fantasy and Facts: Georgian Charity Organizations

The lack of information and education about the tax laws and their implications for non-profit organizations in Georgia is hampering the development of philanthropy in the country.

RUTA CASABLANCA AND
NINO LOMIDZE

Civil society organizations have a critical role in a democratic society: they provide a voice to vulnerable populations, to those who have little or no access to decision-makers, experts, and politicians. These organizations often provide critical social services not otherwise available.

They also fight for transparency between the public and their government. However, most NGOs struggle to survive, especially in developing countries where they depend on international funding and where a culture of philanthropy is weak.

In addition, a lack of information and understanding about existing services and benefits for non-governmental organizations (NGOs) and non-profits in Georgia is hampering activities. Without proper access to information, charities are not able to make educated decisions about their activities.

For instance, McLain Association for Children (MAC) was offered fifty wheelchairs in the US but declined the donation believing that they would have to pay a 20% customs tariff duty on the wheelchairs that they could not afford. According to Vazha Salamadze, director of Civil Society Institute (CSI), there is a mechanism to bring in-kind contributions to Georgia without paying the customs tariff. What MAC needs to do is have the wheelchairs donated to a non-profit in the US which can then make an in-kind contribution to an NGO in Georgia. This grant agreement should be presented to the Ministry of Finance, which will issue the appropriate document to void customs tariffs. This information is not readily accessible to a small NGO in Georgia such as MAC.

Although NGOs such as CSI and the Consulting and Training Center (CTC) are important resources for information, their services are not widely known or accessible, especially in the smaller cities and villages of Georgia. CSI recently held trainings on the Tax Code for financiers and lawyers of CSOs in Tbilisi, as well as major cities throughout Georgia. It published a guide, "Financial Registration and Accounting of Not-for-profit Legal Entities,"available on its website in Georgian (www.civilin.org). MAC was not aware of this training or the guide.

NGO Status vs. Charity Organization Status: Benefits vs. Difficulty

While most charity-oriented NGOs would like to have charity status, as it provides tax relief for everyday expenses and humanitarian aid (for example, NGOs with charity status can bring goods from overseas without paying taxes), the lack of information and education about the tax law and its implications are, once again, an issue.

Another issue is the perception among directors of small NGOs that, while applying for charity status, their NGO records will be finely reviewed by the Ministry of Finance and that they can be penalized by any unintentional mistakes. Other NGOs avoid charity status because of extra expenses needed for providing records.

According to Salamadze, it is not difficult to obtain charity status for a NGO, but the benefits are limited. The primary benefit is that a business, which donates to the charity, can get a tax benefit of up to 10% of their tax liability. But the culture of corporate social responsibility is poorly developed in Georgia and NGOs do not often solicit funds from businesses. Other benefits include the ability to make scholarships to socially vulnerable populations without tax implications for the recipient, although rules do apply. Also an organization with charity status does not pay VAT on purchases, whereas a NGO must pay the VAT and then apply to the Ministry of Finance to get reimbursed. If the NGO purchased materials for a grant and they receive the reimbursement after the grant is completed, the reimbursement becomes income and the NGO must then pay tax on it. Salamadze also stated that an NGO must be in existence for one year, file an application with the Ministry of Finance, and include their registration documents and an audited financial statement to receive charity status. The Ministry of Finance has 30 days to reply and if no reply is received, the NGO automatically receives charity status. Afterward, the charity must file an annual report with an audited financial statement with the Ministry of Finance each year.

MAC's experience: MAC's accountant went on the Ministry of Finance's web site, but found the instructions were not clear, requiring a trip to the Ministry of Finance to get the correct information. The lack of simple, straightforward procedures makes it difficult for charities to work – and makes it more difficult to ensure their clients receive the maximum

benefits of their aid. For example, MAC is supporting and encouraging students from small cities and villages to attend universities or technical schools through a scholarship program for poor and socially vulnerable young people. But there was a question as to whether or not the young recipient is then required to pay a 20% tax on the money received. According to Archil Tsertsvadze, Legal Expert for CSI, the tax regulations state that a NGO can make a grant to an individual for educational purposes, which would not encumber the student with a tax liability. Therefore, MAC can support these students within the law by making grants to them – an easy solution, once discovered.

Tax Incentives to Encourage Philanthropy in Georgia

Many countries, including the US, Great Britain, and other western European countries provide tax incentives for individuals to give to charitable organizations in their countries. This approach can help create a strong culture of philanthropy. In the June 2012, The Economist reported that high tax breaks in the United States have inspired Americans to give.

"America has the most generous tax incentives for charity, and has the highest giving as a proportion of GDP, at 1.67%, according to a rare comparative study by Britain's Charities Aid Foundation," the article reports. "Britain's tax breaks for charity are the next-most-generous, and it had the second-highest share of charity to GDP, 0.73%, followed by Australia, 0.69%, which also has significant tax breaks. By contrast, the relatively weakly incentivized Germans give only 0.22% of GDP."

However, because Georgia has a flat tax, tax deductions would not provide as big an incentive as in the US or Great Britain.

Therefore, one option local NGOs are pursuing is the "one-percent law" which has been adopted by several Central and Eastern European countries such as Hungary, Poland, Lithuania, Slovakia and Romania.

