THE UNTAPPED POTENTIAL OF REMITTANCES

AMCHAM MEETS PRESIDENT GIORGI MARGVELASHVILI

ARMENIA OPTS FOR THE EURASIAN UNION

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For centuries, Tbilisi – and the rest of the country – has served as a muse for foreigners. From Pushkin to Dumas, Tbilisi has been a gateway to the exotic. Russian writers and poets used to flock to the city's ancient walls and bewitching culture in search of a safe haven to work. Today, writers and poets from Germany and the Netherlands, great britain and beyond are discovering Tbilisi and finding their own inspirations.

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"Remittances may be the unsung hero of the Georgian economy. Remittances from abroad amounted to $1.477 billion in 2013, or 9.3% of GDP – similar to agriculture and the services sector."

GETTING MORE BANG FROM THE REMITTANCE BUCK

REMITTANCES ARE AN IMPORTANT PART OF THE GEORGIAN ECONOMY BUT THEY ARE LARGELY IGNORED BY POLICY MAKERS AND RESEARCHERS. DOLLARS AND EUROS FROM ABROAD ARE AN IMPORTANT SOURCE – AT TIMES THE ONLY SOURCE – OF INCOME FOR SOME GEORGIAN FAMILIES. BUT IS THE GEORGIAN ECONOMY MAKING THE MOST OF THIS VALUABLE RESOURCE?

GUY EDMUNDS

Remittances may be the unsung hero of the Georgian economy. Remittances from abroad amounted to $1.477 billion in 2013, or 9.3% of GDP – similar to agriculture and the services sector. Add in money sent by informal channels (such as handing cash to friends or bus drivers), and the total is higher still.

On a micro level, remittances help to keep some of the poorest families in Georgia afloat. In macro terms, they provide an important counterweight to the country's trade deficit, and help to balance the economy. They are also a more stable source of foreign exchange than Foreign Direct Investment (FDI) – particularly in times of crisis. When Georgia's GDP contracted by 7% in 2009, remittances decreased by about 16%, while FDI shrunk by over 57%.

Of course, remittanceshave vices too. Most notably, they can subsidize unproductive areas of the economy (the so-called "Dutch Disease"), and create a culture of dependency among recipients. Nor are they immune to geopolitics. For example, over half of Georgia's remittances come from Russia. As a recent report from the European Council on Foreign Relations points out, that gives Moscow significant leverage over the Georgian economy, should it choose to use it. A remittance ban, although hard to implement, could be one way of inflicting damage; expelling Georgian migrant workers (as happened in 2006) would be another.

HOW TO SPEND IT

Yet despite their importance, Georgian remittances receive comparatively little attention from policy makers and researchers. As a result, an important question remains largely unanswered: is Georgia making the most out of this cash cow?

Most remittance money is spent on basic needs. In the 2012 study S*ocio-economic Problems of Return Migration in Georgia*, researcher Mirian Tukhashvili found that over half of it was spent on food, healthcare and the like. Payment of debts accounted for approximately 10% of remittances expenditures as did children's education and property purchases. This is not a bad thing: economists and other scholars praise spending on health and education as contributions to "human capital formation." But equally important for Georgia's longer-term development is the proportion of money saved (16%) or invested in businesses (less than 5%).

There is only so much the government can do. It cannot control where these remittances go, or how they are used. But it can enable recipients to make the most of the money they receive. Here, the authorities have got two things right. Effective regulation means that sending remittances to Georgia now costs less than 1% of the total sent; worldwide, the average is around 9%. Neither does the government tax the remittances sent to recipients. That is wise; experience elsewhere suggests it simply encourages senders to use informal methods of transfer.

"BANK" TO THE FUTURE

Encouraging greater financial literacy would be another important step. The country's Soviet past means that concepts such as savings, investment and private pensions are relatively new to Georgian society. As a result, Georgia has a relatively low national savings rate (about 20% of Gross National Income). More than anything else, this is a function of poverty: if incomes rise, savings rates are likely to rise, too.But ignorance of personal finance is also a factor.

Greater use of the banking system would also help, given its role in allocating money efficiently between savers and borrowers. Only 56% of Georgians say they have bank accounts or bank cards, according to 2013 data from the Caucasus Research Resource Centres (CRRC) – despite the fact that all social security and pension payments are made through the banking system. (Any discrepancy here may reflect the fact that many people do not use banking services beyond receiving money).

Moreover, Georgians have mixed feelings about banks. According to CRRC, only 35% of respondents say that they trust banks, while 22% distrust them; 31% appear to be indifferent to them, while 9% say they don't know.

"There is only so much the government can do. It cannot control where these remittances go, or how they are used."

