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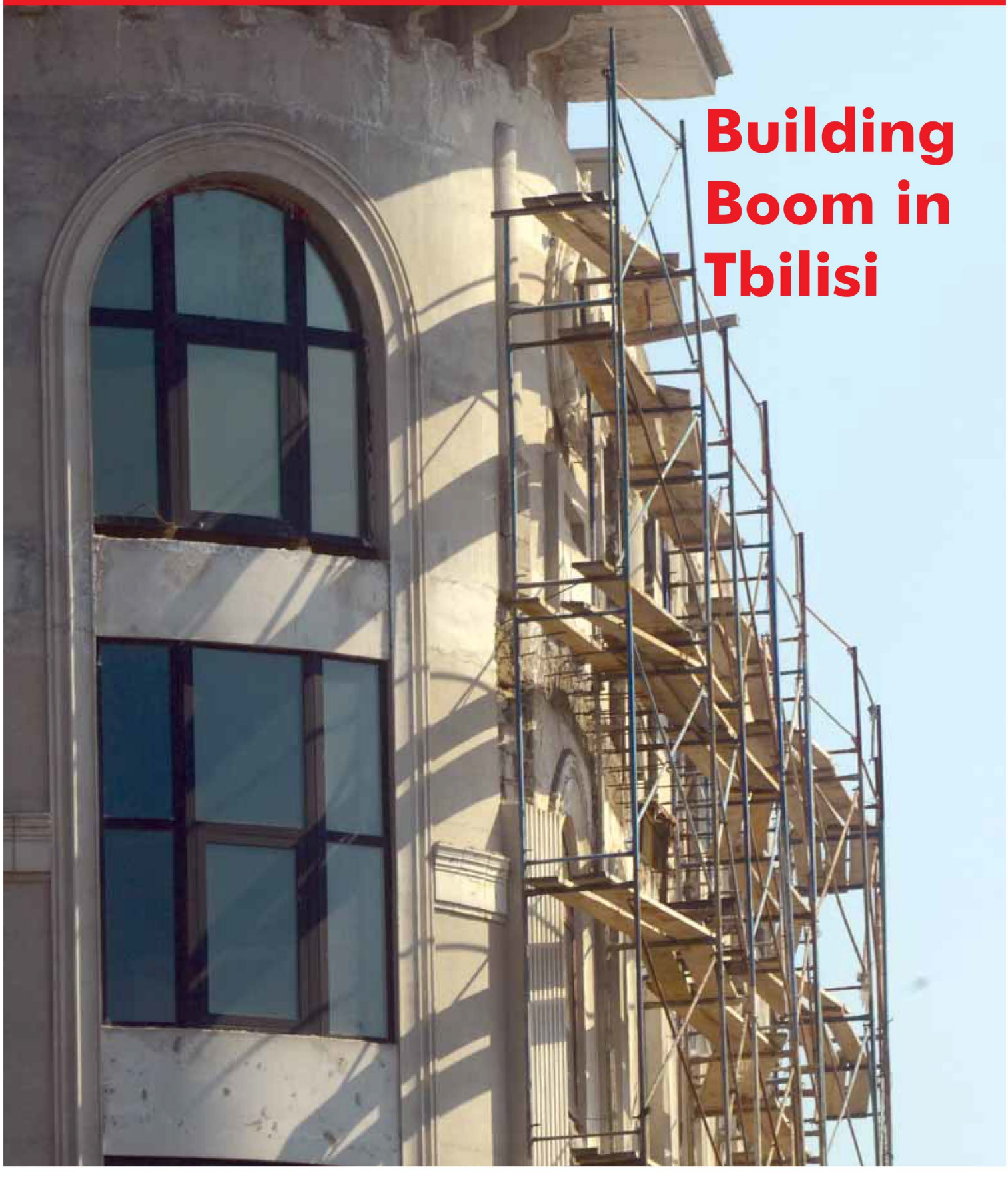

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Investor.ge interviewed Richard Giragosian, the director of the Regional Studies Center (RSC) in Yerevan, Armenia, about the potential impact of the Ukrainian crisis on Armenia's decision to follow Russia into its Eurasian Customs Union instead of signing an Association Agreement with the European Union.

After Crimea: Will the Crisis Affect Armenia and Its Path Toward the Russian-Led Customs Union?

Even before the Ukraine crisis and the March 16 referendum in Crimea, the conflict between Moscow and the West was playing out between Georgia and Armenia – two neighbors with close trade relations. Today, there is little indication of how events will evolve in Ukraine, or what impact they might have on other former Soviet republics. For Georgia and Armenia, however, the battle over the fate of Crimea and Ukraine could have an immediate effect on foreign policy and future trade relations between the two countries.

Investor.ge: How is the crisis in Crimea affecting Armenia? Is it having an impact on the debate around joining the Eurasian Customs Union? To what extent do you think it could influence Yerevan as the government moves toward joining the Eurasian Customs Union?

Richard Giragosian: Throughout the crisis, the Armenian government has been especially cautious, largely due to a policy decision to refrain from doing or saying anything that would anger or alienate Armenia's "strategic partner," Russia. At the same time, however, the broader context of the Ukraine conflict has significant implications for Armenia, especially in terms of Russian power and influence in the so-called "near abroad" and concerning the outlook for the Russian-led Customs Union. More specifically, the new Ukrainian government's commitment to signing the Association Agreement with the EU now makes the Russian-led Customs Union significantly less viable and a much less attractive project. In this way, Moscow's apparent "loss" of Ukraine may actually provide the Armenian government with an effective way out of having to join the Customs Union and an attractive way for Yerevan to "save face" and avoid the embarrassment of its move to quickly give in to Moscow and give up on Brussels.

Investor.ge: Why did the Armenian government opt for the Russian-led Customs Union over the EU Association Agreement? What does Russia offer Armenia that the EU cannot?

Richard Giragosian: Looking back at the surprise announcement on September 3, 2013 by Armenian President Serzh Sarkisian in Moscow pledging that Armenia would join the Russian-led Customs Union, and would support Moscow's efforts to "integrate" the former Soviet space, it is now obvious that it was a missed opportunity and a strategic setback for the country. That decision effectively ended Armenia's planned initialing of an Association Agreement and related Deep and Comprehensive Free Trade Area (DCFTA) with the European Union set for the Vilnius Summit in late November 2013.

Moreover, Moscow's apparent success in forcing Yerevan to backtrack on its intention to finalize pending agreements with the EU imposes several significant challenges on Armenia. In the short-term, once Armenia retreated and reneged on its planned "initialing" of an Association Agreement and related Deep and Comprehensive Free Trade Area (DCFTA), it will be hard pressed to recover confidence and credibility. Such a move not only imperiled several years of difficult negotiations and reform, but also tested European patience and diminished European interest in Armenia. The decision to join the Customs Union also offers Armenia little if any alternative benefits, and may lock Armenia even more firmly within the Russian orbit, limiting its future to little more than a captive to Moscow's grand project for a rival Customs Union, as the first step toward the so-called "Eurasian Union." And in that broader context, the danger for Armenia stems from greater isolation, as closed borders remain sealed, and from a newly enhanced degree of insignificance, as the strategic importance of Armenia may only dramatically decrease. And, most distressing, Armenia also faces the very real threat of becoming little more than a "small, subservient Russian garrison state."

Further, the longer-term impact on Armenia will also be significant, un-

dermining the Armenian government's already meager legitimacy by endangering the overall reform program and significantly weakening pro-Western reformers within the government. In addition, from a broader perspective, the Armenian retreat from its planned Association Agreement with the EU and its move toward Russia's Customs Union also reveal several deeper deficiencies within the Armenian government in terms of closed public policy, inadequate strategic planning and an informal decision-making process.

But in terms of Armenia's surprising decision, it is now clear that the "U-turn" or sudden shift in policy actually occurred in Moscow first. For example, the lack of any real Russian pressure on Armenia through the nearly four years of negotiations over the Association Agreement suggests two conclusions. First, for the past several years, Moscow clearly failed to see EU engagement as a real threat. Such a view may have been rooted in Moscow's perception of the EU as neither a significant geopolitical actor nor as a serious rival. Second, the rather last-minute shift in Russian policy, as demonstrated by the imposition of coercive measures on other states, such as Moldova and Ukraine, viewed Armenia as more of a "sacrificial pawn," designed to send a more important message of strength to deter similar European aspirations by Chisinau and Kiev.

In the case of Georgia, however, there is little Russian leverage and no utility in trying to deter Tbilisi's commitment to its EU aspirations. The Russian strategy is not benign, however, and it seems likely that Moscow will initiate a new campaign of pressure against Tbilisi targeting the implementation process after the signing of Georgia's Association Agreement.

On a broader level, therefore, this shift in Russia's policy toward EU engagement stems from a much larger and more assertive Russian stance, driven by an attempt to consolidate Russian power and position within the former Soviet space and to deter Western "interlopers" in what Moscow views as its natural "sphere of influence," or the "near abroad," referred to as blizhneyezarubezhye (ближнеезарубежье), which has been elevated and expanded into a wider "post-Soviet space." Moreover, this trend of a boldly assertive Russia has only deepened in recent years, and is now evident in the larger context of Moscow's policies toward the U.S. and over Syria, for some examples. Another demonstration of this trend has been Russia's heavy-handed use of coercive measures targeting some of its neighbors, as the events of 2008 in Georgia have only confirmed.

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The Road to a Free Trade Agreement with the US

Georgian Prime Minister Irakli Gharibashvili met with US President Barrack Obama in Washington in February. The meeting, albeit brief, is an encouraging step for Georgia as it moves toward a free trade agreement with the US, analyst Łukasz Ponczek writes.

Prime Minister IrakliGharibashvili's February 24 meeting with US President Barack Obama bolstered Georgia's goal of signing a Free Trade Agreement (FTA) with Washington. Now, however, the country needs to focus on strengthening economic ties between the two countries and diversifying its exports to the United States.

Currently, the United States is not one of Georgia's top trading partners. In 2012 the US was Georgia's second top country in terms of products exported and sixth top in terms of products imported. Georgia had a negative trade ratio with USA of about $120million. Considering the significant geographical divide, the trade situation between the two seems satisfactory; upon closer consideration, however, it is clear that there is a lot of room for improvement.

Unfortunately, Georgia's export to the USA is very homogenous. Nearly all of itconsists of only two types of commodities. Almost 70%, is the export of iron, and a quarter of the export are fertilizers and chemical products. Secondly, last year, the trade between the two countries has not only significantly shrunk, but also the negative, for Georgia, trade ratio gap widened, since the American market faced competition from other countries for Georgian goods. Other high quality Georgian products have potential to sweep the American market, including for example Georgian wine or water. However, the American consumer is by and large completely unaware of the existence of Georgian products, and the country faces stigma of being a post-Soviet republic, and therefore the market for such goods remains undeveloped.The recent action of both governments brings hope of enhancing economic relations. For example, in January 2009 the US and Georgia signed a strategic partnership aiming to deepen the ties. In January 2012, Obama and Saakashvili initiated negotiations to sign the FTA. However, 2012 and 2013 changes of power might have put in question whether the new government is still committed to a close relationship with the US.

However, the February visit of Prime Minister Irakli Garibashvili to the White House has obviated those uncertainties, and confirmed that Georgian Dreams stays loyal to the alliance with the US.It is also a sign that the efforts to finally complete the Free Trade Agreement have been accelerated. During the visit, John Kerry declared that: "We […] commend Georgia's progress on economic reform, and we urge the government to quickly implement its plans to spur trade and investment, including with the United States. […] The United States remains committed to strengthening our trade." Such statement might be more than just mere courtesy; after all it is not unreasonable to expect the FTA to be finally signed after the years of negotiation. Recently,in case of Panama, Colombia, and South Korea, it took the US more than five years from the start of the negotiations to the signing of FTAs.

US political analysts James Roberts and Ariel Cohen, however, maintain that there is no reason for the negotiations with Georgia to be so lengthy. First off all, Georgia is a relatively small country, which should simplify negotiations. Secondly, both countries are already quite free when it comes to the international trade. Thirdly, international exchange between the US and Georgia is fairly modest for both, and for the US, Georgia is only a minor trading partner.

Despite the custom dues being relatively minuscule amounts, the FTA could still accelerate the trade between both. In recent years, customs paid by Georgian businesses constituted less than 1% of the overall trade exchange. However, the FTA is more than just freeing up trade completely. It is an important sign for corporations that exchange between two countries is stable and simple.

The US is a crucial partner for the stability of Georgia, both economic and political. Both countries have expressed declarations of cooperation, and even under the new government, Georgia is trotting along toward strengthening the two country's ties. However, the economic relations of Georgia and the US are still fairly weak, signing of the Free Trade Agreement would cement the current exchange and pave the way for new investment. Diversifying the portfolio of products exported from Georgia to the US would benefit both countries. The recent visit of the Prime Minister of Georgia to the US is another step towardsachieving that goal.

ŁukaszPonczek is a M.A. graduate from the University of Aberdeen (UK). He spend a year in Georgia with the TLG program. Currently he works for an energy consultancy company in Poland.