Nilda Bullain of the International Center for Nonprofit Law (ICNL) analyzed the history, benefits and challenges to this form of support to NGOs in her article "Explaining Percentage Philanthropy: Legal Nature, Rationales, Impacts."

Basically the law states that one percent of personal income tax of taxpaying physical persons can be transferred to the state for social purposes (and the church), or designated to a specific ▸▸

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NGO. Any NGO can then apply to this fund. However, in Slovakia and Poland, which adopted "percentage legislation" based on the Hungarian example, the church is not a permissible beneficiary, except in the form of NGOs established by the church.

Recommendations

Although applying for charity status is relatively simple, it does require filing with the Ministry of Finance and filing yearly reports. The instructions on its website are not very clear. In addition, it is difficult for small organizations to find out what the regulations are, what they mean, and what changes are being proposed. Therefore, one recommendation would be to have a NGO Resource Center which would provide one-stop shopping, where all relevant information, legislation, and initiatives could be found, including specific instructions on applying for charity status, and its benefits and obligations. This would be especially helpful in the regions and small towns where the smaller NGOs have very limited access to the information they need to do business in Georgia.

In addition, if the government agrees to develop percentage legislation to encourage philanthropy there is a concern that in Georgia the funds would predominantly go to the Georgian Orthodox Church and the various philanthropies would spend an inordinate amount of their funds and energy marketing their NGOs to access these funds. Since that could ultimately harm organizations that are not directly connected to the church but do valuable work, we recommend any law on donations take those cultural issues into consideration.

Ruta Casablanca and Nino Lomidze are project managers for McLain Association for Children (MAC)

Volunteering for the Voiceless

Fiona Coxshall, Chairperson of Dog Organization Georgia (D.O.G), explains how even small actions can make a big difference in the lives of abandoned and stray dogs in Tbilisi – and why that is good news for everyone. Photo provided by Jeannet Blackman and Melissa Stonehill.

When most people think of charity, they think of money. That makes sense – charities, regardless of whether they are serve people, animals, or conservation efforts – need financial help to survive.

In Georgia, where the culture of charitable giving is still nascent, however, there is still a disconnect between the idea of giving money and the priceless act of giving time. In fact, while charities and non-profits in the United Kingdom and the United States depend largely on small donations from people of all walks of life, they equally rely on the strength of volunteers to get things done.

D.O.G.: Giving Georgian Dogs another Chance

Dog Organization Georgia (D.O.G.) is a charitable organization which aims to improve the welfare of stray dogs in Georgia through its shelter and medical care, vaccination and sterilization programs, public education and information,consultation with the authorities, and a homing program.

D.O.G.is fortunate to have a dedicated team of volunteers who take on tasks according to their talents and schedules – some walk and groom dogs or play with puppies; others ferry dogs and puppies to and from the veterinarian; some keep medical records; some translate public relations materials such as our newsletter or our "Dogs for Adoption Catalogue"; while others undertake short-term foster care or fundraise.

However, it is important to note that currently the volunteers are mostly from the expatriate community. We would like to see more Georgians become involved, as the expatriates will not be here forever and the good work started by the founder, Ivo Bakhuijzen, needs to be sustainable.

Not everyone is able to help financially, but there are other ways for people to help and any willingness to volunteer should be encouraged.

A 2013 study by Texas A&M University on why people volunteer found that, when given the option between donating time versus donating money, volunteers who provided a service to a charity gave more than those who just provided money.

Business leaders could help by fostering a culture of volunteering among their staff and perhaps this could be facilitated by some sort of government incentive to companies which donate, support volunteer activities, or actively promote a volunteer mentality. In the West, many employers sometimes allow their employees some time off work (perhaps during the "quiet season") to carry out voluntary philanthropic work.

Having more volunteers would make a big difference to many charitable organizations, and for D.O.G. it could help initiate far-reaching positive consequences. In particular, not only would the organization be able to vaccinate

and sterilize more street dogs, making them safer, but also it would be able to increase its efforts to inform and educate the Georgian population on the value of adopting mixed-breed dogs, as well as on the benefits of sterilization.

Small Gifts, Big Difference

But financial donations are also needed to really deal with the issues facing the homeless dog population in Tbilisi.

Caring for around 35 dogs and puppies at any one time is costly. First and foremost, D.O.G. ensures that all the dogs and puppies that come through its facility are checked by a veterinarian and receive appropriate medical care where necessary. The dogs receive a complete set of vaccinations (yearly, if they are with the organization for an extended period) against life-threatening diseases such as canine flu and parvovirus as well as rabies, which can be deadly to humans. In addition, D.O.G. sterilizes all its dogs and puppies before allowing them to go to new homes to prevent more unwanted puppies on the streets.

In addition to medical costs, funds are needed to maintain the D.O.G. facility near Lisi Lake. Day-to-day running costs include a caretaker's salary, fuel and, of course, food for the dogs, while from time to time general repairs are needed to the building, enclosure and individual runs to ensure a safe environment for the dogs.

Unlike many larger, international charities, a grassroots program like D.O.G does not receive government funding or grants, so is fully reliant on its own fundraising efforts and donations. When it is a challenge to raise the funds to keep the shelter operational on an everyday basis, it makes it very difficult to carry out improvements or upgrades to our current basic facilities.