Instead of opening up savings accounts, many Georgians prefer to stash their cash at home. Another problem is geography. Banks and other micro-finance institutions are expanding their presence in Georgia: since January 2012, for example, the numbers of bank branches and services centers have increased by 12% and 37%, respectively. But since roughly half of remittances flow to the countryside, access remains a difficulty for those in remote areas.

One idea that could work is "mobile" banking, which enables people to access basic banking services and to receive remittances through mobile phones. The idea has a strong track record in other countries, such as Kenya and the Philippines, and has strong potential in Georgia, where 89% of households claim to have a mobile telephone, according to CRRC. The "Kerketi" mobile wallet system, which allows people to transfer money and make payments, was launched in Georgia in 2013, and has ambitious roll-out plans. Banks and micro-finance institutions could also expand the range of remittance-related services available. For example, Crystal and Bank Constanta offer special loans that use future remittance flows as collateral. For now, the numbers taking advantage remain small. But the idea has potential to expand.

Finally, banks looking for additional sources of liquidity to fund their growing business could "securitize" future remittance flows as the basis for borrowing money. "Inbound transfers are a well-tested source of securitized lending globally," says Thea Jokhadze, Chartered Financial Analyst (CFA), who is currently Chief Financial Officer of the Georgian Co-Investment Fund.

"Thus far, a combination of market factors has not rendered such instruments attractive for Georgia," she adds,"but as the growth of the Georgian economy shifts into higher gear, this alternative source of cheap and convenient financing for banks will be worth revisiting. So called future-flow securitizations are difficult and costly to set up, but once structured, can be re-used indefinitely."

Guy Edmunds works for the Danish Refugee Council in Tbilisi. DRC is currently implementing a project called "Enhancing the Role of Georgian Emigrants at Home" in partnership with the International Centre for Migration Policy Development, which is funded by the European Union.

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Careful Analysis, Planning Needed to Make Most of Trade Deal

AS GEORGIA WORKS TO SIMULTANEOUSLY ATTRACT INVESTORS AND IMPLEMENT EU-APPROVED TRADE REGULATIONS, THE UNITED STATES AND THE EUROPEAN UNION CONTINUE NEGOTIATIONS OVER THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP (TTIP). GEORGIAN POLITICIANS, BUSINESSPEOPLE AND CITIZENS ARE UNITED IN DETERMINING HOW GEORGIA CAN GET A PIECE OF THE TRADE PIE.

Over the summer, Tbilisi hosted a joint Georgia-EU international investment conference. Attendees were greeted with a gleaming, 21-page booklet detailing answers to the question, "Why Invest in Georgia?" The response came not only in the form of a cohesive list of Georgian companies, but also in an eloquent point-by-point explanation of Georgia's investment position. The latter touted such things as Georgia's DCFTA with the EU (signed June 27), its strategic location ("a bridge between Europe and Asia"), and its investment-friendly environment ("setting up a business in Georgia is a straightforward process"). The reader could then look up from his or her packet to see the manifestation of these promises: a variety of Georgian businesses splayed across the dramatic backdrop of the Mtkvari River. This was Georgian entrepreneurship at its best.

While the conference was filled with people in suits bantering (as ever conference inevitably is), the real weight of the conference was outside its panel format: businesspeople would rather discuss investment over coffee while lingering in the lounge, than listen to yet another speech about the political benefits of the DCFTA and deeper Georgian-EU relations. Why? Here a dialogue was forged between what Georgia had to offer—economically, not politically—and what it hoped to gain in return.

One may wonder: if the DCFTA is an economic agreement, why would politicians be a representative group of speakers at all? Why was it the President of the European Commission, President José Manuel Barroso, who gave the keynote speech, rather than Karel De Gucht, EU Trade Commissioner? Why was it Dr. Maia Panjikidze, Georgian Minister of Foreign Affairs, who gave the Georgian keynote speech, rather than Giorgi Kvirikashvili, Georgian Minister of Economy and Sustainable Development? Indeed, the representative group of speakers was comprised of EU Commissioners, while the attentive audience was mostly private businesses.

TRADE RELATIONS ABROAD: ECONOMICS OR POLITICS?

Throughout Georgia's EU integration process, certain reforms have been rolled out, primarily under the auspices of European values. Indeed, the European Union testifies loudly and firmly to bringing Eastern Partnership countries closer to a European-based values system. And what resides on the other end of the scale? Some critics may point to Ukraine as the response. While they may be right in terms of values-based political policy, how can a for-profit company be a bearer of morality? On September 18, the Polish Institute of International Affairs (PISM) asked that very question in its conference on Polish-Turkish relations in the common Eastern Partnership neighborhood. A project planner for the Turkish BOTAS energy corporation pointed out that companies cannot weigh in too heavily on policy; likewise, it is difficult for government to weigh in on the profit pursuit.