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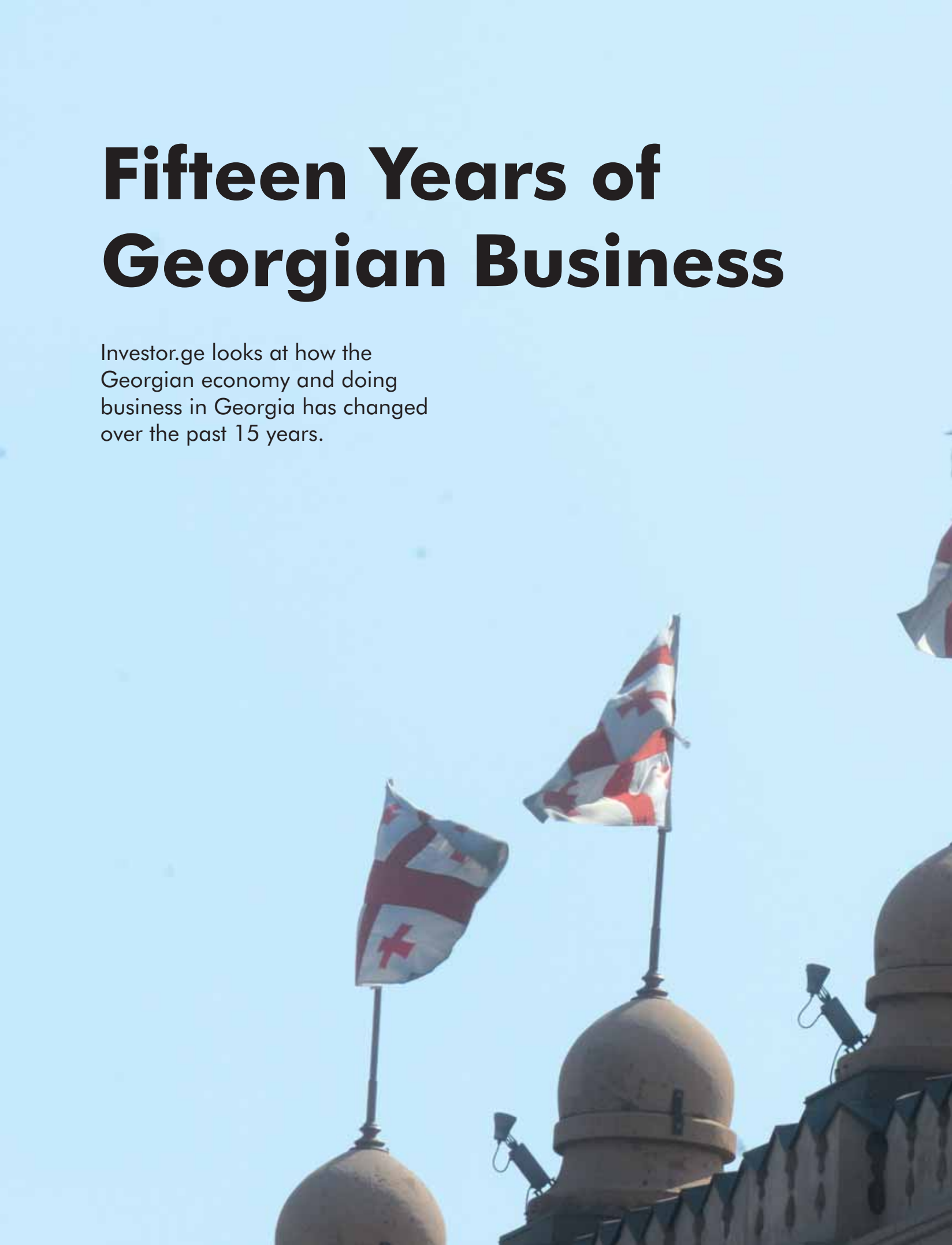
Fifteen Years of Georgian Business

Investor.ge looks at how the Georgian economy and doing business in Georgia has changed over the past 15 years.



The Economic Report Card: Grading Georgia on its 15-year Performance

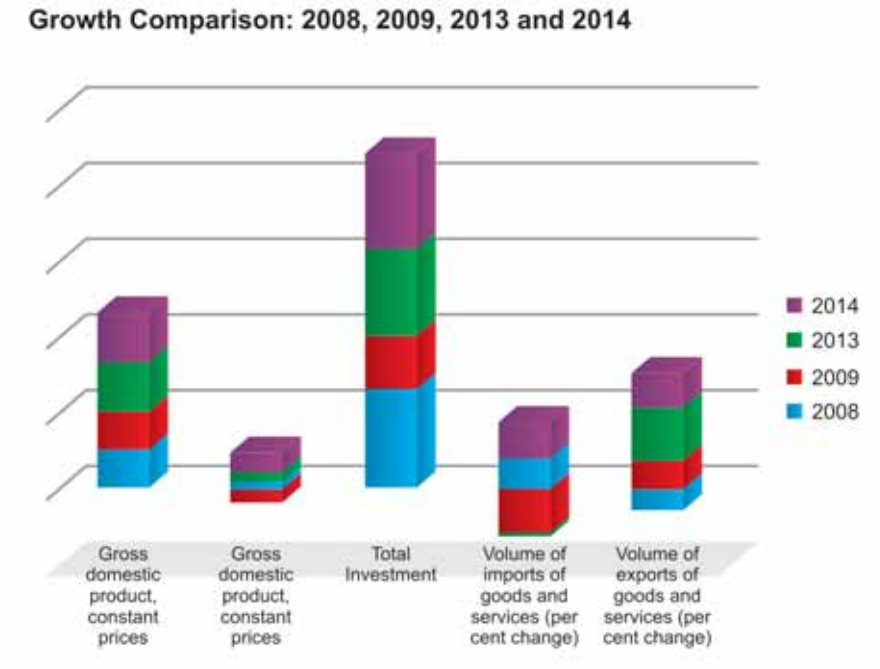
2014 represents a milestone year for Georgia in many respects: it marks the 15-year anniversary for an organization that is representative of a free market economy—the American Chamber of Commerce in Georgia Fittingly, 2014 also marks the year Georgia is anticipated to sign its Association Agreement with the largest trading bloc in the world. Following such sweeping bravado, it's appropriate to take a step back and see where Georgia has come from and how it is using that past to map its future destinations.

CORDELIA PONCZEK

Recently, over dinner with my Georgian expat friend and his wife, the conversation turned to Georgian wine. My host was lamenting the gradual shift of Georgian winemakers away from the ancient clay-jar method to more modern, dare I label, "Western", means of oak or steel vat production.

"Sure," he commented, "it may be more convenient or mainstream, but it's not traditional; it's not Georgian."

Georgians are known for many things, and seamlessly moving away from tradition is not one of them. Despite this,Georgia has transitioned successfully from its Soviet narrative and integratedsteadily into an ever-diversifying global market. In its shift, Georgia has confronted the inevitable modernization of its economic sector. Such confrontations have, for the most part, been intrinsically motivated and implemented by Georgia. However, as Georgia intensifies its geo-economic strategy with help from outside organizations, there is paradoxically more opportunity for cooperation to aid, and more room for the unknown to abet. A 15-year snapshot of Georgia's economy can give clues as to where Georgia has been, and where this may take it in the next 15 years.



In 1999 Georgia established the Georgian Stock Market. Still transitioning after its break from the Soviet Union nearly a decade prior, remnants of that system remained: the most visible effects manifested in semi-authoritarian leadership, corruption and institutional opaqueness. Reliable economic information was difficult to obtain, as every government organization had its own rendering of matters. Meanwhile, there was a dearth of independent NGOs to filter and impartially interpret state-provided data,which corresponded to a lack of trust. Understandably, business investment was sparse—total investment for 1999 was only 1.56 billion lari, according to IMF data. Investors feared consequences of paying high bribes and assuming higher risk for a product easily obtained in a more stable economy.

In June 2000, Georgia joined the World Trade Organization (WTO). This was perhaps the second major turning point for the Georgian economy (the first being the break from the Soviet Union). The WTO required specific tenents for membership, including a memorandum from the applicant country concerning all aspects of its trade and legal regime. Preparing an accountable balance sheet forced Georgian leadership to focus on the reality of Georgia's potential compared to the present status. Georgia's WTO membership was a positive step

forward, and the Georgian market responded accordingly: GDP increased 4.7 percent between 2000 and 2001.

Following three years of growth, 2003 ushered in political change that caused the market to flail in uncertainty. The Rose Revolution was not an economic event, but the people's frustration over disputed parliamentary elections mirrored economic undertones of corruption and cronyism. The Rose Revolution represented not only an official political platform shift, but also an establishment of checks and balances via the rise of non-governmental organizations. In 2003, the Rose Revolution brought in a president who promised to end corruption and raise foreign direct investment. It also ushered in new watchdog NGOs that promised to monitor those promises by establishing a credible civil society.

Despite the populist movement that swept Saakashvili and his UNM party to power in 2003, GDP didn't leap with faith. It held steady, but waited to see what the new leader would bring. For five years he implemented anti-corruption measures, an increase in western relations, and a cooling-off of Russian relations. In 2006, Russia struck a blow to the Georgian economy by placing an embargo on Georgian wine and mineral water—key exports to a key partner for the Georgian economy. In 2008, the coolness escalated to a deep-freeze when of tensions over breakaway regions Abkhazia and South Ossetia resulted in a five-day war between the two countries. Russia tactically hit vital transport routes, bombing train lines and tunnels. The cease-fire saved Georgia from further physical damage, but the psychological damage was irrefutable. The GDP change between 2008 and 2009 marked the only negative one in this 15-year span: -3.776 per cent. Foreign direct investment that had been so well cultivated by Saakashvili's liberal policies tanked, and in 2009, total investment was a mere 13.14 percent of the GDP.

Georgia broke the malaise through Association Agreement negotiations with the EU. Like the WTO accession, negotiations included specific policy requirements implemented on a strict time line. These requirements were marked by a call for transparency in business and the rule of law. In 2012 and 2013, despite a power shift from UNM to Georgian Dream, the market remained relatively ▸▸

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unchanged. This could be attributed to two features (1) the political agenda and pro-EU stance of Georgian Dream did not fundamentally diverge from the platform of UNM; (2) both the parliamentary and presidential elections were peaceful, thereby showing Georgia's success as a transitioning democracy. These factors contributed to Georgia's Association Agreement negotiations, was reflected in continued growth of the Georgian market and diversifying its future political ambitions. In 2013, Georgia went on to complete its DCFTA and initial its Association Agreement.

Georgia now stands at another decisive moment. The road ahead is replete with obstacles, both internal and external. The trend between political events and the market has weighty implications for the direction Georgian leadership wants to take the country over next 15 years. If Georgia's trade agreement with the EU is successful, the market will adjust favorably to available opportunities. Currently, Georgia is on the right track: following the slump after the Russo-Georgian war, the economy is now an attractive venue for investors and responsive to its citizenry. Georgia has found trading alternatives to Russia, rebuilt its bombed-out transportation routes, and forged new friendships. It has remained a stable democracy with healthy opposition.

Moments of weakness in Georgia's economy manifest its growing pains—moments when the economy took a step back to allow prevailing policy a few steps forward. And, while stakeholders show confidence in Georgian investment, Georgia has shown confidence in self-investment. Largely, those investments have paid off. WTO membership led to GDP and investment growth; the Rose Revolution brought about progressive change and liberal policies to garner an uptick in foreign direct investment; the economy even recovered after holding ground in the 2008 Russo-Georgian War. Like in wine-making, Georgia has found its strength in both staying the course and using its unique past as a lens for its future.

Now for the real test: So far, the overwhelming majority of economic changes have been Georgian policies created by Georgian politicians elected by Georgian people. Not part of any higher framework. Not mandated. There are neither carrots nor sticks. That is about to change. Part of Georgia's EU-aspirations, require implementation of market and political reforms that may not be as palatable as previous Georgian-bornreforms. This will create changes driven by both Georgia and outside actors, sometimes in cooperation, and other times not. This presents an opportunity for Georgian leadership to show its compatibility with outside actors, but it also presents a challenge for Georgian leadership if the reforms (or practical ramifications) were to flop. Resentment could fall on both the EU—which up to now has been an aspirational goal—or on the pro-western politicians of Georgia. Georgian leaders have proven they are ready to lead: the soundest investment one can make is in the idea that they will stay the course.

Cordelia Ponczek is a researcher based in Warsaw. Previously, she 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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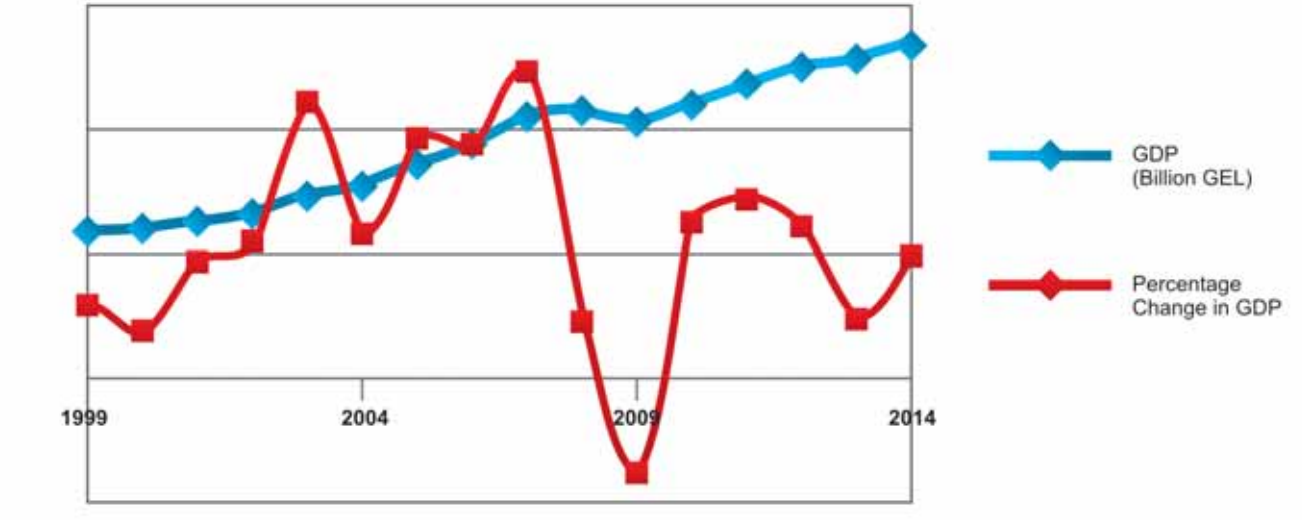

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15 Years and Counting

Investor.ge's Heather Yundt interviews three investors and long-time expats on what brought them to Georgia, how the business environment has changed, and how their investments have fared.

Betsy Haskell

The unfinished, unsigned outer walls of the nondescript Tbilisi building gave little indication of the thriving seven-room hotel inside. Despite limited electricity and infrastructure, the hotel was booked solid. Business was good — but it was far from easy.

Betsy Haskell, an American businesswoman, opened Betsy's Place in 1994 at the request of the US Embassy. The only other hotel for foreigners had been taken over by a paramilitary group, and the embassy needed a safe place for officials and humanitarians to stay. "I didn't know when I came how dangerous it was," Haskell said. "Who could have imagined what it was really like?"

As the country recovered from war in the years that followed, corruption thrived. Every month men came to Haskell's door demanding payment for supposed infractions to various laws and regulations.

"It was impossible to conform in those days, and they knew it." Haskell said. "The corruption was so petty, and it was so pervasive, that it just made me furious."

At one point, business was going so well that Haskell wanted to expand. She picked out a piece of land, but after paying multiple people all claiming to be its owner, she gave up.