The task would be easier if companies were encouraged to help support organizations such as D.O.G., which are trying to make a positive impact. For example, there needs to be better incentives for companies, or tax breaks for individuals, that make charitable donations to inspire both individuals and companies to make positive contributions to their own community as well as to the country as to the a whole.

In many European countries individual taxpayers' donations are topped up by the government, while companies receive tax breaks and incentives for charitable donations in various guises, such as financial sponsorship or goods in kind.

For developing economies like Georgia, it is easy to see why charity – especially charity for homeless animals – might not be at the top of most households' priorities. But the simple truth is that small donations add up to big differences.

While corporate donations are great, a few well-targeted lari can also make a world of difference.

For example, for D.O.G. 10 lari covers the cost of annual vaccinations for a dog or puppy, while 15 lari will pay for a veterinary check on arrival and 25 lari feeds a shelter dog for about a month. 100 lari has a great effect as it enables us to spay or neuter a puppy, which stops more unwanted puppies from being born.

The D.O.G. 2014 Calendar created by the volunteers has proved an effective method of encouraging small donations, which soon add up to a substantial amount. With generous corporate sponsors covering the cost of the printing, all proceeds go directly to the shelter. Last year the calendar generated enough income to run the shelter for a whole month.

Helping D.O.G.

If D.O.G were to have a "wish list," it would include a construction company willing to donate a new fence, or financial assistance to extend a water main to the shelter (as D.O.G. presently uses a generator to pump water from a well) and an electricity company willing to donate or substantially reduce the cost of installing mains electricity, in particular to enable the shelter to provide heating for the dogs during the harsh winter months.

Fewer unwanted puppies and stray dogs on the streets will mean a reduction in the spread of disease and this, together with less unsightly rubbish dragged from rubbish bins, will result in a cleaner, healthier environment.

This is not only good for residents of Georgia, but also makes it more attractive – both to businesses considering opening local offices as well as for tourists with money to spend.

All this can only benefit the country, by helping contribute to Georgian economic growth.

Re-Creating a Culture of Charity

At the turn of the 20th century, philanthropy was an integrated part of Georgian life. Wealthy Georgians – and foreigners living in Georgia – gave to charities and the arts to support culture and education. The Soviet experience, however, put a stop to the practice. Today non-profits are working to rekindle the instinct to give.

The culture of charitable giving is gaining momentum in Georgia, one tiny donation at a time. Despite wide spread poverty in the country, non-profits like the American Friends of Georgia (AFG) and the Salvation Army are seeing an uptick in Georgians' desire – and ability – to help those in need.

For B. Donald Ødegaard, the acting regional commander for Salvation Army in Georgia, Georgians' instinct to give is evidenced with every clink of a coin in a panhandlers' cup at the traffic lights in central Tbilisi.

Ødegaard, who served with the Salvation Army in Moldova before coming to Georgia, noted the legacy of the Soviet system – everyone is taken care of by the state, not the community – can be an additional obstacle for these countries.

"I think the only way that people, that you can change that culture, is when people have more than they need. So they have room to give. And I think it could take a generation," he said, adding, however that when people stop and give to panhandlers on the street, they are confronting poverty head on. The instinct to help is a natural one.

"I think it has to do, it has to do with teaching and changing the culture and I do believe that in this part it will take time,"Ødegaard said. Lena Kiladze, the country director for the AFG, said reintroducing the idea of philanthropy is part of her organization's mission.

"We are slowly starting to rebuild this tradition of philanthropy; this is one of the goals of the American Friends of Georgia. We are trying to provide some humanitarian help, to help the neediest and this is one of the directions – to restore the tradition of philanthropy in Georgia," she said.

"We – and I personally – believe that there are problems in the country which can be solved in the country, not by other organizations. Community and country and civil society are capable to solve them, it is just a matter of organizing."

Kiladze stressed that Georgians, especially Georgian businesses, are becoming more proactive – donating to charitable events. At AFG's main fundraising event, its annual gala, a Georgian company, Petrocas Energy, matched all the funds they received via the art auction – essentially doubling the amount AFG earned to help children and the elderly in 2014.

But even local artists, far from the richest members of society, are also stepping up, giving in kind by gifting their work for auctions and fund drives.

"I cannot say that people are not helping. Every year the culture of corporate giving is being developed more and more. Every gala shows more and more support from the companies," she said.

"I am very happy that more and more Georgian companies are participating actively."

AMCHAM GEORGIA

15TH ANNIVERSARY GALA

Save the Date

AmCham Georgia's 15th Anniversary
at a black-tie gala
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Champagne reception in the funicular lounge,
four-course gourmet dinner,
dancing to three live bands

AMCHAM CONTENT

Delegation holds talks with leading think tanks including Brooking Institute's Fiona Hill, Director of the Center on the United States and Europe and other Senior Brookings fellows. Pictures left to right: George Bachiashvili, Richard Kauzlarich, Andrew Coxshall, Nino Suknidze, Fiona Hill, Sarah Williamson, Cliff Isaak, George Chirakadze and Amy Denman.

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Meeting with Senator Chris Murphy's Senior Foreign Policy Advisor Jessica Elledge and Senator Ron Johnson's Legislative Correspondent - Armed Services, Foreign Services and Judiciary. Issues discussed focused on changes in the business environment over the past year, energy security, trade and transportation, reform of the judiciary and general expectations following the Vilnius Summit.