ANALYZING THE COSTS, PREPARING FOR THE TTIP

The challenges that Georgia faces over DCFTA or TTIP engagement are economic, not political, and it is important to draw the distinction as such. On June 6, the policy institute at the International School of Economics in Tbilisi (ISET) commented on the costs and benefits of the then-proposed (now ratified) Deep and Comprehensive Free Trade Agreement (DCFTA): "If […] a decision is made to join a particular union, it should be implemented on the basis ▸▸

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Transatlantic Trade and Investment Partnership: an Overview from AmCham EU

- An ambitious TTIP will provide EU consumers with a wider choice of goods to buy at more competitive prices across a wide variety of sectors
- TTIP will improve all aspects of online shopping across borders
- TTIP will reduce time and cost for certain product (such as life patients
- EU and US regulators environment) and duplication
- Many EU degrees and qualifications are not recognised by the US, something which TTIP could change
- TTIP could create more than 500,000 new jobs in EU and US

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In the EU, SMEs provide two thirds of all private sector jobs and 85% of net new jobs between 2002 and 2010 were created by SMEs.

SMEs are expected to gain significantly from TTIP because SMEs tend to dominate high tariffs sectors (food, machinery, automobile) where increased trade is expected to result from an agreement.

of careful analysis and discussion with domestic stakeholders, and after tough negotiations, as opposed to a process rushed for political reasons." A similar argument can be made for in pursuing the TTIP.While Georgia may want to focus on the political possibilities of joining an exclusively Western trade partnership, politicians and businesspeople alike need to focus on the greenbacks, and the politics will follow.

Amidst the political-economic benefits debate, there is yet another group to be considered: Georgian citizens. Within the DCFTA, regulations may impose a burden on markets still working to establish market norms. Would sellers at the bazaars of Tbilisi still be at liberty to sell milk in old Nabeghlavi bottles? Last year saw a rise in egg prices on account of origin-stamp requirements—and this is one simple example. Consider labor costs, procurement, and other regulatory frameworks that Georgian parliament is still working to overhaul. While Georgia strives to be a Westward-leaning regional hub, it also needs to consider the effects such policies have on its own citizens, effects like raised product costs, increased oversight, and potential distrust in a system that many still view as bureaucratic.

Given Georgia's choice to pursue one trade agreement—the DCFTA, with the EU—another is approaching on the horizon. The opening salvo of the Transatlantic Trade and Investment Partnership (TTIP) negotiations has begun. Given its promises—lower costs, open markets, hundreds of millions of potential customers—it is natural for Georgia to be taking stock of its entrance feasibility. However, Georgia also needs to assess its own political stake in the matter. First and foremost, it has been clearly conveyed that TTIP negotiations are currently not open to non-EU or non-U.S. countries. So a country like Turkey may be obligated to open its market to U.S. goods without reciprocal access to the U.S. market for Turkish goods. Georgia could face a parallel situation.

It is expected that the TTIP, when implemented, will have a "trickle-down" effect on neighboring countries that have preferential trade agreements. It has even been suggested that preexisting trade agreements, like the North American Free Trade Area (NAFTA) and the European Free Trade Association (EFTA), be honored and eventually enveloped in the TTIP to create an even larger free-trade area. This would increase the aforementioned market potential for products, but it is completely contingent upon the ability of Georgian products to gain a foothold in the EU and U.S. markets. On the other hand, Georgian products would again need to compete with presumably cheaper U.S. and EU products, while also needing to adhere to the same regulations.

The usefulness or uselessness of regulations is in the eye of the beholder. They are either an excellent foundation for future growth or a project for overhaul. If Georgia is interested in pursuing TTIP inclusion down the road, now is the opportunity to plan. As Georgia is aligning its regulations with the EU, it would behoove the country to conduct the overhaul with the TTIP in mind. Georgia could even take a huge hint from the regulations negotiations between the U.S. and EU.

There are three proposed solutions. The first is that one market would give reciprocity to business adhering to similar regulations in the other market. The second is consolidation of regulations using a problem-based approach. The final proposal is to come to a consensus on practical application of disparate regulations to find common ground. Using these proposed solutions as a bench-

mark, policy makers, economists, and businesspeoplemay come to a consensus on how best to prime Georgia's market for future cooperation.