The tipping point came in 1999. When the government brought a tax case against Haskell, she called it quits. Haskell sold the business to Stephen Johnson, the owner of Prospero's Book Shop, and left Georgia. "Most businesses wanted to pay the taxes they owed. It's much easier to be clean and pay your taxes," she said. "And they always set it up so that it was impossible."

Haskell didn't stay away from Georgia for long. Soon she was back to start up a small gardening company. That's when she saw the business environment change. "[Georgia] became a regular place. They fixed the streets, they fixed the lights, they fixed the electricity, they installed gas. They made life normal. The police were not corrupt. It was a place where it was normal to interact with the government and do business."

The impossible-to-follow rules and corruption that proved too much for Haskell were now gone. "Everything became easy and straight," she said. "Everything worked and the relief was immense."

Today, Betsy's is a 57-room boutique hotel overlooking central Tbilisi, and Haskell has just started up her latest business providing logistical services to representatives of the US Treasury. ▸▸

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Opening her business last fall, Haskell saw how far things have come. "It was easy as pie," she said, thanks largely to the House of Justice, a one-stop public service center. Instead of running around for weeks to collect all of the necessary papers, the entire process took about an hour.

But there's more to be done to improve the business environment, Haskell said. "The challenge is to acknowledge what was done during [former president Mikheil Saakashvili's] term and build on it."

Ruslan Khoroshvili

After studying at an American high school for a year, Ruslan Khoroshvili returned to Georgia with a plan for his future. He wanted to earn a good living, and he was ready to work for it.

He enrolled at ESM Tbilisi, now Free University of Tbilisi, which unlike some other universities, rewarded studying rather than bribes. He worked hard, and in 1999, during his third year, a lecturer recruited him for an internship with Georgian Consulting Group, a company that later became EY Georgia.

At a time when it was common practice for companies to pay auditing firms to sign the papers rather than do the work, Georgian Consulting Group stood out, Khoroshvili said. "There was no real responsibility in other auditing firms. That was not the case in this company. It was run objectively and with professionalism."

"There was a lot of corruption; however. there was more or less a level playing field for businesses to develop," Khoroshvili said. "You knew that you could bribe somebody to get the same benefits that others got. There were opportunities for business to work."

Khoroshvili watched the economy grow in the years following the Rose Revolution. He saw improved rule of law, a reduction of corruption, and high foreign investment in Georgia. Former economy minister Kakha Bendukidze played a role by eliminating unnecessary licenses and regulations. "Although some regulation is necessary, it comes at a cost. To do regulation you need experienced people, which we did not have. So the approach was taken to not do what we couldn't do." Khoroshvili said. "A lot of red-tape was removed, and I think that had a significant boost to the development of businesses."

Undermining these reforms, however, was the insecurity of property rights. Allegations began to emerge of businesses being expropriated by the government. The perception of insecurity that followed negatively affected business, Khoroshvili said. "If you're not sure if your business will be yours after 10 years, after it's successful, then there's not much incentive to invest in your business."

Despite recent improvements to property rights, there have been setbacks, Khoroshvili said, such as a recent law banning foreigners from buying agricultural land. Khoroshvili himself owns a vineyard with foreign partners. Though the activity is mainly for fun, the new law has put a damper on hopes of expansion.

Today, EY Georgia's business comes more from local clients than in the past, its largest client being the Bank of Georgia. Though Georgia remains a small market affected by economic and political events beyond its borders, Khoroshvili, now the firm's Managing Country Partner, has a positive outlook on the future.

"Maybe I'm optimistic, but I think that the situation is improving. Today is much better than it was five years ago," Khoroshvili said. "It's a level playing field, there are no artificial hurdles to developing your business, there are laws that work, and the judiciary is freer than it ever was in our recent history. Therefore, it is a good environment to develop a business."

Ted Jonas

In August 2007, Ted Jonas, an American lawyer with DLA Piper, got a call

from a prominent American law firm. Their client, a major Kazakh bank, was planning to open in Georgia, and they wanted Jonas to represent them. With business at an all-time high and a more-than-full workload already, Jonas tried to politely turn them down. The American partner refused to take no for an answer. "He would not stop calling me day in and day out." Jonas said. "That's what it was like back then. You couldn't beat them off with a stick."

Jonas, who first came to Georgia with the National Democratic Institute, helped found Georgian Consulting Group in 1996. In the midst of the country's corruption, Jonas noticed a sense of opportunity amongst international investors. "Georgia was very, very underdeveloped, but they were on a very good trend. It was very democratic and things were going the right way."

Jonas moved back to the United States in 2000 as Georgia took a turn for the worse, becoming more corrupt and more politically polarized. "Most businesses couldn't do their taxes honestly if they wanted to," he said. "The authorities didn't want you to pay your taxes honestly. The system was run by people who wanted to take a cut personally."

Five years later, Jonas returned to Georgia to join DLA Piper as its managing partner and observed a striking change. During the move, Jonas cleared his belongings past customs, bought a house, and registered his car locally — all without encountering a single demand for a bribe.

And the economy was booming once again, something Jonas contributes to the good international business climate, the government's spending on infrastructure, and the marketing of Georgia to international investors.

But the growth was short-lived. In 2008, Georgia and Russia went to war and an economic crisis struck the world. "The on-going perception of instability in the region is a major impediment to investment," Jonas said.

Despite former economy minister Kakha Bendukidze's reduction of red-tape, which made transactions like setting up a business much easier, Jonas says investors suffered from poor rule of law. "The fact was that you were always at risk of choking on inflated tax claims and having your property expropriated. The judiciary wasn't independent, so there was no protection whatsoever. Everyone was at risk of being arrested on trumped up criminal charges."

Throughout his career, Jonas saw this government pressure on business first-hand through the defense cases of foreign investors his firm was involved in.

Despite some improvements in recent months, DLA Piper has yet to return to its peak levels. The firm has fewer attorneys and lower revenue than it did prior to the 2008 war and financial crisis, attributable as much to the lower prices clients are willing to pay as to the decrease in the volume of business.

Despite improvements in the political and legal environment, Jonas said, Georgia's economy remains on a "downward slide," in part due to the instability in Ukraine.

"This government has got to put in place strong, centralized mechanisms for economic policy and development. There isn't the time to keep drifting."

Cultural, Economic Divide Define Women's Chances to Climb Global Corporate Ladder

March 8 was International Women's Day – a good time to take stock of where women are in business. New research from Grant Thornton International Business Report (IBR) reveals that despite a groundswell of discussion and debate, the proportion of top jobs around the world held by women remains at just under a quarter. The survey finds growing support for regulation for quotas to get women onto boards, but also several measures that businesses can take to facilitate the career paths of women.

ANA GABEDAVA

Globally, the proportion of senior roles filled by women in 2014 is 24%. This is exactly the same proportion as in 2013, 2009 and 2007, and only 5% higher than the 19% recorded ten years ago in 2004. Regionally, there has been very little significant change over the past decade with Eastern Europe (37%), Southeast Asia (35%) and China (38%) leading the way. Japan (9%), India and the United Arab Emirates (both 14%) continue to prop up the table.

That greater diversity in decision making produces better outcomes is no longer up for debate. For businesses, better decisions mean stronger growth, so it is in their interests to facilitate the path of women from the classroom to the boardroom.

The concern is that recent improvements in the access of women to education, especially in emerging markets, has not translated into higher proportions of women reaching the top of the corporate ladder. And while women are more likely to achieve these senior roles in emerging markets, there has been a worrying lack of movement globally over the past decade. This is clear evidence that we need actions rather than words. We would like to see businesses and governments implementing measures that support the career paths of women.

The IBR also shows growth in support for the introduction of quotas to get more women on corporate boards. Globally, close to one in two business leaders (45%) would now like to see quotas for the numbers of women on the boards of large listed companies, up from just over one in three (37%) in 2013. Interestingly, support has grown sharply in the EU (from 33% to 41%) where the imposition of quotas are most likely, but also in the BRIC economies (41% to 72%), and support remains high in Latin America (68%) and Asia Pacific (57%). Across the G7, however, only 33% of business leaders are in support of quotas.

Quotas may be controversial, so businesses themselves can also implement measures which could make a real difference. Research shows that just a fifth of the average global graduate intake is female. You would expect a fair proportion of a business's future leaders to come from its pool of graduates, so getting more women starting at that level will increase the odds of women making it to the top. It's better for businesses too; a wider breadth of candidates means more chances of hiring star performers.

And more could be done to support working mothers. Providing flexible working hours is helpful but it's not enough: businesses should consider providing tangible support for the burden of childcare if they want to retain their most talented women.

One may look into the issue of women in business also from another angle – leadership styles. There is a stark regional split in business leadership practices. While Asia Pacific and Latin American economies appear more open to the use of coaching, intuition and creativity, peers in Europe rely on more traditional practices. This split in leadership styles also closely mirrors a divergence in the proportion of women in senior positions.

Research identifies two very different types of business leader. In markets like Brazil, the Philippines, Thailand and Vietnam leaders termed "Modernists" are evident – they are open to coaching, value creativity and intuition, and are much more likely to be women – or surrounded by women in senior positions. By contrast, leaders in European economies like France, Germany, Spain and the UK are so-called "Traditionalists" – they are far less likely to use a coach, place less value on creativity and intuition, and are less likely to be women.

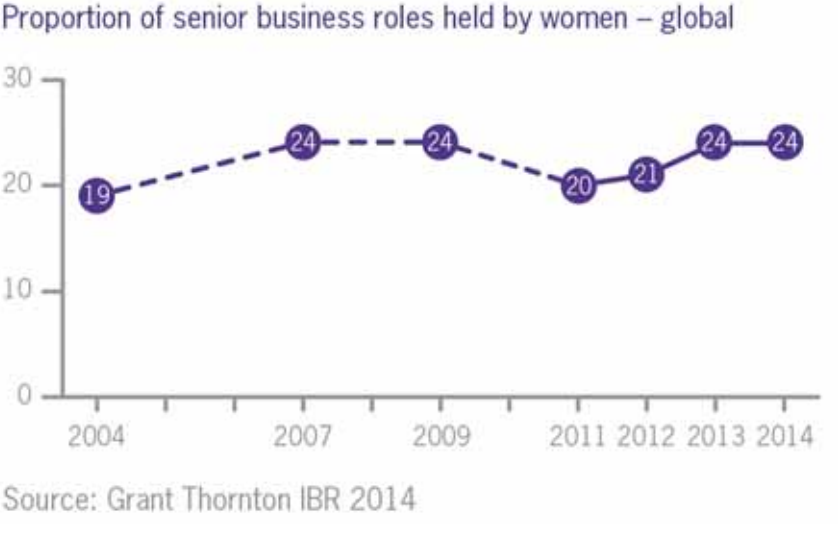
Business leaders were asked how important they believe certain attributes are to good leadership. Globally, integrity, a positive attitude and communication came out on top, but an interesting split emerges in leadership traits such as creativity and intuition which have increased in significance relatively recently.

The fact that business leaders in these economies are more likely to be women is not a coincidence. They appear to show greater openness to coaching, place greater emphasis on more modern management techniques and are also more willing to delegate. Grant Thornton's research definitely indicates a difference of approach that highlights the value to business of having gender diversity in senior roles.

Grant Thornton research revealed earlier this year that while leaders in these emerging economies display different behavior, they are also more likely to be female. 32% of South East Asian senior business leaders are women, 29% in the Asia Pacific region and 28% in the BRICs. In comparison, only 21% of senior positions in the G7 are occupied by women, and 22% in the euro zone. At the board level specifically, 26% of board members in BRIC economies are women, compared to just 16% in the G7 and 19% globally.

There is a wealth of research suggesting that decision making is affected by the gender balance on boards. As businesses with higher proportions of women in senior management tend to be found in emerging economies, the question is whether this offers them an advantage in the global race for growth.

Economies in Europe and North America are picking up and business leaders are looking forward to the effect this will have on the growth of their own operations. But longer-term, the danger is that the diversity and openness to modern leadership styles exhibited by Modernist peers could result in better decision-making and, ultimately, stronger growth in Modernist countries, while countries tending to be Traditionalist will lag behind.



The Georgian Tourism Sector: An Overview of International Travel

From a statistical point of view, he tourism industry in Georgia in 2013 can be characterized as a period of further growth. In 2013, the number of international arrivals grew by 22%, overstepping the five million mark for the first time. The five-millionth international visitor was even awarded a prize to stress the importance of the event. The high growth rate in tourism was also highlighted by international organizations. According to the World Tourism Organization's report, "UNWTO World Tourism Barometer" (December, 2013), the increase in the number of international arrivals in Georgia was rated as the highest in Europe in 2013.

GIORGI BREGADZE

Georgia's border crossing registration procedure allows for the identification of different types of arrivals. Out of the total number of visits, 38% lasted longer than 24 hours, 40% were same day visits, and 22% were for the purpose of transit.

A comparison of global international arrivals growth rates with that of Georgia shows that in the past five years international arrivals in Georgia increased considerably faster than in the rest of the world. Even during the global financial crisis of 2008 when arrivals worldwide fell by 4%, the number of international arrivals to Georgia increased by 16%.

The statistics for the past three years demonstrate that the most popular travel season among international travelers is summer. During the summer, the number of international arrivals to Georgia equaled 1,880,515 (June: 490,796; July: 613,604; August: 776,115), which is 35% of all international arrivals for the year.

The majority of all arrivals to Georgia in 2013, 88% (4,732,529), were from neighboring countries: Armenia, Azerbaijan, Russia and Turkey; only 12% arrived from other countries. In 2012, those countries' share was higher, 91%, suggesting a decreasing trend in this number. Turkey is the annual leader in terms of the number of international arrivals to Georgia. Although the number of arrivals from Armenia was greater in December with a total of 121,732 (27%), annual data showed Turkey to be in first place with 1,597,438 arrivals (an increase of 4%).

A significant increasing trend has been observed in the number of travelers arriving from the Russian Federation. This has been caused by the visa liberalization process and the reintroduction of direct flights. In 2013, arrivals from Russia increased by 49%. The largest percentage increases were registered in February (138%) and March (103%).

There has been a significant increase in the number of arrivals from Israel, Poland and Ukraine, caused by the introduction of direct flights to Poland (Wizz Air), and the addition of flights to Ukraine. It is important to mention here that marketing campaigns administered by the Georgian National Tourism Administration played a significant role in the increases. Yearly data shows the following increases in the number of arrivals: Israel 29%, Ukraine 65%, and Poland 79%.

The introduction of direct flights to Iraq boosted the number of arrivals from that country. In 2013, the number of arrivals from Iraq stood at 41,239, a 493% increase over last year.