AmCham Georgia President Sarah Williamson: Time for a free trade deal with Georgia

AMERICAN CHAMBER OF COMMERCE IN GEORGIA PRESIDENT SARAH WILLIAMSON

Guest Commentary published in The Hill on November 13

Imagine a country whose legislative body vigorously debates policy proposals and then comes together to strike compromises for the common good.

Imagine a government that enacts regulatory reforms that encourage long-

term growth, expedites the country's acceptance into trade agreements with the largest markets around, and creates a more equal business environment. What country comes to mind? For me it's Georgia, where I've lived since 1998 and co-own the country's largest IT company.

In recent years, few countries can match Georgia's progress when it comes to strengthening democratic institutions and creating a business-friendly environment for American investors.

As a steadfast ally of the United States in a strategically important region, whose soldiers have stood shoulder to shoulder with American forces in Iraq and Afghanistan, it's about time Washington took note of Georgia's recent accomplishments.

The presidential election held at the end of October was widely hailed by international observers as a successful free and fair election. This is a huge step for a country where stolen elections led to revolution only a decade ago.

A pre-election assessment from the National Democratic Institute found that Georgians now "enjoy an electoral environment shaped by the fundamentals of democracy: the first peaceful transfer of power through the ballot box; a credible political opposition; a parliament characterized by meaningful debate and decisions; an increasingly independent judiciary; and a lively media environment."

The presidential election marked another watershed moment as Prime Minister Bidzina Ivanishvili and President Mikheil Saakashvili, both of whom deserve credit for where Georgia is today, will leave government in the next month. Georgia is now entering a more vibrant era of governance where democratic institutions trump individual personalities.

President-elect Giorgi Margvelashvili and Prime Minister-designate Irakli Gharibashvili represent Georgia's new political class who can work across party lines and are focused on an aggressive reform agenda.

Over the past year, Georgia has made tremendous progress in strengthening democratic institutions. For the first time, the Parliament functions as a true legislative body with a significant majority and a strong opposition. Committees hold open debates and engage in negotiation and compromise more often than they do in Washington.

Among rule of law experts, there is near unanimous agreement that the judiciary is much more independent than it was a year ago. In a dramatic break from the past, judges are now ruling against prosecutors in many cases, and defendants are acquitted due to a lack of evidence or procedural violations. While we take these things for granted in the West, these are remarkable developments when one considers how Georgian courts functioned just over a year ago.

While the strengthening of democratic institutions bodes well for the future, Georgia's transition to a full democracy needs continued support from the West. A successful presidential election and the appointment of a new prime minister carried out in accordance with the Constitution provide the U.S. with its greatest opportunity in recent years to help the Georgian people realize their ambition of integrating into the Euro-Atlantic community.

Along with strengthening democratic institutions, Georgia has initiated reforms to improve the business environment and to further integration into the global economy.

The new government regularly consults a broad base of stakeholders, including business associations and civil society organizations, on legislation impacting the business community

Over the past year, the government has introduced customs clearance zones and undertaken balanced reforms, while strengthening legal institutions relevant to business regulation.

The impact of these reforms is just starting to be felt. Recent estimates from the World Bank predict Georgia's economy will grow by 5-6 percent next year.

Georgia is now poised to ink a Deep and Comprehensive Free Trade Agreement (DCFTA) as part of its EU Association Agreement that will be enacted later this month. The EU forecasts that the DCFTA will eventually increase Georgia's exports to the EU by 12 percent and imports from the EU by 7-8 percent. Full implementation of trade-related reforms could increase Georgia's long-term GDP by more than 4 percent.

Two years ago, President Obama announced that the US would begin discussing a free trade agreement with Georgia. Since Georgia has met the EU DCFTA requirements, which are considered as demanding as U.S. requirements, it's time both countries move forward in earnest on this mutually beneficial initiative.

The strengthening of democratic institutions, combined with pro-business economic policies aimed at unlocking Georgia's growth potential, drives my optimism about Georgia's future. In a region of the world that is trending away from democracy and free markets, Georgia provides a unique success story that U.S. policymakers should embrace by extending opportunities for greater Euro-Atlantic integration.

Sarah Williamson is the President of the American Chamber of Commerce in Georgia and Co-Owner of United Global Technologies [UGT], the largest IT company in Georgia.

AmCham Georgia Goes to Washington

Sarah Williamson, President of AmCham Georgia speaks with Senator Rob Portman. Senator Portman sits on the Senate Finance Committee, the Senate Committee On Homeland Security and Governmental Affairs, the Senate Energy and Natural Resources Committee, and the Senate Committee on the Budget.

The Chamber met with high ranking policy makers and opinion makers during a busy week in the American capital, providing key staff members on the Hill and major think tanks with a balanced and nuanced picture of the changes and reforms underway in Georgia. Investor. ge spoke with AmCham President Sarah Williamson about the trip and what it means for AmCham members.

For five days, AmCham Georgia President Sarah Williamson and the AmCham delegation became the face of Georgia in Washington, D.C.

While reaching out to educate lawmakers about Georgia's developments is an unusual undertaking for the Chamber, Williamson stressed AmCham was uniquely placed to provide a balanced perspective to the reality on the ground.

"After the 2012 election we were also, as many others, concerned and we expected there to be a bit of a wait-and -see time on how the new government would handle a lot of things. Of course there was concern about what the relationship with Russia would be, what kind of policies would be, what kind of reforms would be coming, and so on," she said.