When asked about why he chose to invest in Georgia, Ian Hague, co-founder of Firebird Management, LLC, responded that it was "for the green." He further explained that he saw Georgia's investment climate, understood the opportunities, and invested—to great success. What about the political course of Georgia? A Polish businessman at the investment conference noted that "there is always risk, but the challenge comes in mediating, accounting for, and planning for any market shocks." He noted political unrest, transportation disruptions, or outside interference as his top three concerns in Georgia

Such words are valuable takeaways for Georgian politicians and businesspeople alike. They explain the mindset behind investment and the willingness to cooperate. For all of Georgia's eagerness to implement reforms, when it comes to appeasing both the economic regulators and the investors, dialogue is perhaps the best course of action. Experts at PISM's Polish-Turkish conference suggested that countries like Poland and Turkey offer to help Georgia in implementing reforms. These countries have been in Georgia's shoes in the past 20 years; they know the strengths, the weaknesses and the challenges of being a country undergoing reform. It is in this spirit that Georgian politicians and entrepreneurs must engage DCFTA regulations and TTIP aspirations.

Cordelia Ponczek is a graduate student and analyst in Warsaw, Poland. She is the Kościuszko Foundation research grant recipient for 2014-2015.

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A NEW PLAN OF ACTION FOR GEORGIAN AGRICULTURE

INVESTOR.GE'S HEATHER YUNDT INTERVIEWED AGRICULTURE MINISTER OTAR DANELIA ABOUT THE GOVERNMENT'S NEW ACTION PLAN TO BRING EUROPEAN STANDARDS TO GEORGIAN AGRICULTURE AND HOW COOPERATIVES CAN FIT IN.

HEATHER YUNDT

The signing of Georgia's historic Association Agreement and Free Trade Agreement with the European Union in June has raised both hopes and fears about how the removal of EU import duties will affect one sector in particular: agriculture.

The agricultural sector employs as much as half of Georgia's workforce, but accounts for less than 10 percent of Georgia's GDP, despite becoming a state funding priority in recent years.

Otar Danelia, Georgia's newly appointed as agriculture minister, sees the long-awaited signing of the agreements as a much-needed opportunity for the sector to develop and implement new standards.

"We should not consider [these agreements] just as an obligation. Even if there was no Association Agreement or [Deep and Comprehensive Free Trade Agreement], Georgia was supposed to start implementing standards," he said. "That's why it is not only necessary, but very important that it happen now when the government is supporting the agricultural sector like never before."

"Georgia has been struggling for the past few years because the agricultural sector was not in a very good position, unfortunately.

It was not promoted by the previous government, and therefore the science

is gone, the education is not there, the technologies are not there."

A PLAN FOR EACH VILLAGE

Danelia says his team at the Ministry of Agriculture has been working hard to develop extensive plans for each region, which include projects like animal vaccination and identification, irrigation, and the building of a phytosanitarium for the testing of products like honey.

"According to each region, we have a development plan. What we're going to do is on the level of each single village. We will have a clear vision of what is supposed to be developed there and where we see the sector in the next ten years," he said.

"In all directions, we have an action plan. And it's very gentle, I would say, to make sure we consider the interests of our people. Imagine, for tens of years there was no practice and then you want to implement something in one day? It would be painful. So we will make sure it is not painful for them. We will give [the farmers] proper recommendations and consulting."

Given the proven success of Georgian wine exports, Danelia says wine will remain a priority. But he also expects to see a significant boost in exports of fruits and vegetables.

"Pretty much every single vegetable in Georgia has huge potential, as well as fruits, because we are going to standardize fruits.

When we had the harvest, I asked the experts to investigate what types of fruits we have, what sorts are there, so that we have a catalogue. So we will see which one is for making juice or jam and which is considered for the table."

Otar Danelia, Georgia's newly appointed minister of agriculture, sees the long-awaited signing of the agreements as a much-needed opportunity for the sector to develop and implement new standards.

COOPERATIVES ONE OF THE "HIGHEST PRIORITIES"

To develop the technical capacities of Georgian farmers, the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) is working with the Georgian government to establish agricultural cooperatives across the country.

"[Cooperatives are] one of the highest priorities," Danelia said. "Cooperatives seem to be quite efficient, because if you want to have some machine or if you want some special equipment, it's difficult to buy when you're alone."

"We will have special programs for [the cooperatives], we will have special products for them, we will have special rates, we will promote them.

We will find the key figures, let's say one in each village, and we will coach them. We will teach them how to manage the cooperative, because it needs management."

Since the law on Agricultural Cooperatives was introduced last year, Georgian farmers have registered more than 80 cooperatives. However, promoting cooperatives is no easy task in a country that still remembers the Soviet "kolkhozes," or collective farms.

"Some people are mixing cooperatives with kolkhozes, because that is the only unit they have seen in terms of agricultural cooperation," he said. "They really have nothing to do with each other. But so far the communication we have provided has been very successful."