In 2013, there were 208,754 international arrivals from EU countries, representing a 4% share of total arrivals and an increase of 16% over last year.

The largest share of visitors, 87% (4,699,387) arrived in Georgia by land transport, followed by air transport, 585,701 (11%). Arrivals by sea and railway had almost the same share of 44,239 (1%) and 62,976 (1%) respectively. The busiest border crossing is at Sarpi (on the Turkish border), which saw 1,605,666 crossings in 2013, amounting to 30% of all border crossings. This is followed by the crossing at Sadakhlo (on the Armenian border) at 17% and the crossing at Tsiteli Khidi (on the Azerbaijani border) at 16%.

Travel Behavior of International Visitors, 2013

An inbound tourism survey led to a qualified estimate that almost 5,351,021 international visits were made to Georgia in 2013. A total of 60.3% (3,226,953) of these visits included at least one overnight stay and 40.7% (2,124,068) were day trips.

Out of a total of 5,351,021 visits, 69% were repeat visits and 31% of trips were for the first time. Thus, Georgia had up to 1,643,241 new visitors within the period covered.

Most of those visiting from neighboring countries have traveled to Georgia before. The highest share of repeat visits was observed among residents of Azerbaijan (89%). In contrast, a larger share of European visitors came to Georgia for the first time.

Duration and Purpose of Travel

The average duration of a trip is five nights and varies by country of residence. Visits from neighboring countries tend to last for shorter periods, except for visits from Russia, which average eight nights.

International visits are mostly undertaken for holiday, leisure or recreation purposes (37%). Other frequently observed purposes include visiting friends or relatives (26%), transit (17%), shopping (9%) and business/professional trips (4%). Only 8% of visits were for other purposes.

Accommodation

The most frequently used form of accommodation was hotels (43%). Slightly more than a third of tourists (34%) resided at a friend's or relative's private apartment. Other types of accommodation are less utilized by international visitors. For example, only 10% stayed in guesthouses.

Travel Destinations

Over 46% of international trips were to Tbilisi, the capital city of Georgia, while 41% of international trips were to Batumi. Other destinations had a lower number of visits.

Among them Marneuli was the most popular (8%). Other destinations included: Kazbegi (8%), Rustavi (6%), Kobuleti (6%), Mtskheta (5%), Kutaisi (5%) and Borjomi (2%).

Sector Outlook

Against the backdrop of the global economic crisis, the Georgian tourism industry continues to grow. The outlook for the industry is highly optimistic. It is forecast that the industry will create more jobs and generate more income in the years to come. The number of arrivals to Georgia is expected to increase substantially thanks to the various steps taken by both the government, in general, and the Georgian National Tourism Administration (GNTA), in particular.

Among the actions taken by the GNTA toward increasing the number of travelers in the country are: the development of tourism infrastructure; the facilitation of international travel; the improvement of service quality; increasing awareness about Georgia; large-scale marketing campaigns; internet marketing; targeting new markets; and tourist product development.

The development of tourist infrastructure stands high amongst the pri-

Source: The Ministry of Internal Affairs of Georgia

orities of the government. New tourist information centers are in the process of construction in Tbilisi (Pushkin Square), Martvili and Chkhorotsku, and major reconstruction works related to tourism are underway (e.g. information centers in Zugdidi, Tsalenjikha, Poti, Kazbegi, and Bakuriani).

Significant steps were taken toward travel facilitation and visa relaxation over the past several years. Georgia has a no visa-free regime with around 117 countries. Among them are the United States, Canada, and European Union member states, whose citizens can enter Georgia solely on the basis of a passport. Travelers from most other countries are issued visas on arrival.

A new visa law has recently been voted on, although it has not been implemented yet. According to the latest information, as written, the new visa law will have minimum effect on tourism in Georgia. It is not yet been made public which countries' citizens will be subject to additional procedures to enter Georgian territory. However, it is known that these countries will not be from neighboring countries or EU countries, which are the main contributors of international travelers to Georgia.

Another significant issue is service quality enhancement. This is achieved through intensive training for representatives of the tourism and hospitality industry throughout Georgia. New services for tourists have been introduced as well: a 24-hour hotline for tourists, mobile guides and English-speaking taxis are among the successive projects introduced in 2013.

Flyers with the number of a 24-hour hotline are distributed at all border crossings of Georgia. By using this number visitors can receive information about all tourist products of Georgia immediately.

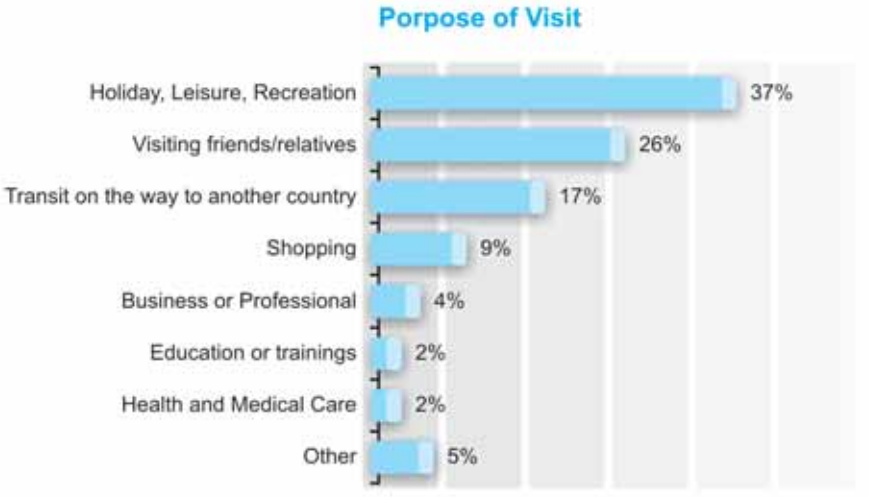
In the summer season mobile guides (mainly represented by Georgian students) were instructed to give all required information to tourists at every tourist destination of Tbilisi. This kind of project improves tourist information accessibility and stresses the importance of tourism for the country.

The GNTA has actively worked to increase awareness of Georgia on the international level. For this purpose, famous Georgians were appointed as representatives of tourism in the UK and Japan to promote Georgia as a tourism destination in those countries. In addition, according to an agreement between Japan and Georgia, a new information center will be established in Tokyo. The information center will be responsible for giving all types of tourism information about Georgia to Japanese citizens, with the objective of increasing tourist flow from Japan.

Marketing undoubtedly plays a vital role in tourism growth. Activities undertaken by the GNTA include promotional campaigns in both domestic and international markets, press and familiarization trips, participation in international travel-fairs, production of print materials, social media marketing, etc.

Online marketing is a priority for Georgian tourism administration. A new website under construction will allow potential visitors to find all tourist information in one place. Using this website, tourists will be able to plan trips to Georgia, book hotels, buy tourist packages

Source: Georgian National Tourism Administration



Source: Georgian National Tourism Administration

and upload photos and video materials taken during their trips to Georgia. In addition, a new Facebook page allows establishing direct contact with visitors who express their interest in travelling to Georgia and are looking for more information. Other social networks are used to deliver information to tourists as well. Among them are Twitter, Instagram, Pinterest, VKontakte and YouTube.

Choosing the right markets is undoubtedly an integral part of marketing. While maintaining existing markets, the GNTA also concentrates on tapping into new countries, including new emerging economies with immense potential. Seven presentations were held in Ukraine, Azerbaijan, Lithuania and Latvia in 2013. More than 600 travel agencies and representatives of different media attended these presentations.

Making the most of Georgia's rich natural and cultural resources by offering new tourist products provides increased possibilities for targeting travelers of different tastes. The GNTA efforts focus on the development of different types of tourism such as MICE (meetings, incentives, conferencing, exhibitions), wine tourism, ecotourism, and adventure tourism, to name but a few.

As a result of these projects, the competitiveness of Georgian tourism on the world market increased by seven positions, ranking 66th among 140 nations in the Travel & Tourism Competitiveness index in 2013 (Score: 4.10), as compared with 2011 (73rd position). In addition, according to "Rough Guides," Georgia ranks 5th among the top ten countries to visit in 2014, coming behind Brazil and Turkey. Georgia was successful in international relations as well. Georgia has been elected as Vice-President of the Committee on Statistics and the Tourism Satellite Account of the UNWTO. Georgia is also Vice-President of the European regional committee of the UNWTO.

European Youth Olympic Festival 2015

The 39th General Assembly of the European Olympic Committees chose the Georgian capital to host the Youth Olympic Festival in 2015. Over 4,000 athletes from 49 European countries will participate in the festival, which is to take place in Tbilisi. The sporting infrastructure of the city will be renovated according to European standards and an "Athletes' Village" will be built. For this event the city of Tbilisi is expected to host more than 10,000 visitors, of which approximately 5,000 will require 3-star hotel accommodation and about 200 will need 5-star hotel accommodation - all within Tbilisi. Considering the fact that there are only 6,207 lodging beds in Tbilisi (including guesthouses and family home stays), there is an immediate need for new hotel investment to fill the gap in supply. This festival represents a good opportunity for the country to showcase its rich tourism potential.

UEFA Super Cup 2015

The UEFA Executive Committee has given Tbilisi the opportunity to host a mega sporting event, the UEFA Super Cup. The UEFA Super Cup is an annual football match between the winners of the Champions League and the Europa League. The game will be held at the newly renovated Mikheil Meshki Stadium. This event will gather football fans from all over the world.

ISO Certification is Not the Same as Performance Improvement

Over the past several years, Georgian companies have increasingly turned to ISO certification as a benchmark for performance and quality. While ISO certification provides many benefits for business, it does not replace performance improvement.

TBSC CONSULTING; TEMO KHMELIDZE; PAUL CLARK; BSENG, MSENG, MBA, CPT

There are two truisms about improving performance: 1) every organization can significantly improve their performance and 2) the benefits of those improvements are large and they will directly improve financial performance.

For many directors and owners, the first thing that comes to mind when thinking about performance improvement is ISO certification. While ISO certification is certainly worthy, it is not the best way to improve performance. Rather, applying performance improvement technologies before ISO certification is probably the optimal path. The reason for this is discussed in this article.

History of ISO

In 1904, electrical experts from around the world gathered in St. Louis to standardize electrical machines so equipment made in one country could operate in other countries. This precedent to standardize product specifications became the basis of the International Organization for Standardization (ISO) based in Geneva. Over the past 110 years, ISO has established more than 15,000 product standards for everything from screw threads to sea containers.

During World War II, the general approach of standardizing product specifications spread to standardizing manufacturing processes. The basic premise was that to obtain constant product quality one must standardize not only products, but also the manufacturing processes used to create the products. This new approach was widely used in factories producing armaments for the Allies.

In the late eighties there was another paradigm shift, when ISO started to standardize more ephemeral matters, such as standardizing quality management. The first set of quality management standards, ISO 9000:1987, was published in 1987. These standards were based on the UK Standard BS 5750 and the US Mil Specs systems, and concerned quality management in manufacturing and service industries. Later versions of the standards were published in 1994, 2000 and 2008. A new version will be published in 2015.

Organizations receive and retain an ISO 9001 certificate (a standard within the ISO 9000 family) after they go through periodic external and internal audit processes to confirm that the organization complies with its own written procedures. At present, there are about one million active ISO certificates all over the world, among them about 50 in Georgia.

ISO Certification Today

In general, the ISO 9000 family of standards regulates several types of management processes such as Quality Management, Management Responsibility, Resource Management, Measurement, Analysis, Improvement and so forth. The standards give indications and sometimes requirements of what ISO views as the optimal way of doing things in an organization.

ISO certification is often taken to mean an organization has high-quality processes and high-quality products and services. While this may be true for some organizations, in practice ISO cer-

tification is better described as 1) writing and standardizing how things are done within an organization, 2) following the written procedures and 3) periodically auditing organizational conformance to procedures.

Benefits and Criticism of ISO Certification

ISO certification, properly implemented, creates consistent application of organizational processes. ISO certification may, but not always, ensure high-quality-products and services. Proponents of ISO certification claim that certification creates a more efficient and effective organization; increases customer satisfaction and retention; improves employee motivation and morale; reduces waste; increases productivity and so forth.

On the other hand, ISO certification is a heavily criticized management concept and the number of organizations that choose to not renew their certification is significant. Detractors emphasize that ISO certification creates an inordinate (and claimed unnecessary) paperwork burden, promotes unnecessary specifications and controls and creates resistance to innovations within the organization (e.g., our way or the highway). Often after the ISO implementation and certification project is complete, organizations find that sub-optimal processes are standardized (i.e., frozen) or that some new processes are simply not followed or both.

Other critics believe that ISO certification cannot create genuine performance improvement because (nearly) everyone involved in an ISO implementation and certification project (i.e., management, employees, preparatory consultants and auditors) focuses on obtaining the ISO certificate rather than obtaining dramatically improved performance.

Finally, ISO certification concentrates only on management processes, while some of key organizational challenges (e.g., eliminating waste, increasing customer service responsiveness) are only partially affected by management processes per se.

History of Performance Improvement

Performance improvement is a very broad concept that can be applied to any area, system, individual, group or organization. Performance improvement methods have been used throughout history. One of the earliest documented uses comes from Roman Military History. In particular, it was the superior organization and tactics (processes) of Roman Legions, developed through a well-documented performance improvement process, that enabled one small city-state on the Apennine Peninsula to conquer what is now the European Union, much of the Middle East and North of Africa. Tongue-in-cheek, imagine how European history would be different if Rome's historical organization and tactics had been frozen into place through by an ISO certification process.

> "While ISO certification is certainly worthy, it is not the best way to improve performance. Rather, applying performance improvement technologies before ISO certification is probably the optimal path."

Performance improvement technology has been significantly improved and systematized in the past 50 years. Thousands of organizations have gone through formal performance improvement projects. Methods used in many of those projects and the results of those projects have been well studied by academicians and practitioners. A significant body of scholarly and practical work has documented what does, and what does not work, for performance improvement purposes. The best performance improvement practitioners are designated by their peers as Certified Performance Technologists (CPT); there are fewer than 1,500 CPT's in the world, including one in Georgia.

Performance Improvement Today

Essentially, performance improvement means to develop and implement the optimal way of doing everything in a part of or an entire organization. The general process is to identify and prioritize performance gaps, determine the root causes of the performance gaps, develop solutions to the root causes and then implement the solutions. Performance improvement technologies can be applied to all or part of an organization.