"But as time has gone on, we thought that the right messages were not getting to Washington. The things we were hearing coming out of DC were just not representative of what was going on, on the ground. So our idea was to go to Washington, and share sort of a ground truth of what we saw going on in Georgia."

From November 11 to November 15, the delegation – which included Williamson, Neil Dunn (BP), Andrew Coxshall (KPMG), Nino Suknidze (DLA Piper), Cliff Isaak (BDO), George Chirakadze (Business Association of Georgia) and Amy Denman (AmCham Georgia) - met with many major policy makers including the Senate Foreign Relations Committee, the Brookings Institute, Senator Rob Portman, Congressman Bill Keating, and the Carnegie Endowment for International Peace.

All in all, in the scope of over 40 meetings, Williamson and the members of the AmCham delegation met with the nine congressmen, the staff of three senators as well as Senator Marco Rubio and Portman, major think tanks, and business associations. The meetings, Williamson noted, became a platform for AmCham Georgia to provide a balanced "view from the ground" on the changing face of Georgian politics and domestic reform.

"Part of our message was that we feel, as American businesses operating here, that Georgia is on the right track. Not that everything is perfect but we don't see it falling back to Russia. It is extremely important that the US not take their eye off the ball where Georgia is concerned. Seeing what happened in Armenia and Ukraine, the timing of our visit was very important," she said.

While policy makers in Washington were largely receptive to the delegation, there was some pushback, including concerns about judicial reform.

"Some of what they did know about Georgia was not in line with the democracy building ideas that they would hope for," she said.

One of the main messages was there has been progress on improving the independence of the judiciary, including tackling issues concerning judicial oversight.

Williamson said that the delegation stressed the need for U.S. lawmakers to visit Georgia, to support its progress and, when necessary, encourage better decisions where there are issues. The trip is already having an impact: lawmakers have been in touch since the delegation returned home and at least one, Congressman Eliot Engel, has issued a statement of support for Georgia.

"Frankly I think this is one of the most important things AmCham has ever done. Because we did see almost immediately some effect and we made some friends on the Hill who have been in contact since," she said, noting that the Chamber is considering another round of meetings in Washington in 2014.

"We feel that the business community for its own sake has its own responsibility to go to capital cities. We are encouraging another association to go to Brussels and other places in the EU to give better balanced picture [of the situation in Georgia]."

The AmCham Commercial Law and Tax Committee – Keeping Policy Change Business Friendly

Maintaining a business friendly Labor Code, ensuring free competition, fighting for equality in ownership of agricultural land and monitoring property rights issues. The AmCham Commercial Law and Tax Committee (CLT) has been working hard this year to improve Georgian laws for businesses.AmCham has had a strong impact on Georgian government policy this year. So strong in fact that a high rankingofficial in the new Georgian government commended AmCham as the "only organization which has been helpful not only by saying what was wrong, but also offering solutions to the problems." As a result, as Robin McCone, the director of PwC in Georgia, has commented "I have been involved with similar committees in many countries, but would have to say that the CLT Committee has been one of the most effective"

This level of work of the committee and the impact it has created has resulted from the new government's fast-paced legislative agenda and their openness to consultation.

"To be fair, some of the credit for that must go to the Revenue Service and various ministries we deal with. They are very cooperative, have an open-door policy and really seem to want to engage with the business community," McCone said.

The engagement of the committee has operated on numerous fronts, including general research and analysis of the commercial law environment and the tax environment, in a project financed by USAID, as well as specific responses to government legislative initiatives like the labor code and anti-monopoly legislation.

Prior to the October 2012 election, the Georgian Dream Coalition had committed to reforms in the system of tax enforcement and promised the restitution of property which it alleged had been misappropriated under the former government.

In response, when the new government came to power, the CLT committee secured a grant from USAID, through the Eurasia Partnership Foundation and East-West Management Institute, to watch and report on the new government's efforts in this area. The project is in the process of assessing cases involving claims of expropriation of assets by business people or charges brought by the government against individuals/businesses for crimes occurring before October 2012.AmCham's analysis focuses on reviewing the legality and reasonableness of court judgments, as well as checking that due process and fair procedural treatment are guaranteed to the parties during court proceedings. The project is also analyzing and assisting in the continued reform of the tax dispute resolution mechanism in the Ministry of Finance.

CLT Sub-Committees: Clear Wins on Targeted Issues

As well as providing general overview and analysis, for the benefit of broader reform efforts and the international community, the committee has formed sub-committees to work on pressing legislative issues that are of importance to the business sector. This has included work on the labor code, anti-monopoly legislation and agricultural property ownership.

Our work on the labor code was one of the first major successes of the year. The committee worked for months to make sure that the new code provided employee protection while at the same time avoiding overly burdensome regulations which would slow economic growth. Under the leadership of CLT Committee Deputy Chair and BGI Legal Partner Lasha Gogiberidze, the committee made a significant number of recommendations ▸▸

to the government, with the majority of them accepted. Overall, these changes ensured that the final draft was pro-business and pro-growth.

The government's anti-monopoly policy is another important issue the committee has worked on over the past year. After the October 2012 election, the new government made early statements that it planned a new, and more aggressive, competition policy to counteract the monopolies it believed were distorting the market. In response, the committee established a special working group under the leadership of AmCham Board Member and BLC Law Firm Partner Ketti Kvartskhava.