"According to each region, we have a development plan. What we're going to do is on the level of each single village."

To address the confusion, Danelia says the Ministry of Agriculture will soon have a bus tour the country promoting agricultural cooperatives in the villages.

BUDGETING FOR CHANGE

It's not just the EU that's supporting the extensive reforms in the sector. The Georgian government has also made agricultural development a priority by increasing the Ministry of Agriculture's budget exponentially in recent years, from just 30.6 million GEL in 2010 to more than 260 million GEL this year. Danelia says this support, in addition to tens of millions of euros in program support from the EU and other funders, ensures his team will have no problem implementing the reforms.

"It's all a challenge, but I don't see any problems," Danelia said. "We are looking for additional external expertise if we have a lack of knowledge in some specific areas. I pretty much know which country has the knowhow in different areas. The team is motivated and the government is supporting it. And once you have government support, you have resources, you have the team, you have experts."

"I think by the end of 2015, people should feel a difference. Normally it takes three to five years to see a result. But as a feeling, it should be there by the end of 2015. That's how ambitious our plans are. But they are all achievable. It will take hard work, but we are ready for it."

IRAKLI MARGVELASHVILI: NEW PRESCRIPTION RULES WILL USHER IN HIGHER STANDARDS FOR MEDICINE

ON SEPTEMBER 1, THE GEORGIAN GOVERNMENT LAUNCHED A NEW POLICY ON PHARMACEUTICAL PURCHASES, WHICH LIMITED THE TYPE OF MEDICATIONS THAT CAN BE OBTAINED WITHOUT A PRESCRIPTION AT PHARMACIES. THE POLICY HAS BEEN HEAVILY POLITICIZED OVER THE PAST SEVERAL WEEKS BUT, ACCORDING TO THE ASSOCIATION OF PHARMACEUTICAL COMPANIES REPRESENTATIVES IN GEORGIA EXECUTIVE DIRECTOR IRAKLI MARGVELASHVILI, THE NEW REGULATIONS WILL BE GOOD FOR PATIENTS AND PHARMACEUTICAL COMPANIES ALIKE.

The new rules, which reorganized the way the government categorizes drugs and restricted access to more types of medications, were met with public outcry.

But Dr. Irakli Margvelashvili told Investor.ge the decision to return to prescriptions will ultimately help society – and the pharmaceutical industry.

"The pharmaceutical sector is not like other sectors… there are some rules, some kind of standards which are created in the countries that went through the stages that we are going through now," he said, noting that the new rules will help curb abuse of over-the-counter drugs and overuse of medicines.

OBSTACLES FOR ADDICTS

One of the main goals of the change is to restrict access to medicines that addicts use to make drugs at home.

Prescriptions, which have been on the law books for years but fell into disuse, are a "defensive mechanism" that protects the public from abusing and misusing medicine, Margvelashvili said.

ENDING A CULTURE OF OVERCONSUMPTION

Another issue is overmedication – and improper medication.

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Over the past two decades, Georgians have grown accustomed to self-medication and the power to buy nearly any medication over the counter without a doctor's prescription.

A blood pressure pill that helped someone's aunt may be quickly purchased to help a neighbor's mother-in-law.

Ditto for the antibiotic that worked wonders on someone's cousin's child. The result: a population that buys too many unnecessary drugs.

In a 2012 study of the pharmaceutical industry based on 2010 figures, Transparency International Georgia reported that the average Georgian household spends 34 percent of its income on healthcare.

The Health Utilization and Expenditure Survey of the World Bank found that, in 2010, Georgia spent four percent of its GDP on medicine – double what is spent in the US.

The culture of over-medicating – and self-medicating – needs to change, Margvelashvili noted.

"This local behavior is not correct," he said, adding a one-size-fits-all attitude to medicine consumption is dangerous.

ADAPTING FOR THE GEORGIAN MARKET

Change is difficult, however.

Margvelashvili noted that while "as a doctor" "any time was time" to reinstate the policy of prescriptions, for Georgian society the first month under the new rules has been challenging.

"The negative reaction of the Georgian population was due to two main reasons. Number one was, whch always happens when you put new restrictions, is that it takes more time. [Before], I could go and buy whatever. But that is not for me an option; that is not acceptable for me" he said.

"The second one was 'how can I go to a doctor and get a prescription?' Some people were complaining that it costs money.

Now all of Georgia has the state insurance and you can go to the doctor and get this consultation, but of course it takes time."

The association worked with the health ministry to help create a prescription form that enables patients to purchase their dose in smaller portions to minimalize cost as well, he noted.