Performance improvement efforts have one or both of two basic goals: 1) increase efficiency (i.e., achieve results with fewer resources) or increase effectiveness (i.e., achieving more or better results with existing resources). Improving efficiency might mean requiring less time to produce a product or service; smaller (i.e., right-sized) staff; less expensive mix of inputs; smaller inventory and so forth. On the other hand, improving effectiveness might mean increasing output without increasing inputs; creating more innovations; increasing customer satis-

faction and so forth.

Unlike ISO certification, which has a sense of "one size fits all", performance improvement uses a wide variety of tools and approaches for each unique solutions. Performance improvement tools include methods such as process standardization or re-engineering; statistical quality control; six-sigma management methods; key performance indicators (KPIs); customer satisfaction surveys; optimized management systems; advanced planning systems; motivation systems; advanced analytical tools (e.g., financial or marketing profitability metrics) or simply bright ideas based on common sense or cultural preferences. Sometimes performance improvement solutions might be based on software or equipment implementation, but it is not a rule.

Benefits And Criticisms Of Performance Improvement

In practice, sustainable performance improvement requires a lot of very in-depth analytical work, attention to details and (probably) significant cultural change. These are all hard and expensive matters for any organization. Often outside consultants are used to either perform the detailed analytical work or to manage a performance improvement effort done by organization staff.

Another criticism of performance improvement efforts is that sometimes there is significant backsliding; staff returns to the (good) old way of doing things and benefits are not achieved. This is particularly problematic when the magnitude of changes and improvements are large. Given that this is a common problem, one can plan methods to prevent backsliding. As noted later, one way is to go through an ISO certification process after the performance improvement effort.

On the other hand, the good news is that money invested in proper performance improvement has a very high return on investment, upwards of 150 percent per year with short payback periods. For example, when public companies announce performance improvement efforts with large costs (often right-sizing staff levels) stock prices generally move up, not down as might be expected from a generally negative announcement (e.g., we must spend a lot to fix ourselves).

> "Unlike ISO certification, which has a sense of "one size fits all", performance improvement uses a wide variety of tools and approaches for each unique solutions."

In addition, non-monetary improvements are also significant. For example, a large Georgian bank increased its customer satisfaction by 40 percent in a six-month period, reaching a level twice the industry average; imagine the shareholder value that this created.

Finally, if done properly, performance improvement creates a cultural shift; improving performance becomes the norm rather than an exception and onetime thing.

> "Though quite different in nature, performance improvement and ISO certification can be very complementary if done in the proper order."

Performance Improvement And ISO Certification Are Complementary

Though quite different in nature, performance improvement and ISO certification can be very complementary if done in the proper order. First, performance improvement technologies should be used to determine and implement optimal processes within part or all of an organization. Second, if optimization is done organization-wide, then ISO certification can be used to freeze those optimal processes into place.

This will ensure there is little backsliding into the old way of doing things. Third, the organization should create a separate unit or process to constantly evaluate existing processes and, as situations change, design and implement new and improved processes. That is, the organization should periodically change the processes against which ISO certification is audited.

Performance improvement technologies are very useful even if an organization already has ISO certification. Improved processes, once designed in a performance improvement effort, can simply become the new processes against which ISO certification is audited. The fact that ISO certification already exists makes improvements of this type easier as the organizational culture already has in place the idea of writing down how things are to be done, and then to do that and nothing else.

About TBSC Consulting

TBSC Consulting is based in Tbilisi. We have helped clients improve their performance for more than 30 years in North America, Western Europe, Central Europe and Georgia (for 14 years). The only CPT in the Caucasus is a principal at TBSC. We have helped others; we can help you. ■

Hotel Construction Renews Building Boom in Tbilisi

Lisi Lake Development in Tbilisi.

Six large hotels planned – and a score of smaller construction projects – are giving Tbilisi's dormant building sector a buzz. But unlike the construction explosion from 2005 to 2007, this boom is far from a bubble, industry specialists say.

NINO PATSURIA

The building business is making a comeback in Tbilisi, after years of recovery following the 2008 financial crisis. But industry specialists believe the new development trend signals major differences in how the sector is growing and maturing after the 2007 construction bubble.

One major difference from the 2005-2007 boom is the driving force behind the growth: this time around, large hotel projects are pushing the sector forward, not mortgaged apartment sales, noted Tengiz Lomitashvili, a managing consultant and partner at TBSC Consulting.

Over the next two years, six major hotels are planning to open in the capital: Rixos, with 180 beds; Millennium Hotel, with 220 beds; Park Inn, with 200 beds; Hilton Garden Inn, with 180 beds; Rooms Hotel Tbilisi, with 150 beds; and Intercontinental Tbilisi, with 200 beds.

Lomitashvili noted Georgia's growing number of tourists is luring large hotel projects to the capital: last year the tourist inflow in Georgia grew by 22 percent – the highest in Europe, putting the number at over 5 million. The official prognosis of GNTA for 2014 is 18 percent.

In Tbilisi, he said, the four and five star hotel market is already "saturated." But there is room for three star accommodations.

"The 3-starred hotel segment has the highest potential as far as 4-5 starred hotel segment is gradually becoming saturated, considering the existing pipeline supply in this segment. Out of 170 of all class hotels and 7,000 beds at the moment in Tbilisi, there are only up to ten larger (50 rooms and up) hotels. As for the announced pipeline, more than 1,000 rooms will be added in next 2-3 years, most of which will be in 4-star segment. The whole the 3-star segment is free," he said.

A Changing Market

Hotel construction provides a more ▸▸

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stable environment for the sector to rebuild. Now, noted Lomitashvili, the impetus is on good management, not quick profit.

He said that change signals there has been a fundamental shift in the market structure. To an extent, the large companies that used to dominate the real estate industry have been replaced by flexible small developers focused on local needs who focus on one project at a time.

"You can hardly find a street in Tbilisi, either downtown or uptown, without a new, small construction site," Lomitashvili says. "These are mainly small independent investments groups who build small projects based on their own financial resources and sell them. There are, however, some big developer companies like Bank of Georgia's m2 Real Estate still do well thanks to proper management."

Redix recently started the $31 million 164-room hotel Hilton Garden Inn project on Chachavadze Avenue, which is scheduled to be completed by 2016. With $18.8 million being covered by EBRD, the project also includes residential housing. In addition, Redix, which entered the real estate market in 2007, also holds a portfolio of office and commercial space.

In response to questions by Investor.ge, Redix said "demand" is high in the market, noting that their luxury apartment project was quickly "full."

Other real estate development groups agree that demand for apartments is high in the Tbilisi market.

For Lisi Development, a multi-phase residential project near Tbilisi's Lisi Lake, interest from potential buyers has been steadily increasing since construction started in 2011.

"In 2011 we already had real clients for 30 percent of the residential places. And demand has significantly increased after the completion of the first phase," the projects press department said via email.

"We must say that almost for the whole past year demand for the residential housing is steadily growing. We think that this tendency will be the same at least for next three years."

With around three percent of the market in their portfolio, m2 Real Estate launched two large residential projects in Saburtalo, a central, primarily residential region of Tbilisi. The construction, a $14 million investment, have been financed by the International Financial Corporation (IFC) and FMO, the Dutch development bank.

The Georgian Co- Investment Fund is also primed to make new investments in the sector. Among the potential projects named by the fund in its initial presentation, there were hotels in Tbilisi and in the regions. In March, the fund also announced tentative plans for a large scale real estate development in central Tbilisi.

Irakli Burdiladze, the chairperson of the Supervisory Council for m2 Real Estate, noted, however, that the market is also changing based on consumer demands.

Unlike the boom years, when people were willing to trust developers and purchase apartments in buildings that had yet to be constructed – a practice known as "buying in the air," today, consumers demand good management and better guarantees. "We never start a project unless half of finances required for the project is attracted via our own capital or other financial institutions," Burdiladze told Investor.ge.

Lomitashvili agreed, noting that today consumers sign deals only when construction is actually ongoing and near to finish.

"This speculative bubble when consumer acquired new apartments by banking loans rather than their own savings had to burst finally, and now consumer became wiser and the demand is rational and close to real purchase power," noted Giorgi Abashishvili, a deputy dean at Ilia State Univesrity Business School.

"Now the demand will go up at a reasonable pace close to the economic growth of the country and not without logic like the pre-crisis boom."

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Georgian Entrepreneurs: An interview with Lasha Papashvili

Investor.ge has launched a 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 fourth interview of the series, Maia Edilashvili speaks with Lasha Papashvili, the general director of Redix, one of the largest development companies in Georgia.

A stable political and economic environment with a strong legal system is vital for entrepreneurialism and investment to flourish, LashaPapashvilisaid in an interview with Investor.ge.

A graduate of Ivane Javakhishvili Tbilisi State University, Papashviliworked as the general director of Bank Republic – Societe General Group in 1998-2004 and later until 2014, he served as Chairman of the bank's Supervisory Board. Now General Director of Redix, his diversified business portfolio includes35 large and medium-sized projects worth $15 million.

Redix was launched in 2007, when construction and the overall economic growth of Georgia was booming. Although many competitors crumbled in the face of the economic crisis and the real estate market crash, Redix refocused, and sought out a niche: finished apartments.

In a market more accustomed to black carcass and unfinished apartment projects, Redix became one of the first to offer ready to live modern residential apartments and office/commercial space on the Georgian market. Home buyers were offered apartments with kitchen furniture and equipment, central heating and air conditioning.

Today, Papashvili is optimistic the real estate sector is making a comeback.

"There is a clear vitalization on the market and the situation is returning back to what was in the first half of 2008," he said, predicting that both the demand and supply is likely to surge in all directions – residential, office, commercial, and hospitality service.

The challenge in the construction field, Papashvili believes, is issuing permits without tough regulations since there are no laws and standards. Another concern for him is that the country is not divided into special areas such as urban, industrial, agricultural, and recreational or other types of zones. "Local self-government agencies both in the cities and villages have no development policy," he complained.

On a positive note, however, Papashvili hailed the changes over the recent years when bureaucratic requirements from the procedures of registering private property were streamlined and removed. If new investors decide to come to the Georgian market they would find "by far friendlier"business environment, he says.

Redix itself is taking advantage of these favorable conditions by expanding: currently the company is intensively developing the HoReCa (Hotel/Restaurant/Café) model. The company opened Hotel Kabadoni in Signagi in 2012. A new apartment-hotel in Batumi is scheduled to open in May, and there is also a plan to open Hotel Samzeo in the mountainous region of Tusheti. "Also, intensive construction works are underway for a 165-room hotel on Chavchavadze Avenue in Tbilisi, which will be operated by Hilton Garden Inn of Hilton Worldwide," Papashvili told Investor.ge.

Papashvili has also ventured into agriculture - process, he describes as "difficult." However, he adds, a new wine brand Kvarlis Maraniis already available on the market. "Last year we opened a dairy farm Kvarlis Baga with a daily capacity of three tons of milk which is fully sold on the local market. In total, $10 million in investment has been put in these two projects," he explained.

Even though the latest statistics for foreign direct investment does not show an upward trend - FDI was $ 217 million in the fourth quarter of 2013, an annual decline of 7% - the government remains optimistic. According to the official prognosis, this year economic growth will accelerate and stand at 5%, an increase from 3.2% in 2013.

For solid growth to take place, "a long-term action plan with clear priorities," is needed, says Papashvili. Yet, in his view, equally important is maintaining a low crime rate. "If the state guarantees all of these, that will serve as a guarantor of attracting [more] FDI," he noted.

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Reforming Tax Appeals: An Overview of PwC Research on Best Practices for Tax Appeal Councils

Ambiguities over the interpretation of the tax code and concerns over its consistent application have been among the biggest problems facing businesses in Georgia for many years. The Council of Tax Appeals (hereinafter "the council") is crucial to giving businesses confidence in the tax system as, for many years, it has been one of the primary mechanisms for resolving disputes between taxpayers and the government. An alternative to the Council is to take disputes into the courts. However, in Georgia this was rarely used as the courts were not considered to be technically competent to professionally adjudicate disputes.

In 2013, PwC conducted research to investigate best practice and business opinions about the council. This research was funded by the Open Society Georgia Foundation and the EU, and supported by the Minister of Finance and AmCham, the Business Association of Georgia, the Georgian Small and Medium Enterprise Association and the Georgian Bankers Association. The research included an international comparison that looked at the way the systems for dispute resolution operated in other countries, an online survey of 142 companies and semi-structured interviews with 23 companies. The full research can be provided on request from AmCham or PwC.

Independence

One of the key concerns about the council is that it operates inside the Ministry of Finance (MoF) and is largely made up of existing MoF employees. PwC's research showed that international examples were of little help in clarifying best practice as dispute resolution structures in other countries operate under a range of institutional structures, some of which closely align with the finance ministries and the tax authorities of those respective countries.

However, businesses generally do not like this operating arrangement. Slightly over half of interviewees said that they did not believe that the current system allowed for independent decision making and over 75 percent of that group believed this was the result of their institutional affiliation with the MoF. Two-thirds of respondents said that the Dispute Resolution Council should be fully separate from the MoF.

Nonetheless, there are practical challenges to securing independence of the council. First, the Georgian constitution excludes an entirely institutionally separate judicial or quasi-judicial "tax court." Second, the MoF has clearly stated it is not interested in this option. Finally, starting an entirely new institution may create bigger hurdles than creating greater independence inside the MoF.

Therefore, PwC's research also looked at other ways in which greater independence could be created inside the current council structure, without formal separation from the MoF.

Four main mechanisms were considered as potential examples of best practice for securing greater independence and were tested by the survey. First, in Georgia the appointments to the council are made for indefinite terms, but PwC's research found that in every case study, except Singapore, the members of the councils have fixed terms. This is generally considered to create more independence as it liberates members from threat of dismissal. It was also supported by 85 percent of survey respondents with 28 percent wanting one year, 42 percent suggesting three years and 16 percent suggesting five year terms.

Second, in Georgia members have other professional positions at the same time as they work on the council. Restricting members of the council from holding other positions was used by California, Massachusetts and New Zealand as a mechanism for avoiding conflicts. Seventy-three percent of survey respondents believe that the council should be the sole occupation of its members. This could increase independence and could create a more clearly defined group for training and professional development.

Third, in all of the case studies, members of the council were protected from dismissal/prosecution when decisions were made in good faith.

Fourth, in Georgia, appointment to the council is done by the government. While there is no consistency of international best practice on this issue, 99 percent of surveyed companies did not agree that sole government appointment was the best method for appointments, with 65 percent of respondents expressing the view that the business community and government should together be responsible for appointments.