The group provided input to the government based on sector-specific concerns, but also helped resolve ambiguities in the draft law that, if passed, could have lead to selective application of the law or general confusion over its implementation.

This, again, could have created uncertainty and harmed economic growth.The group worked closely with officials at the Ministry of Economy and Sustainable Development, elaborating a number of recommendations which the government has largely included in the new version of the bill.

The work on the labor code, as well as other legislation including the competition law and tax code, noted Nelson Petrosyan, director and partner at Grant Thorton, has made a "valuable effort" to improving the laws.

"As a result, we have essentially a balanced labor code, revived discussion on competition law and yet-improving tax code," he said.

In addition, after the government decided to place a moratorium on foreign ownership of agricultural land, the CLT Committee worked closely with the AgriBusiness Committee to inform and educate banks, donors, and all levels of government and lawmakers about the law's negative consequences for investors and for the economy in general.

In response to this communication, the Georgian government has indicated that the law should be amended and a better solution found.While it is still unknown what the government will ultimately decide, the constructive meetings and active lobbying for changes in the amendmentcan be considered as a considerable victory for the committee. The issue of a moratorium remains a major priority for the CLT Committee looking forward to 2014.

Andrew Coxshall, the managing partner for KPMG Georgia and Armenia, stressed that the strong expertise in the committee has made it a powerful "mechanism" to quickly respond to changes in legislation that impact business.

"There is real depth in the committee which means that there is always a group of people who have the specialist knowledge to apply to any issue that comes up, whether it be the labor code, competition policy or amendments to the tax code," he said.

"This means that we have a mechanism to react quickly and effectively when new legislation is about to be passed without consulting AmCham and hence we can add real value to the legislative process."

As AmCham moves into 2014 the work of the committee looks set to continue. In addition to continued challenges in the rule of law, tax reform, labor issues, monopoly legislation and foreign ownership, the committee will also continue to track government plans to restrict mortgage lending and planned changes to the tax code.

As with our work in 2013, this will be driven by a desire to ensure that any legislation conforms to the best international standards and promotes business development and economic growth.

For more information about the committee, please contact Tamar Mamporia at the Amcham office.

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GULF Georgia by Sun Petroleum Georgia LLC

Corporate A

Gulf Georgia is one of the leading oil companies on the Georgian market. Its success is driven by high quality fuel and customer service. This international brand has been represented officially in Georgia by "Sun Petroleum Georgia" LLC, since November 2010. The company traces the establishment of our world brand to 1901 in the USA. Nowadays Gulf Oil International distributes high quality oil products to more than 100 countries and is one of the major players in the world market.

Gulf Georgia currently successfully operates 140 refueling stations nation-wide. Since 2012 the company introduced the branded convenience stores and several CNG stations. In 2013 Gulf Georgia introduced the first in Georgia self-service fuel station. Gulf is one of the major employers in Georgia – currently has more than 1300 employees and their number is growing. The company imports fuel from the best oil refineries in Europe whose quality control complies with world class standards. Gulf refueling stations are distinguished with modern equipment and western state-of-the-art innovative technologies.

www.gulf.ge

Channel Energy (Poti) Limited Georgia LLC, by Petrocas Energy Group

Corporate B

Channel Energy was set up in 1999 to offer a fresh approach to the business of energy storage in the Caucasus that had been part of the region's history since the mid 1800s. The Terminal has been part of the enlargement project of the Poti Sea Port and provides an important storage and throughput services to importers and exporters of petroleum products and an alternative to the other Georgian Terminals located at Batumi and Kulevi. The company has, and continues to create and deliver, new international standard facilities and services in the Georgian ports of Poti and Batumi. With invaluable expertise and support from the EBRD, Channel Energy's developments have been planned and delivered with the environment at the forefront.

www.petrocasenergy.com
www.channelenergy.ge

Imedi TV

Corporate B

Imedi Media Holding is a private television and radio company operating in Georgia. Imedi broadcast covers the entire territory of the country.

Imedi TV started broadcasting in 2003 and has earned public trust and huge interest. It became a leading broadcasting company that, thanks to its modern equipment, provides high quality broadcasting signal in Georgia. Imedi TV was the very first televisionstation in Georgia to broadcast licensed programs. It offers its viewers adapted versions of world known TV programs, Georgian and foreign movies, soap operas, documentaries and cartoons. Taking into consideration audience dynamics and viewer preferences, Imedi TV is in a constant process of development and pursuit. The company aims to offer high quality product, establish strong relations with suppliers and clients, transfer signal in almost the whole territory of Georgia and attract broader viewers.

www.imedi.ge

Partnership Fund: Open for Business

The government's investment fund, the Partnership Fund, met with AmCham members during the monthly round-table meeting at the Radisson on December 4.

The meeting was opened by AmCham President Sarah Williamson, who introduced U.S. Ambassador Richard Norland in his new role as honorary president of the Chamber. The ambassador provided a detailed, off the record overview about the current political situation, including the latest events in Ukraine.

Natia Turnava, the deputy CEO of the Partnership Fund, and her colleague Otar Sharikadze, presented the Partnership Fund's vision for the future, as well as a brief overview of projects the fund has already completed.