Margvelashvili added that a more "active" awareness campaign could have eased some fears about access to commonly used medication and other concerns.

But the ministry has been open to society's complaints and has already tweaked the categories to meet some public demands.

The changes has also affected pharmacies and pharmaceutical manufacturers, he said.

But he added: "For the industry itself, we do not complain about it. Of course there could be some temporary issues but…for the companies that really care about the ethical way of marketing…for us it is only positive. Medicine should be used for what it was created for."

Government, Private Sector Working to Address Concerns Over Proposed Postal Law

THE GEORGIAN MINISTRY OF ECONOMY AND SUSTAINABLE AFFAIRS IS WORKING ON A LAW THAT HAS RAISED FEARS THE GEORGIAN POSTAL SERVICE WILL HAVE AMONOPOLY IN THE MARKET, ANALYSTS AND PRIVATE SHIPPING COMPANIES WARN. THE MINISTRY, HOWEVER, BELIEVES THE NEW LAW WILL HELP LIBERALIZE THE MARKET AND HAS BEEN WORKING ON A NEW DRAFT OF THE LAW TO ADDRESS CONCERNS.

HEATHER YUNDT

A draft bill designed to regulate Georgia's postal service could end up pushing up to 40 postal service companies out of the Georgian market, critics say.

The bill, currently in its second draft, would re-introduce state regulations on the postal market for the first time since 2005. The government maintains that those regulations would designate a national postal service operator as responsible for providing Georgia's universal postal service, a broadly defined concept that ensures a basic level of affordable postal service to every resident of Georgia.

What's more, certain postal services would be reserved ex- ▸▸

clusively for that national operator, including money orders, the handling of domestic parcels weighing up to 20 kilograms, and the handling of international parcels of up to 30 kilograms sent by land or sea — essentially granting the national operator a monopoly on almost all mail in Georgia. This would make Georgia the only country in the world to reserve services for a national postal operator to this extent.

While the government is still working on the draft of the law, together with the EU Commission and the European Express Association (EEA) in Brussels, the latest version available has caused concern in the business community.

One of the biggest concerns is the draft law's potential to create unnecessary barriers to the market.

AmCham Georgia, as well as Transparency International Georgia, Georgian banks and businesses involved in the postal sector, has been working with the government to try and ensure the new legislation does not reintroduce a postal monopoly.

AmCham Georgia President Sarah Williamson noted that any measures that reintroduce a monopoly would be "contradictory to the path of Georgia towards a free market economy with a fair and competitive business environment."

Initial versions of the draft included "overbroad and overreaching" definitions that have raised serious concern in the banking community, as well as with express courier services operating in Georgia, Williamson said.

According to the current draft, Georgian Post would be granted that monopoly – without a formal public tender process – for a period of five years, a reduction from the 20 years stated in the original draft.

Although there is no move to formally kick competitors of Georgian Post out of the market, Transparency International Georgia Senior Analyst NatiaKutivadze says the wording the ministry's draft law would force them to operate under the umbrella of the state-owned company, which would encourage them to leave the market and ultimately hurt Georgia's business environment.

"The world renowned companies leaving the market will have a negative economic effect not only on this concrete area of the market, but also on the entire national economy," Transparency International Georgia said in a press release in July. The organization estimates there are about 40 companies providing postal services in Georgia.

Large postal companies and banks are also encouraging the government to further revise the draft postal law.

"If the postal law passes as it is now, it will be hard for DHL to continue operations in the country," said TamtaPapelashvili, a spokesperson for DHL in Georgia. She says DHL will do whatever is necessary to prevent the law from passing before the company's concerns are addressed.

The government appears to have heard the concerns.

The economy ministry has been in close communication with the EU Commission and the European Express ▸▸