Recommendation: As a result of all of this analysis, PwC recommended that full institutional independence from the MoF was not necessary. However, it felt that adopting fixed-term, sole-position appointments, with protection from dismissal and business involvement in appointments, could dramatically increase independence.

Transparency/Predictability

Lack of predictability in interpretation of the tax code has been a consistent problem of Georgia's tax system for years. It is not only a problem for business planning but has also left the concern that the tax code might be selectively applied.

One problem that makes predictability and consistency of interpretation difficult is the lack of published guidance on the tax code, and particularly the lack of published guidance that is binding on future interpretation.

One way in which the council could help this situation, and improve the practicality and predictability of tax code interpretations would be to publish decisions and make past decisions binding for the future. There was no consistent international best practice on publication of results. Some kind of publication was generally popular with businesses. Fifty percent of survey respondents said that decisions should be made public generally (with protection of the identity of taxpayers) and the other half said that release should be subject to approval on the part of the taxpayer.

Recommendation: Decisions should be public, but personal and commercial data should be private.

Efficiency

On the issue of efficiency, PwC's survey results were positive. Eighty-nine percent of those surveyed said that there was no formal problem with their applications, although some said that they had difficulty presenting full evidence. One-third complained about the execution of decisions. There was still space for improvement and the project as a whole recommends a range of technical modifications to improve efficiency and equity, including the use of a faster/simpler process for small claims and the use of expert witnesses.

Recommendation: The system should be simplified for small claims and ease of providing evidence should be improved.

Following its analysis, PwC has presented its findings to the Ministry of Finance, and all of their major recommendations have been accepted. AmCham and Investor.ge magazine will keep track of reforms moving forward.

This report is made possible by the generous support of the American people through the United States Agency for International Development (USAID), EWMI and EPF, within the Judicial Independence and Legal Empowerment Project. The report's contents are the responsibility of AmCham and do not necessarily reflect the views of USAID, the United States Government, EWMI or EPF.

However, as mentioned earlier in the article, the research itself described in the report was carried out by PwC under grants from the EU and Open Society Georgia Foundation (OSGF)

Brain Drain: Bringing Back the Best

Investor.ge continues its series on brain drain in Georgia through interviews with Georgians studying or working abroad and the organizations that are trying to create the means to bring them back home. In this issue, Investor.ge interviewed the program manager of Open Society Foundations' Academic Fellowship Program, Eniko Kovacs.

How does the Open Society Foundation Academy Fellowship Program help predict brain drain? How big of a problem is brain drain in transitional countries like Georgia?

The main mission of the Open Society Foundations' Academic Fellowship Program is to prevent brain drain from academia by supporting the return and retention of young and promising academics (Returning Scholars) who have earned a graduate degree abroad and are eager or willing to return to teach in their home countries. Besides providing a scholarship to the individual, the program also acknowledges the importance of continuous professional development and the need for a broader assistance on curriculum reform to the academic departments of the returnees. These are addressed through different types of support. The Academic Fellowship Program'sProfessional Development Fund ensures that fellows can participate and network in high caliber international events or can effectively enhance their professional profile. The Academic Fellowship Program's International Scholars Fellowship Program invites high-profile academics from renowned universities around the world to provide direct assistance to departments and their entire faculty where Returning Scholars are placed.

It is well known that in developing countries well trained academics tend to leave for what are considered developed countries. However, this is not the only danger to consider since the brain drain from academia to other sectors in the labor market is also a real danger. There is a need for good education first in order to build up good and successful economies. Our program targeted return and retention in academia and through this the enhancement of the quality of education provided by the partner departments/ universities. Such a scheme offers assistance for individuals but also takes into account the need to boost the milieu where the individual is placed. This proved to be effective in countries where the Academic Fellowship Program operated as this addressed return but also retention at the same time. Throughout the years in Georgia we supported almost 100 returning scholars for several years and were happy to learn that most of our alumni are still in the country and still teaching. The support for the Returning Scholars also meant direct support to several departments at Tbilisi State University, Ilia State University and the Georgian Medical University and also led to the creation of new academic centers and departments.

What are the benefits of studying abroad? To what extent are those benefits recognized by employers in countries like Georgia?

Being a student at a university in a different country, especially in Western Europe or the U.S., brings important benefits when it comes to looking for a job. Undertaking your MA or PhD program abroad means not only new competitive knowledge and skills but also becoming a better expert within your field. The improvement of one's professional and language skills brings many benefits when it comes to engaging in the labor market. Such well-qualified professionals should be highly valued by employers in all countries, including Georgia. This is a benefit for the employer as it gets an excellent labor force. On the other hand, it might be a loss to academia in someone's home country, which can seem a less attractive sector for many to work in.

What should local employers/business associations/policy makers do to encourage students to go back and use their new skills at home?

First of all, it is worth emphasizing that in Georgia, as in many other countries, local employers may lack a clear vision regarding the skills and potential of Georgians outside Georgia. The main recruitment market remains the narrow pool of professionals who live and study in Georgia. A well-structured strategy is needed by businesses and employers concerning what human capital needs there are and how the skills of Georgians that live/study abroad could be utilized to meet those needs. In the ideal scenario

the strategy should also involve a way to keep track of scholars who go abroad and to start career counseling and to inform them about opportunities at home at an early stage, for example, one year before they finish their degrees.

As for incentives, it is clear that besides the financial motivation there is a need to offer opportunities for further professional development. This is also true for academia since a university that doesn't offer space or time (because of an extremely high teaching load) for academics for academic research and other professional development would not be perceived as a welcoming environment. In order to change this there is a need for real collaboration and consensus of both policy makers and employers.

How successful has Georgia been at bringing its expats back home?

There have been some steps taken in order to prevent the brain drain from the country and at the same time to support studies and professional development abroad. This is a very sensitive issue as the Georgian education system is still in the process of transformation, and therefore it may not yet be able to provide Georgian youth with adequate skills and knowledge.

A presidential fund was developed to finance those young people who have excelled and succeeding in getting enrolled in the world's leading universities. However, the condition was that they had to come back after their studies and be employed in state structures for a minimum of two years. On one hand this was a very reasonable condition, but on the other hand there turned out to be a mismatch between supply and demand since senior positions are very limited in state structures and the state literally didn't have space to offer interesting positions to all returning people. As a result, some of those who returned, who were graduates of prestigious universities, were offered weak positions in state structures. Obviously, this caused dissatisfaction for these people and many of them tried to find different ways to avoid that obligation.

According to our information, the business sector doesn't have a systematic contribution to bringing expats home either. Businesses mainly do charity or one-time activities. However, there are a few good examples of business involvement in education. For example, we were recently informed that the Bank of Georgia has established a sub-unit for dealing with the non-commercial/social-responsibility initiatives. They have developed their strategy and are working on fundraising in other institutions. For the first time in Georgia a local business establishment became a co-sponsor of the Chevening Scholarship, giving money to distinguished students to continue graduate studies at one of UK's leading universities.

Offering special schemes to make people return, especially to academia, does not happen systematically. The main reason, in my opinion, is that education usually is not the number one priority of a state and neither is it a priority for businesses. At this stage, advocacy initiatives are needed to raise awareness among businesses on the need and the possible benefits of their more intense involvement in education sector's development.

Why is that important for the economy?

Brain drain in academia could be a real danger. Having knowledgeable, highly skilled academics teaching at universities is indispensable for shaping the future generation's critical thinkers and reformers.

This is indespensable for any country's economy. And it should not be forgotten that academics returning from different international universities may also be a leading force of a countinous educational (but not only) reform in a country. Through their international experience and networks, they can be an asset for much more than a country's education sector.

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Yalta, the Intourist hotel area, showing the Soviet era cable cart ride.

I am going home

Journalist Helene Bedwell writes about the Crimea – and what happens when the Soviet Union's untidy past sweeps into the present. Bedwell was in Crimea to cover the March 16 referendum for Bloomberg.

"I am going home!, I want the Soviet Union!!"- a pleasant looking woman clutching a bottle of beer was shouting as spectacular fireworks display illuminated the main government building on the night of joining Russia after the referendum in Simferopol, Crimea.

She could be right.

It doesn't matter about the legality. Crimea is now a part of Russia, while the old Soviet glory city of Sevastopol follows the trend as an independent subject within the Russian Federation. While almost 97 percent of voters in this hastily arranged referendum backed leaving Ukraine and becoming part of Russia, the vote was widely condemned by the government in Kiev, the European Union and the U.S. But it's unlikely that Russia will end its actions there, the land which it said historically belongs to it thanks to the 1794 Empress Catherine II's victory over the Ottoman Turks, Russia's plans go deeper than childhood memories of Crimea and how it was given away by Nikita Khrushchev to Ukraine.

Crimea was taken by Russia without a gunshot. As a kid, I remember my father trying his best to avoid sending us to Crimea pioneer camps, such as Artek and pupil summer schools, let alone the holidays in the luxurious and Soviet comfort hotels in Yalta, Alushta and Sudak. My

grandmothers, like most elderly Soviet citizens, were often offered the health sanatorium passes to Crimea, which is also known for the longest trolleybus line in the World, between Yalta and Simferopol. Let's also not forget about Yalta, the location where Stalin, Roosevelt and Churchill met during World War II.

It's something very warm, personal and empowering to think of the holidays in Crimea, if you are a Russian who remembers the Soviet Union system and especially from now more Russian tourists will flood the place. Before as many as 60 percent of the tourists were Ukrainians.

A lawyer who works for one of the oldest hotels in Yalta, theOreanda, told me exactly that, saying that Yalta won't feel the pinch by declining numbers of Ukrainian tourists. Or foreigners for that matter, because now they would need Russian visas to arrive to these resorts.

"Hey we are not Safari you know, it's Yalta, people come here for the back of the memories and old glory," Valdymir Bondarenko, who was increasingly afraid of the Kiev revolutionaries, told me in an interview this month.

Once again, he could be right.

I remember very well the euphoria of overthrowing the statues of Lenin and others like him in Georgia and elsewhere in the former Soviet Union countries. When the Russian tanks rolled in the streets of Tbilisi, many people, especially the young, died for freedom, and the total collapse of the system came soon after. But here in Crimea time stands still.

For the people who live on the street of Proletarskaya, or go to study or work on the street of Oktabrskaya, passing the huge statues of Lenin every day, maybe have a good drink or two on the Ulitsa Karl Marx, it's practically unimaginable to support the Kiev Meidan, to feel even an ounce of compassion for the western democracy values, like releasing the former premier accused of corruption Yulia Timoshenko. These people blame the world for the collapse of the Soviet Union and will support any crazy idea of Vladimir Putin, who is trying to return the glory of the old empire.

Svante Cornell, research director at the Central Asia-Caucasus Institute and Silk Road Studies Program in Stockholm, said that the small part of the story could really be whether Russia reclaims its lost land but the big part lies inside the plans to restore former Soviet control. This was the opportunity provided by the revolution in Kiev, and of course it was the capacity of the Russian military, which basically saw that they could take Crimea without a shot and nothing would happen because Kiev was not going to do anything since at the time it was disorganized.

When I visited the Belbek military base, Lubimkovo, it was still under Ukrainian control, I passed the heavily armed and monitored checkpoint with masked Russian soldiers with unidentified badges, Cossacks, who came for help and the local police who had shifted sides. And suddenly from this alarming checkpoint, which looked like something from war movies, I found myself inside the military base, where unarmed Ukrainian soldiers are under psychologically pressure by the blockade. They never fired that shot Svante Cornell was talking about earlier; now it's Russia who owns Crimea. Soldiers like Nikolay tell me that they need a corridor to get away, that they will never serve Russia.

Going back to that night of the victory rally, where the Russian flags and even the Soviet Union flags were waived by the populous who were drunk with happiness and vodka, I walked through them and also shouted "Russia, Russia" simply to blend in. They do hate Georgians with British citizenship who work for the Western media.

Helene Bedwell reports for Bloomberg. She is based out of Tbilisi, Georgia.

Large posters across Crimea campaigning for joining Russia option in referendum on March 16. Poster says Together with Russia. Tatars, who represent 12 percent of Crimea's population, largely boycotted the vote.

Ananuri

24 Hours Out of Tbilisi

Looking for something to do this Sunday? Investor.ge's Monica Ellena offers three options close enough to Tbilisi to see in a day trip, but far enough away for an adventure.

Russian poet Alexander Pushkin reportedly enjoyed soaking in Tiflis' thermal waters. But idling about in Abanotubani may not be the only reason why the revered bard called the Georgian capital "the fabulous land" - the bohemian vibe, the ornate buildings, and secret courtyard gardens still catch people's imaginations. But there is so much more to offer within two hours' drive of Tbilisi. Georgia's spectacular countryside hosts ruined fortresses, ancient churches, and archeological sites, making it possible to mix hiking and cultural excursions at the same time.

Bazeleti Lake and Ananuri

The splendid Ananuri complex, which lies about 60 km from Tbilisi, is just one example of how Georgians historically located fortresses and churches in the most beautiful locations.

Situated along the winding Georgian Military Highway, the Ananuri compound is perched on an indigo-colored reservoir with a magnificent mountain backdrop. Within the 13th-century fortress, there are two churches dating to the 17th century.

The larger, the Assumption Church, boasts a stone carved façade with lions, vines, and Georgian writing. A short climb up the tallest of the fortress' towers, at the top end of the complex, offers a fantastic view over Bazeleti Lake.

After Ananuri, you have a choice: either drive further to Pasanauri to eat the best khinkali in Georgia, or make

your way to Tbilisi and stop for a picnic at Bazeleti Lake. Legend has it that a golden-haired child is lying in a golden crib at the bottom of Bazeleti, and that the water came from the mother's tears.

Birtvisi Canyon and Fortress

Set in scenery reminiscent of the Lord of the Rings, the maze of Birtvisi Canyon is one of the most spectacular hikes in the vicinity of the capital.

Birtvisi is a natural rocky fortress of 1 km², secured by walls and towers. This natural shelter was discovered by a local prince in the 9th century, who ordered a hidden city to be built there.

The complex became one of the most protected fortress-cities in the Eastern Georgian Kingdom, from where its rulers could control the entire strategic Algeti gorge. In 1403, Tamerlane conquered it – but only on his eighth attempt, after deceiving the Georgians.

For a day in the canyon and its evocative forest, drive to the village of Tbisito start a one-hour walk to the entrance of the canyon.