The Partnership Fund, which has already completed several projects, including a hog farm and two hotels, is 100 percent owned by the government and answers to both a state and private supervisory board. The Partnership Fund is free to invest in projects across a range of economic sectors, but only as a "sleeping partner" with a clear and well-defined exit strategy.

The fund is currently working on a feasibility study for a large Black Sea Port, as well as a hydro power plant. Another plans include a large scale investment strategy for Tskaltubo resorts. The fund is currently financing two hotel projects, one in Likani and one in Kakheti. For more information, please see their website, www.fund.ge.

In other news, AmCham is planning a membership appreciation night. For more information please contact the AmCham office.

In addition, the Salvation Army's annual Angel Tree project, which provides children in need with Christmas gifts, has started. For more information, please contact the Salvation Army at 223-33-37-85.

Co-Investment Fund's CEO Giorgi Bachiashvili: First investment planned in agriculture

AmCham members had a candid question and answer session with Georgia Co-Investment Fund CEO Giorgi Bachiashvili during a luncheon at the Tbilisi Marriott on November 26.

Bachiashvili, who is heading the $6 billion fund, provided a candid overview of the fund, its project acceptance procedure and its investment goals. The fund, which was launched by former Prime Minister Bidzina Ivanishvili, started operations in September. Investments, Bachiashvili said, will run for five years and the fund should close out in 7 years.

He noted that the first investment, a $40 million project in agriculture, should be announced soon. Other sectors of interest include tourism and hospitality – the fund is currently considering a handful of hotel projects in the capital – as well as energy projects. Bachiashvili said that $6 billion is a lot for Georgia's economy to absorb so the fund is also looking to "expand the pie" of economic activity and create new projects, including a possible mining investment.

CLT Committee Discusses Proposed Changes to Tax Code

On November 25, the CLT committee, chaired by Andrew Coxshall, met to review the current proposed changes to the tax code which will affect important issues such as the gradual reduction of statute of limitations, revision of tax settlement rules, removing the definition of "beneficial ownership," etc. The Committee is in the process of elaborating specific comments to submit to the parliament.

For more information on the CLT Tax Committee, contact the AmCham office.

PwC is a 2013 Most Admired Knowledge Enterprises (MAKE) awards winner

PwC was announced as a winner for the 12th time in the Global Most Admired Knowledge Enterprise (MAKE) study. PwC ranked in 5th position, up from 8th position in 2012 and ahead of Apple and Google. PwC has been specifically recognized in the 2013 Global MAKE study for creating an environment for collaborative knowledge sharing and maximizing enterprise intellectual capital.

"PwC is a 12-time Global MAKE Winner and belongs to the even more select group: the 2013 Global MAKE Hall of Fame - organisations which have been global MAKE Finalists in each of the past five annual Global MAKE studies. PwC ranks top of the Big Four firms and is recognised for its collaborative knowledge sharing enterprise environment and ability to maximise a firm's intellectual capital."

Rory Chase, Managing Director, Teleos

IMF Predicts Slow Growth for the World Economy

AzimSadikov, the resident representative of the International Monetary Fund in Georgia, met with AmCham members at the Radisson Iveria Blu Hotel on October 24 during the monthly luncheon meeting.

"The 2013 will be a slower growth year for the world economy. Growth is expected to be weaker than the IMF forecast in its July publication of World Economic Outlook because of the slowdown in emerging markets, including key economies of the CIS. Weaker growth among trading partners has created a challenging external environment for Georgia," Sadikov said.

During his hour-long presentation, Sadikov focused on the Georgian economy, saying that growth in 2013 could reach 2.5 percent and accelerate to 5 percent in 2014. He discussed factors behind the slowdown, namely a slump in private and public investment. In particular, Sadikov showed that despite tax revenue intake not being as strong as projected, the government run a surplus in the first nine months due to the slow execution of spending.

Sadikov noted the strong performance of Georgia's external sector in 2013. Exports grew strongly, supported by increased tourism and a gradual re-opening of the Russian market for Georgian products. Imports contracted reflecting the weak domestic demand. As a result, the current account deficit is projected to fall from almost 12 percent of GDP in 2012 to about 6.5 percent in 2013.

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Catoni& Co Georgia – a Stable Player on the Georgian Market

Catoni& Co Georgia is a member of the oldest company in the world- Catoni Group (1846). The Group has 14 offices in the main ports of the Mediterranean, Aegean, Black and Caspian Seas and is thus a serious regional player. The Group is headquartered in Istanbul, Turkey.

In Georgia, Catoni& Co Georgia, a transport and logistics company,has operated since 2000as ashipping agent in ports for sea and land transportation. It is headquartered in Tbilisi, while the operational office is located in Poti.

Catoni& Co Georgia serves its clients both in South Caucasia (Georgia, Armenia, Azerbaijan) and the Central Asian countries, delivering any cargo (container or non-containerized cargo) via ocean or land (railway, vehicle) toits destination.

The company also provides shipping agentservices in Poti, Supsa and Batumi ports. It serves as the South Caucasus agent of the world's one of the largest container liner shipping company, the German Hapag Lloyd.

Catoni& Co Georgia is a serious player among transportation companies in Georgia. The company is respected for its main work principles: professionalism; transparency; integrity.

Our clients and partners value these attributes in our company employees.