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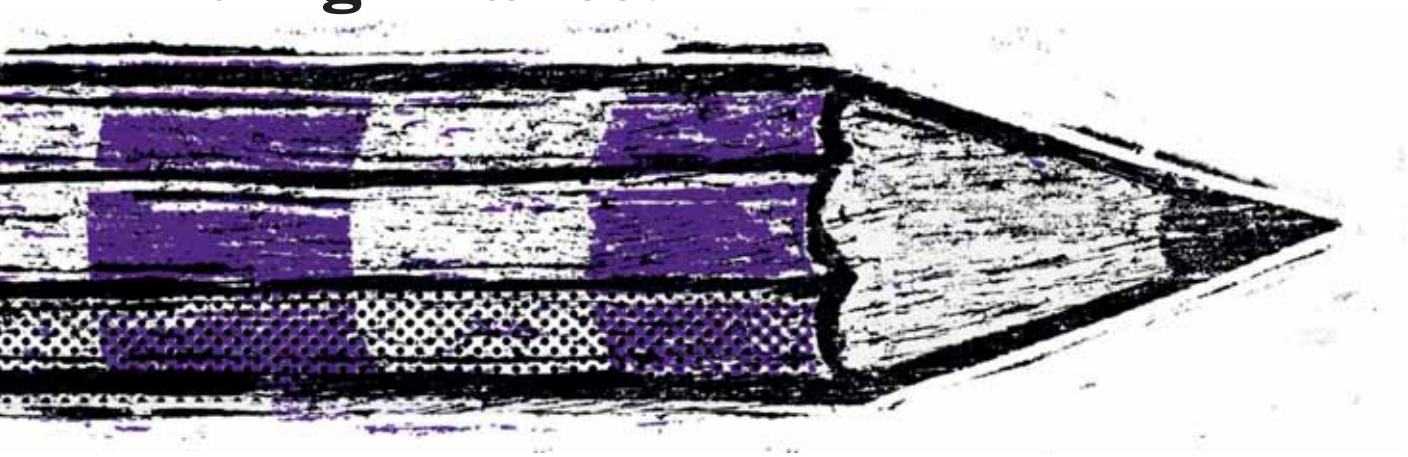

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The bill, currently in its second draft, would re-introduce state regulations on the postal market for the first time since 2005.

Association (EEA), an organization representing the express industry in Europe, which had voiced concern regarding the re-monopolization of many aspects of the postal service.

Deputy Economy Minister NatiaMikeladze told Investor.ge that representatives from the ministry had a video conference with the EU Commission in early October to discuss "all the issues." She said clarifications have been made and amendments have been agreed to. The ministry has sent a draft law to Brussels and, once the government reaches an agreement with the EU, the final draft will be sent to parliament, Mikeladze said.

However she noted that under the government's vision for the law in its current format, companies will only have to undergo an authorization process simpler than that in European countries to be able to continue to provide postal services.

She calls the law necessary and says it serves the important function of ensuring the provision of universal mail services for all residents, as well as of protecting customers. She adds that the final decision on the national operator has not yet been made, despite wording in the draft that indicates otherwise.

"The long-term lack of regulation within the postal system created a false impression that the postal market is liberalized and the new law is nothing but a step backwards," she said in an email.

But market players have reason to be concerned: while Georgia agreed to liberalize its postal service within five years in accordance with this directive when it signed the much-anticipated European Union Association Agreement in June, it has a history of granting the postal service a monopoly.

In a similar case last year, the Ministry of Finance issued a directive adding regulations to the postal carrier market.

After receiving complaints from carrier companies saying that the regulations favored Georgian Post, Transparency International Georgia fought the case and won.

"We recognize that Georgia needs a postal law in general, but this postal law shouldn't be defined in a way to monopolize the market," Kutivadze said.

Now, the business community is requesting that the draft bill be revised in line with international standards of market liberalization and ensure transparency in selecting the national operator.

"We hope that the final draft legislation will accurately reflect the spirit of liberalizing access to trade in postal services in Georgia as per commitments undertaken in the Deep and Comprehensive Free Trade Agreement in a way that best supports Georgia's overall economic development," Williamson said.

Underscoring the ministry's cooperation on the issue, she expressed cautious optimism that the final draft will "best support Georgia's overall economic development."

Investor.ge note: The draft law is still under intense revision, with the economy ministry working closely with the EU Commission on changes. Investor.ge is committed to providing the latest information possible; for updates please check our webpage, www.investor.ge, and our facebook page: facebook.com/investorge.

Enabling the Lights to Burn Bright: Georgian Electricity Sector Tackles Issues of Quantity and Quality

IT HAS BEEN YEARS SINCE GEORGIA FACED REGULAR BLACKOUTS. BUT WHEN THE LIGHTS WENT OFF AROUND THE COUNTRY IN JULY, IT WAS A STARK REMINDER THAT THE COUNTRY'S ENERGY SECTOR IS STILL UNDER DEVELOPMENT IN TERMS OF SUPPLY, RELIABILITY, AND QUALITY.

LIKA ZHORZHOLIANI

BLACKOUTS: A THING OF THE PAST

When a sizeable part of Georgia went black in July – including Tbilisi – the three hours of darkness served as an unpleasant reminder of what living in the country used to be like: lights on, lights off – sometimes for days, often with no warning.

The problem with the electricity supply, however, is largely an issue of the past, according to SulkhanZumburidze, the chairman of the board of directors for the Georgian State Electrosystem.

Zumburidze told Investor.ge that the outage that caused the major blackout in July was the first massive system failure since 2010, when the country's Imereti transmission line was down for four hours and fifteen minutes.