Monument to the Battle of Didgori

Dozens of gargantuan swords pushed into the ground and posing like crosses; colossal cement blocks arranged like orderly coffins; enormous sculptures of dismembered bodies of warriors: by any standard, the monument to the Battle of Didgori is dramatic.40 km west of Tbilisi, the monument is on Mount Didgori, in the eastern part of the Trialeti Range, part of the Lesser Caucasus.

Built in the early 1990s, it glorifies King David IV, The Builder, whose army of 56,000 soldiers beat an army of 500,000 from the Great Seljuk Empire on August 12, 1121. The dzlevaysakvirveli (miraculous victory) paved the way fo rthe re-conquest of Tbilisi in 1122, so that the city could become, according to a Georgian chronicle, "forever an arsenal and capital for his sons." It was the beginning of the Georgian medieval golden age.

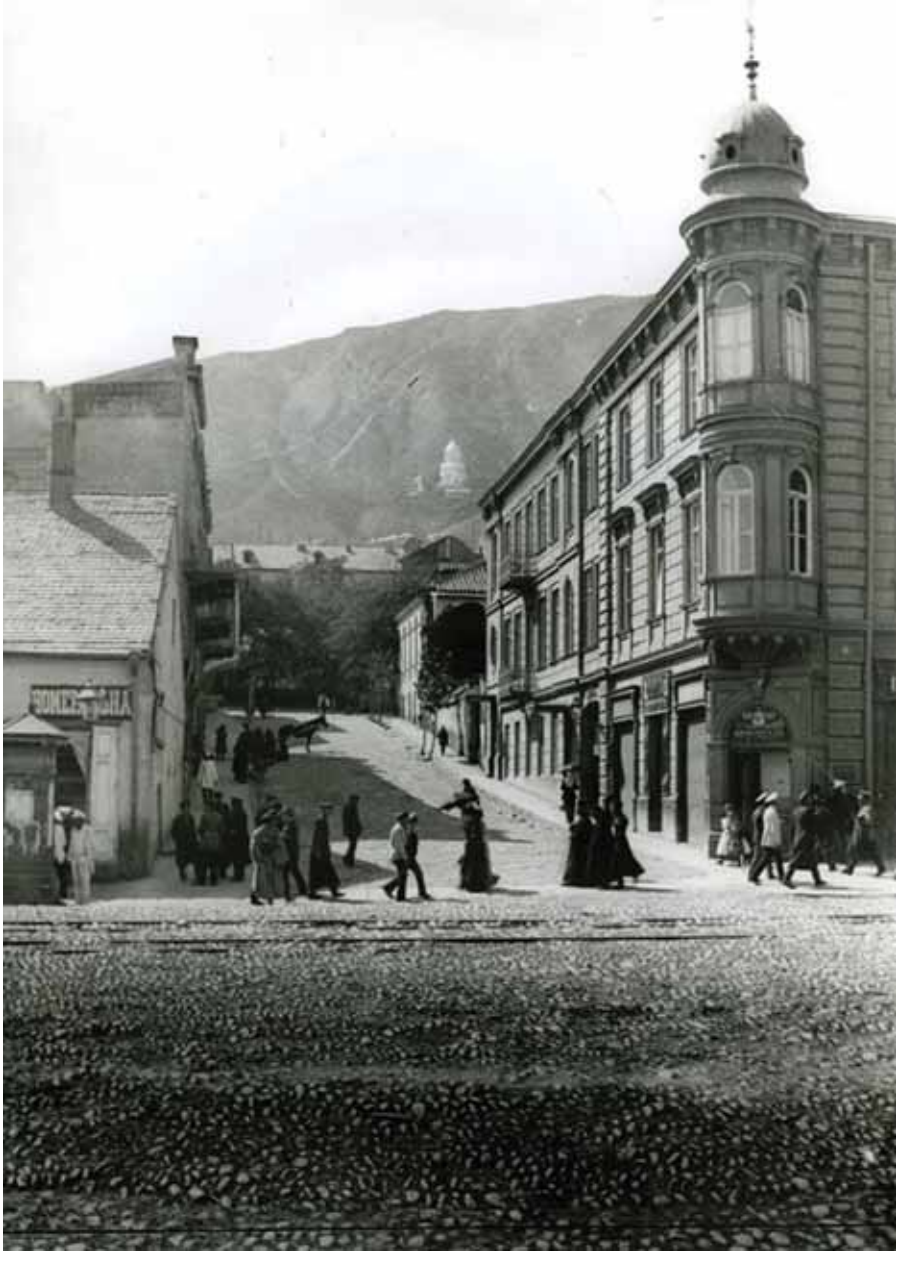
The battlefield extends for several kilometers and is covered by subalpine meadows, making a great place for hiking and camping. Didgoroba, an annual festival held every September, still celebrates the victory.

Dmanisi Archeological Site

Skull 5 is like an old relative –about 1.8 million years old, in fact. It is one of five early human skulls unearthed by anthropologists in Dmanisi, a medieval hilltop village overlooking the confluence of two rivers about 93 km southwest of Tbilisi.

Despite the uninspiring name of the Homo Georgicus' skulls, researchers claim that the discovery forced a rethink of the story of early human evolution. Although not all scientists agree, the so-called Dmanisi collection represents the earliest evidence of primitive humans outside Africa and is the biggest collection of well-preserved early human remains anywhere in the world.

Nearby stands the BolnisiSioni Church, a square stone basilica with three naves dating from the fifth century, built with green tuff stone. The wall scripts are regarded as the oldestin Georgian.



My City, Tbilisi

EMIL AVDALIANI

Mitrophane Laghidze and the Tale of His Famous Laghidze Waters

During two empires and for nearly 100 years, a shop on a Rustaveli Avenue was the home of one of Georgia's most famous brands: Laghidze Waters.

Created by Mitrophane Laghidze, a Georgian from Imereti, Laghidze Waters was once as famous as Borjomi and Saperavi, a Georgian bubbly sugar drink served to royalty and heads of state, including Winston Churchill, Joseph Stalin, and Harry S. Truman.

Successful Start-Up and the Birth of a Brand

Laghidze, born in 1869 in Cholevi village (Imereti), was just 14 when his family sent him to learn the pharmacy trade in Kutaisi. His mentor, Polish immigrant Cezar Ivanovski, also dabbled in carbonated sweet drinks, known as lemonade, and Laghidze took over the business when Ivanovski died in 1886. By 1887 Laghidze had already created a special lemonade receipe made up from various fruits and herbs, and established a cooperative for the lemonade production. One bottle cost one shauri, or 10 grams of copper.

Lemonade was a common beverage, created by bottlers in villages and towns all over Georgia. Laghidze, however, sought something more. In 1902, he traveled to France and Germany to perfect his technique, returning to Tbilisi in 1905 with a new recipe using fruit syrup instead of herbs. Laghidze also worked to turn his business into a brand: each bottle carried a label with a picture of a

woman in traditional dress – believed to be his mother – and the slogan "Avoid fraud, demand everywhere."

Laghidze based his production at 24 Golovin (nowadays Rustaveli) Avenue, and the first "Laghidze Waters" shop opened in 1906.

He created a supply chain, bringing in fresh apples from Gori, strawberries from Bakuriani, oranges and lemons from Abkhazia, for his all natural Georgian fizzy drinks which, by that time, were sold throughout the Russian Empire.

His recipe, a tightly held secret, gained fame within the empire and abroad: Laghidze Waters won awards in Vienna in 1913 and in St. Petersburg the following year. Before the 1917 Russian Revolution, Laghidze sold his lemonade to the Tsar Nicholas and his court – it was even rumored to be a favorite of the Iranian shahs, who imported it to Iran.

Politics and Fizzy Water

In addition to being one of the most innovative entrepreneurs of his day, Laghidze was a progressive thinker. His factory was one of the first enterprises to introduce an eight-hour day in the Caucasus, and Laghidze served as a patron of literature, publishing many poems and verses by famous Georgian writers including Ilia Chavchavadze, Akaki Tsereteli, and Vakhtang Orbeliani.

Despite his fame and good standing in the Tsar's court, Laghidze was not above suspicion in the heady days before the revolution: as an active member of the "Society for the Spread of Literacy among the Georgians," he made the Russians ruling Georgia nervous, especially since his brother, Mikheil, had been exiled on suspicion of belonging to a radical group.

In fact, there is some evidence in the Georgian archives that indicates, in addition to producing his famous lemonade, Laghidze's factory also served as a conduit between Russian revolutionaries living abroad and radical groups operating in Georgia.

Lemonade in the Age of the Soviets

Laghidze Waters fell on rough times immediately following the 1917 Revolution: a massive fire put the factory out of work from 1921 to 1927. But, Laghidze rebuilt and, by the 1930s, production was back to its pre-1917 levels.

Within the Soviet Union, Laghidze's popularity soared. By 1934 he had been invited to Kiev, Moscow and Leningrad (St, Petersburg), as well as to Iran and Egypt, to explore options to expand factories outside of Tbilisi but he decided to stay in Georgia.

Laghidze's lemonade was also reportedly popular with the Americans who had a chance to try it: after sampling a Laghidze Waters during the 1944 Yalta Conference, then U.S. President Franklin Roosevelt reportedly asked for 2,000 bottles of the lemonade to take with him.

Winston Churchill was equally impressed, mentioning the lemonade in his memories about the 1943 Tehran Conference. In 1952, then U.S. President Harry Truman sent 1,000 bottles of Coca-Cola to Stalin, who responded by summoning Laghidze to the Kremlin and dispatching a shipment of Laghidze Waters to Washington. Despite requests to export Laghidze Waters to the U.S,, Stalin refused to allow it to be traded outside the Soviet Union. He did, however, appoint Laghidze (then aged 83) as a commissar of USSR beverage production. "Laghidze Waters"' branches were opened in Kiev and Moscow (on Arbat Street).

Laghidze died in 1960, aged 91. His statute was built in the courtyard of the factory (which unfortunately does not exist today) on Klara Zetkin Street.

After the dissolution of the Soviet Union, Laghidze Waters continued its existence at Rustaveli 24 till the Rose Revolution of 2003 when the shop was closed and the place sold. However, after several years it reopened on Melikishvili Street and is still owned by the members of the family.

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AmCham members' meeting with Minister of Foreign Affairs Maia Panjikidze

On March 19 Georgian Foreign MinisterMaia Panjikidzespoke about PM IrakliGharibashvili's trip to the United States and relations between Tbilisi and Washington during an open and frank discussion with AmCham members. The meeting was attended by more than 70 representatives of the U.S., international and Georgian companies and diplomatic corps at the Sheraton Metechi Palace Hotel.

The Minister reaffirmed that this visit was yet another confirmation of strategic and partner co-operation between Georgia and the U.S., during which the both sides expressed their readiness to enhance trade and economic relations between the two countries.

"Georgia and the U.S. do have a good record of cooperation in a wide range of economic issues, but there is far more untapped potential to further deepen business and economic ties; alongside state-to-state cooperation, businesses too should be in the vanguard of this mutually beneficial endeavor," Panjikidze was quoted as saying by the ministry press department.

According to Panjikidze, a high level dialogue with the U.S. on the trade and economic issues is intended to explore a range of options for increasing bilateral trade and investment and expressed readiness to work to arrange discussions between technical experts and to reach out to private sector stakeholders for input on priority issues.

The Minister stressed the need to sign the Association Agreement with the European Union, including the DCFTA, which will provide the businessmen with new opportunities; and underlined that the Prime Minister MrGaribashvili, during his visit to the U.S., focused on the positive factors in the future of Georgian economic and business development, namely, on the positive ratings of international organizations and independent agencies on various aspects of economic and business environment, as well as on the establishment of the Georgian Co-investment Fund (GCF), which is to provide additional funding to projects in all priority sectors and attract new Foreign Direct Investment into the country.

"We expect that new opportunities will be grasped by investments in export-oriented manufacturing sectors, for which access to our market would be attractive.

Therefore, together with the international and local experts, we are undertaking an in-depth analysis of competitive sectors in order to find ways how to stimulate investment inflows, to attract new technology and know-how and create high value-added production in Georgia,"Panjikidze was quoted as saying by the ministry press department.

AmCham President Speaks at Embassy

AmCham President Sarah Williamson Speaks at US Embassy Roundtable on Women in Business.

Williamson, together with Deputy Director of Sakpatenti (National Intellectual Property Center of Georgia) Eka Egutia, Deputy CEO of the Partnership Fund Natia Turnava, and Deputy Head of Legal Department of the National Bank of Georgia Tamar Goderdzishvili, spoke on a panel about women's contributions to Georgia's economic development, according to a US Embassy statement about the event.

The panel discussion, held in celebration of Women's History Month, was opened by Ambassador Richard Norland.

BP Launches the Southern Corridor Project in Georgia

BP in Georgia officially launched the South Caucasus Pipeline Expansion Project (SCPX), a $2 billion investment that should create 2000 jobs, at the Radisson hotel on February 28.

"The new Southern Corridor is designed to link the Caspian resources directly with European gas markets. Not only will it bring increased gas supplies and energy diversity to Europe but also bring benefits to all countries along the corridor," Gordon Birrell, AGT Regional President, said in his speech.

"It is expected to bring the largest single foreign investment of approximately $2 billion to Georgia contributing to the country's economic development."

The other benefits expected from the project for Georgia include approximately $400 million expenditure on local goods and services and 2000 direct jobs at the peak of construction, with approximately 125 individuals employed in the longer term.

Energy Minister KakhaKaladze and Chris Schlueter, the new Head of Country and Area Operating Manager for BP in Georgia.

Within the framework of SCPX on the territory of Georgia, it is planned to construct two giant compressor stations, to make 62km pipeline looping from the Azerbaijan border and 2km pipeline looping at the Turkish border and to build a metering station at the Turkish border.

Red Bull: Run, Raise Awareness for Spinal Cord Injuries

AmCham Georgia is supporting Red Bull Georgia's efforts to organize Wings for Life, the biggest sporting event ever in Georgia on May 4. The race, which will raise funds and awareness about spinal cord injuries, will take place at exactly the same time around the world. On May 4, runners from around the world will start on a race with no finish line.

NatiaAmiridze, the communications manager for Red Bull Caucasus, said the event and how it can make a difference in the lives of tens of thousands of Georgians.

"Wings For Life World Run will be the biggest event held in the Georgian history of sport. By holding the event we would like to raise more money and awareness for spinal cord injury," she said in an email interview.

Amiridze said that 100 percent of the entry fee – 20 lari – will go to research and raising awareness for spinal cord injuries.