Looking to the Future

Over the past few years, PotiPort's turnover has increasedat a significant pace (15-20% annually on average).This was not case in the 1st quarter of 2013 (a total of 5% increase compared to the same period in 2012), unfortunately. We are proud that our company's turnover in this period increased by 70%!

The Akhalkalaki-Karsi railway, however, will be a big challenge for Georgian ports.After its construction is finalized, our ports will face stiff competition. This railway will transport cargo from Europe to Central Asia without any delays circumventing loading and unloading services in ports. This saves transportation time and costs. Therefore, the PotiPort and the Georgian Railway will need to undergo serious modernization to engage in this competition.

One more big expectation for 2014 is the transportation of the NATO cargo from Afghanistan. Several years ago Catoni was successfully involved in the transportation of these goods to Afghanistan. Our American and NATO partners have a privilege to choose routes. If theso-called Southern Route is chosen as an alternative to the Northern (Russian) route, Catoni& Co Georgia, as an experienced partner, hopes for success.

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AMCHAM CELEBRATES

AmCham Celebrates its Members

The Chamber hosted its 4th Annual Member Appreciation event on December 11 at the Sheraton Metechi Palace Hotel. Members enjoyed canapes, dinner, and wine. The AmCham delegation to Washington, DC was recognized for their dedication and long standing advertisers in Investor.ge were awarded special prizes. AmCham Georgia wishes all its members a happy holiday season!

AMCHAM CELEBRATES

AMCHAM CELEBRATES

The AFG Gala Restore Life was held at the Radisson Blu Iveria hotel on November 29. The event, which raised over $102,000 for its programs, included a cocktail reception, dinner, concert, grand prize raffle and live auction of contemporary art by prominent Georgian artists lead by Auctioner Extraordinare Cliff Isaak.

Through the auction of works by prominent Georgian artists, $41,770 was raised. Those funds were then doubled by the generosity of Patron Sponsor Petrocas Energy. The company's CEO, Vano Nakaidze, promised to match the funds raised by the auction which resulted in $83,000 being raised by the auction alone.

"We truly believe in what AFG is doing," Nakaidze noted. "During previous years, significant changes have been made as a result of AFG's activities. We can mention the effect brought through their support of the children with leukemia now having a better chance to be cured; the Nikozi Art School built for the children in the war-affected area near Tskinvali; the daily support of homes for the elderly – all achieved through our joint efforts. That is why we are happy to contribute to such charity initiatives," he added.

Profits from Gala will support AFG Charitable projects: Leukemia Children's Parents House and Palliative Hospice and Home Care program.

AFG thanks each company for its generous support:

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Wine: Winiveria, SHUMI, Bagrationi,

Support: Borjomi, Kazbegi, Rentals and 20 Steps Production, Embassies of US and Japan, Tbilisi State Conservatoire, well-known Georgian artists and raffle prize donors.

AMCHAM CELEBRATES

Friendly and devoted staff from Nodia, Urumashvili and Partners hosted a cocktail party at the cocktail bar and lounge El Centro in honor of the firm's clients on November 21.

LashaNodia remarked that founded in 2005, Nodia, Urumashvili, and Partners has grown into one of the Georgia's leading law firms and preserves stable place on market. The past two years have been especially good for Nodia, Urumashvili and Partners. The firm has significantly extended its clients base, which now includes local and foreign industrial and commercial companies, all major domestic banks, international and domestic financial institutions and high net worth individuals. As a result, three senior associates of the firm -- Nino Bakakuri, Aleksandre Sukhishvili and Daduna Kokhreidze –became partners. Mr. Nodia stressed he was very grateful to see all our clients as a part of the celebration this year.

Mr. Urumashvili briefly outlined the company's plans for the next year and thanked the guests for honoring him with their attendance.

Board Of Directors 2013

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 15th year in Georgia, Michael Cowgill is the President and co-founder of Georgian American University (GAU) in Tbilisi, Georgia, with schools of business, law & social sciences, natural sciences & engineering and liberal arts & humanities. He also continues to develop international energy projects which he has done for the past 38 years in over 40 countries.

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 $30m 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.

EXPERTISE EXPERIENCE EFFICIENCY

BGI is top-ranked in Georgia by all leading international legal directories in every practice area covered.

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ENERGY AND BEYOND

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

We take a proactive, commercial approach by assembling teams from various practice areas to provide a full range of service offerings.

Our lawyers have been at the forefront of the development of the Georgian energy sector since the early 1990s, when we were engaged by a consortium of international petroleum companies to provide Georgian legal services for the first Transcaucasian hydrocarbon pipeline built in the post-Soviet era.

We are still working to build Georgia's energy future today. In the past 5 years the firm has worked on the financing of a hydropower plant by two multilateral development banks; the acquisition of a strategic stake by a global energy company in one of the two largest hydropower projects under construction in Georgia today, investment in two small and medium HPPs, and numerous upstream oil and gas projects.

Our key service offerings include:

- Energy project structuring
- Corporate M&A and investment in the energy sector
- Finance and security structures for energy projects
- Comprehensive due diligence on energy assets and companies
- Oil and Gas production sharing agreements
- Mid-stream commercial agreements
- Litigation and arbitration of energy-related disputes
- Strategic advice on planning, development and permitting of projects
- Legislative, political and regulatory advice and services
- Acquisitions and disposals of energy-related assets

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