"At first Georgian people were very skeptical about this project, but now more and more people are asking questions about spinal cord injury the clinical trials and successes of Wing For Life spinal cord foundation. We think that this project will play a big role for rising awareness, especially for people in the wheelchairs, as we do not have proper infrastructure and accommodation for them," she said.

"We really hope that this project will somehow provoke interest towards making a better life for people who suffer from spinal cord injury. We have around 15 000 to 18 000 people in the wheelchairs because of spinal cord injury."

The event, which is being organized by Red Bull Caucasus in Georgia and supported by many organizations, including AmCham Georgia, is unique because it is a global race that occurs at exactly the same time all over the world and has no finish line.

At the end of the world run, 2 global winners (one man and one woman) will be named, who will be awarded with an exclusive tour around the world. As for the local winner (one man and one woman) they will have the opportunity to choose the location where they will participate in Wings for Life World Run in 2015. The event is initiated by Wings for Life Foundation, which finances cutting-edge spinal cord research around the globe (around 90 until now), with the goal of finding ways to cure all people affected by this dreadful injury."

Wings for Life was founded by Red Bull owner Dietrich Mateschitz. For more information, please contact AmCham Georgia, amcham@amcham.ge, or visit the Wings for Life website, www.wingsforlifeworldrun.com.

EBRD Invests 1.9 Million Euros in Georgia: Roundtable meeting

Victoria Taylor, Chief of Political and Economic Affairs Office at the US Embassy in Georgia provided a candid overview of Prime Minister Gharibashvili's visit to the US where he met with President Obama, Vice President Biden, and other members of the Executive, Congress and Think-tanks during the monthly AmCham meeting for members on March 10 at the Tbilisi Marriott. Taylor spoke about events in Ukraine and took questions from members.

AmCham members also heard a presentation by Bruno Balvanera, EBRD's Director for Caucasus, Moldova and Belarus who briefed members on EBRD's activities in Georgia and the region emphasizing that as of January 2014 EBRD has invested a total of about 1.9 million Euros in Georgia in various sectors. According to Balvanera, ICA - industry, commerce and agribusiness - are areas where the potential for investment is there, but the realization has not yet taken place. He also mentioned that bonds worth 50 million lari will be issued soon. Balvanera also answered questions about the position of EBRD with relation to the Ukraine crisis.

Paul Clark, the president of TBSC Consulting – AmCham's news Patron Member - also gave a presentation on the firm.

AmCham CLT Committee, Agriculture Committee Discusses Amendments to Agricultural Land Law

AmCham CLT committee met jointly with the Agriculture committee on March 5 to discuss the recent amendment to the law on ownership of agricultural land which has already entered into force. The recent amendment exempts commercial banks. AmChamhas proposed a draft law that adds to the exemption for Georgian banks several other financial institutions, including: Microfinance organizations; Subsidiaries of microfinance organizations and banks; International and sovereign financial institutions; Private international financial institutions and the transfer of shares in Georgian companies that owned agricultural land as of the enactment of the suspension (June 2013)

The committee is agreeing on the exact wording of our proposal and will take all necessary steps to advocate for this change. Additionally, both committees will remain actively engaged in promoting a repeal of the ban and in developing a pro-investment state policy regarding the ownership of agricultural land.

The CLT committee also discussed the MOU that was recently signed with AmCham Georgia, Business Association of Georgia, International Chamber of Commerce, Association of Banks of Georgia, Employers' Association and other business associations. The committee agreed to stay strongly engaged in a joint tax group that will be officially formed next week to address the following issues: Partial de-criminalization and differentiation of tax-related offences, Reform of the investigation department of the Ministry of Finance, Development of effective mechanisms for the review of tax disputes and Improvement of the mechanism of tax inspection.

AmCham HR & Training Committee Prepares Plans for 2014

AmCham HR/Training committee Chaired by GAU's MishaChkhenkeli, met on March 21 to discuss the strategic direction the committee should choose in 2014 and beyond. Several project were discussed to include youth engagement, cooperation with MCA Georgia, skills needs assessment, and HR & Training professional development opportunities. The Committee members identified HR as one of the main areas the committee should focus on. The committee discussed the possibility of adding a Co-Chair with expertise in the field of Human Resources.

Launch of Amcham Energy Committee

AmCham's very first energy committee met March 5 to discuss the composition, mission and scope of work of the committee.

In its initial stage the committee will focus on addressing issues related to VAT issues involving subcontractors of companies operating under a PSA; registration and easement of oil and gas assets and equipment on state owned property; sending a positive and realistic message of oil and gas resources in Georgia; identifying legislation that needs clarification or improvement to support current and new investors in the energy sector. The committee is already working closely with the Economic Council inter-agency working group under the Prime Minister to address these specific issues.

The meeting was attended by Frontera Resources Georgia, BOT, CanArgo Georgia, BP, Statoil, and several other energy related members who agreed to expand the committee to include mining and utilities companies as well as midstream and downstream industry companies.

If you are interested in becoming a member of this committee, please contact the AmCham offices.

Gebrüder Weiss in Georgia: World Class Services Tailored to Customers' Needs

Starting out in our home markets in the Alp-Danube region and Eastern Europe, today we move all kinds of freight. Safely and punctually, from continent to continent. Gebrüder Weiss has its own individual approach: we do not present ourselves to our customers as "system logisticians", but rather, based on our worldwide network, we develop services that are tailored to the respective customer's specific requirements. The foundation for this are our more than 162 locations, thousands of routes, and of course more than 6,000 GW employees, who seemlessly combine your production, business and transportation processes. For you this means: greater transparency, greater efficiency – and a partner on whom you can always rely.

We are anchored locally, at home globally and are available for our customers around the clock – on land, on water or in the air. However, our range of services goes beyond the provision of simple transportation: for us, intelligent logistics always begins with analysis, procurement and distribution processes, and ends with optimal coordination of all traffic carriers. Just like clockwork – where one cog in the wheel seamlessly intersects with the next – we take advantage of existing synergies and increase economic viability as well as the sustainability of transport solutions. Find out more about our comprehensive range of services!

In September 2013 Gebrüder Weiss had an official opening of it's world class logistics center in Tbilisi, which has become a decisive connection point between Europe, Caucasus & Central Asia.Main activities of the company, together with Logistics Solutions and various projects, are: Land, Air & Sea shipments.

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Facilitating business transactions in Georgia

It is crucial for any business to have relevant business information at hand to function accordingly. For a CEO or any executive to make a right decision, the key is to have appropriately processed and presented information. It does not matter whether you are a manager of a start up with an idea to introduce a product to a market or an existing company aiming to expand market share, relevant business information at hand is crucial. As we are in the century of information technologies, executives are under time pressure to have all the relevant data at hand, conveniently packed, stored, presented, easy to use and comprehend. Whoever has it, is going to be the winner and will leave the competition far behind.

JSC BIA (Business Information Agency) is the first private organization in Georgia to focus on developing, processing, issuing and distributing business information in the country. In 2005, the company launched consumer and business credit bureau project "Creditinfo Georgia" in partnership with four leading commercial banks. The credit bureau in the country significantly improved credit granting to customers. The major advantages were decreased risks in the banking and financial system, significant reduction of costs and time for processing an application and hence resulted in substantial increase of efficiency of the system. Today, Georgian financial system considered to be as one of the most stable and low risk industry in the region, by EBRD.

As it was important for the financial system to have relevant information presented with efficient platform, it is important for the rest of the businesses in the country to have at hand an efficient tool to access the information about different industries and businesses within. The platform where information on major players will be united and data on management, contact information, description of products and services, number of branches, personnel, approximate revenues, legal status, market position, etc will be at hand. This will help companies to decrease time for identifying potential clients, partners, assess industry size, economies of scale and diversify product offerings.

Since 2002 BIA has been provider of such business information to world leading business information companies on the request delivery base. In May 2013, the company launched online "Business Catalogue", virtual directory encompassing detailed information on more than 14,000 most active companies in Georgia.

Business Catalogue significantly facilitates the transparency and openness of the companies, thus making decisions on new ventures, partnerships and most importantly, investments more affordable and effective. Business Catalogue also improves the business environment in Georgia and thereby provides a solid platform for initiating new business transactions. It enables lenders/partners/clients to do a preliminary assessment of the company's potential without wasting extra time or resources. It provides an opportunity for any company to keep its partners informed about verified company profile within seconds. It is:

- The only online platform available in Georgian and English, providing detailed company profiles;
- Information contained in the catalogue is verified by the companies themselves and independent sources;
- Information is updated regularly and on average, hundreds of new records are added at the directory on a daily basis;
- Each company has its own profile free of charge presented to wide audience, that includes the following information: company registration data, contact information, industry/ field of operation, name of founders, contact information of top-management, company size, number of employees, export-import by country and product, international partners, banking and insurance service providers and other information useful for businesses.
- The companies can upload information or update their profiles free of charge.

Those companies which are transparent enjoy a higher level of trust and confidence from investors and general public. In the near future, when Georgia will make its way to establishing active stock exchange mechanisms, it will be extremely important to have transparent, diversified, verified, and analyzed business information. For all of the government agencies, regulators, financial institutions, private entities, investors and individuals it will be important to have established links to provisioning of information and getting it in most efficient manner.

BIA is the subsidiary of JSC Alliance Group Holding, a privately owned financial and consulting services firm established in 2005 by Georgian, American and European shareholders.

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AMCHAM CELEBRATES

The U.S. Embassy honored International Women of Courage Award Winner Bishop Rusudan Gotsiridze at the annual Women's History Month reception on March 19th.

UNDP Gender Equality Awards honor AmCham members on March 7th

Sheraton Metechi Palace Hotel's Andreas Heidingsfelder bids a fare farewell Vincent McDonnell who was a loyal guest at the hotel for 15 years.

AMCHAM CELEBRATES

AmCham President Sarah Williamson hosted a farewell party for Board Member Neil Dunn at her home in March. Neil and his wife Michele, as well as many friends, attended the event.

On March 29, Sheraton Metechi Palace hosted its annual Earth Hour event. Guests, like GNTA Head Giorgi Sigua, celebrated the planet with an hour of darkness.

Board Of Directors 2014

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 .

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.

K.G. Moore, Ex-Officio Member
K.G. Moore is Deputy Chief of Political and Economic Affairs and Senior Economic Officer at the U.S. Embassy in Tbilisi. Prior to arriving in Tbilisi he served as the Senior Georgia Desk Officer at the Department of State in Washington and worked in the Department's Office of United Nations Political Affairs, which focuses on UN Security Council matters.

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

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

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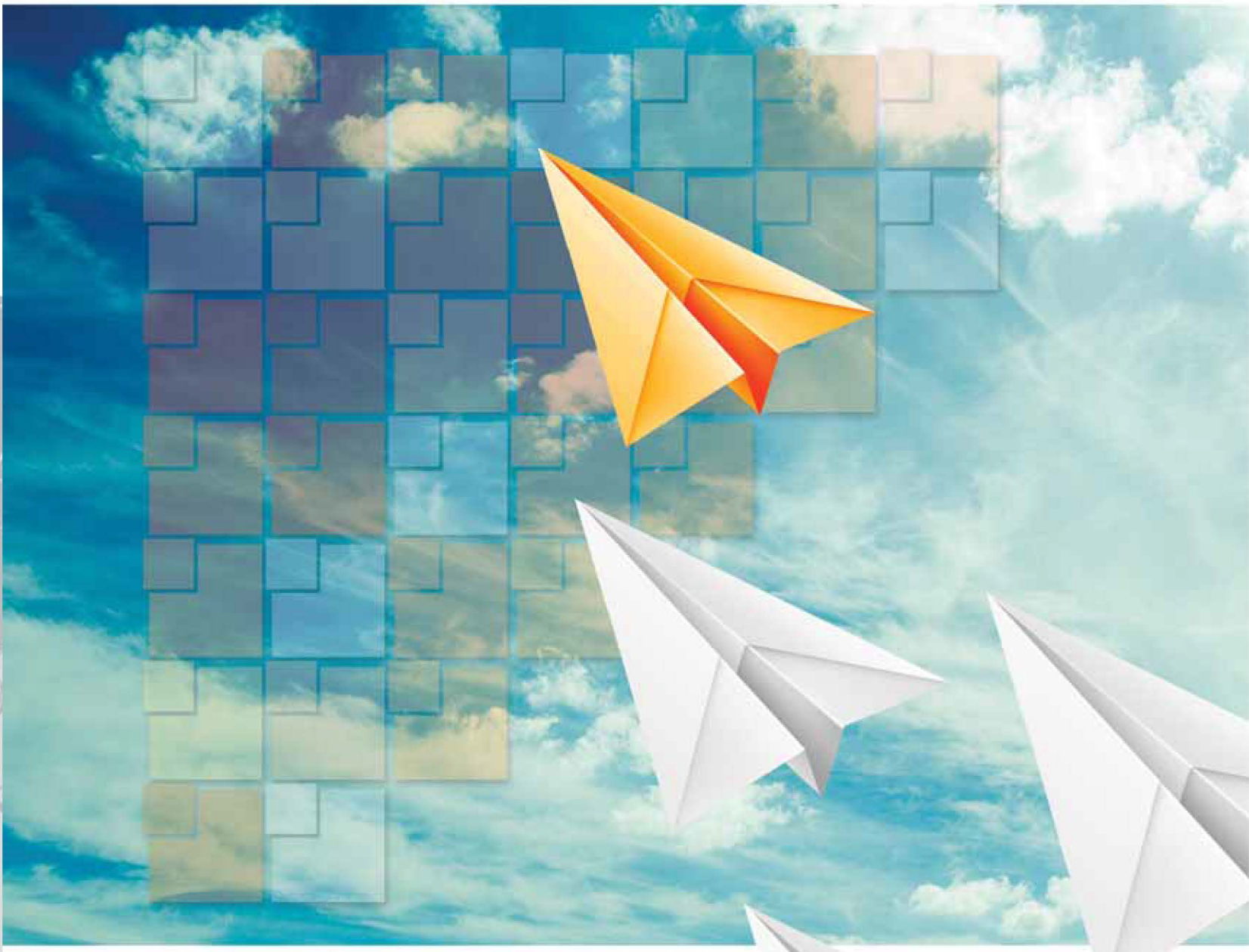

BGI is top-ranked in Georgia by all leading international legal directories in every practice area covered.

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ENERGY AND BEYOND

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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.

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- Acquisitions and disposals of energy-related assets

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