"In the past, there have been such types of failures nine times but the consumers didn't feel them," he said, adding that employees have been trained to provide "fast restoration" when a blackout occurs.

To eliminate blackouts completely, Zumburidze said that it is imperative that the country create "alternative" transmission lines to the single line that currently connects the Enguri Hydro Power Plant – Georgia's largest source of power – to the country's Zestaphoni substation.

New and improved infrastructure will play a crucial role as Georgia grapples with issues of increased demand for more – and more reliable – electricity.

Georgia was ranked 52 out of 148 countries for the quality of its electricity supply in the 2013-2014 Global Competitiveness Report. In the previous year's report, the authors noted that economies "depend on electricity supplies that are free of interruptions and shortages so that businesses and factories can work unimpeded."

Steps need to be taken to improve Georgia's transmission network, noted a sector SWOT analysis that Bank of Georgia Research conducted in 2012, which found that "issues need to be addressed in terms of access, congestion, and tariffs."

Georgia and the European Bank of Recon- ▸▸

struction and Development (EBRD) are currently working to address some of Georgia's infrastructure problems. With co-financing from Germany's KfW and the European Union, they are building a new substation, Jvari-Khoga, and new transmission lines to help ease the pressure on the existing system. The project, which will be ready at the end of 2016, will help "support us in the sustainability of the power grid," Zumburidze told Investor.ge.

The EBRD has said the €60 million project will "strengthen the reliability and stability of the Georgian transmission network; pave the way for investments in more hydropower production in northwest Georgia; and improve capacity and reliability of the electricity system supplying areas of significant demand growth."

The infrastructure problems are not just a headache for households; Zumburidze noted that supplying major foreign investments, like the Poti Free Economic Zone, is "impossible" without the Jvari-Khorga project.

TOMORROW'S INFRASTRUCTURE TODAY

The Georgian State Electrosystem is also working on other projects to ease pressure on the system.

A six-year program, which focused on finding better ways to use the existing infrastructure, will soon be completed. And the €300 million Black Sea Power Transmission Lines project has also financed construction in vital areas. Transmission lines have also received a boost with a $18.5 million rehabilitation project and USAID has given the state $35 million to develop power system infrastructure.

"Modernized infrastructure will allow us to decrease[electricity] deficits in the winter and minimize [power outages]," Zumburidze said.

NEW REGULATIONS TO TACKLE QUALITY CONCERNS

Building and rehabilitating infrastructure is just part of the solution where quality of supply is concerned, however.

The jumps in the quality of electricity that is provided – even if the lights never go off completely – creates problems for all users, from households trying to protect their refrigerators and computers, to factories and other producers that require a steady and consistent power supply for sensitive equipment.

In its latest energy policy, the Georgian Ministry of Energy said that "optimizing the country's energy consumption dynamics" is a priority. This includes energy transportation, allocation, consumption – and energy ef-

Georgia's power lines, Galt & Taggart Research

ficiency programs.

To that end, the Georgian National Energy and Water Supply Regulatory Commission is planning new regulations and laws that will help ensure a high-quality power supply for consumers. Power companies are required to inform their customers when the power supply will be disrupted or flowing at a reduced capacity. In addition, the commission can fine a power company if it does not resolve quality issues in a timely manner.

STRICTER VISA RULES DISAPPOINT FOREIGNERS, TRIGGER ECONOMIC CONCERNS

MAIA EDILASHVILI

Georgia's new immigration laws are creating havoc for foreign nationals living in the country, irrespective of nationality or employment status.

Reports of freelance professionals and contract workers struggling to receive documentation, as well as students being denied the permits necessary to attend university are widespread. Likewise, foreigners working for international organizations in Georgia are being bombarded with misinformation or incomplete regulations, leading to hours of work lost and, in some cases, unplanned trips home to apply for newly required visas or other paperwork.

The new visa and residence permit policy, which the government introduced on September 1, is part of a larger effort to improve "alien data administration." But some analysts warn it could harm the Georgian economy and roll back the country's success at attracting tourists and investors.

RADICAL CHANGE IN POLICY FOR LONG-TERM VISITORS

Under the changes, visitors who qualify for visa-free travel to Georgia can stay for just 90 days; longer stays – or if one is a resident of a country that does not qualify for visa-free travel – require travel documents that only Georgian diplomatic missions and consular offices abroad issue. All types of visas costs $50. Ninety-four countries are eligible for short-term, visa-free travel to Georgia, including the U.S. and EU member states, as well as Armenia, Azerbaijan, Turkey, and Russia.

For a long stay, either a temporary residence permit – which allows the bearer to work, receive an education or reunite with family members in Georgia – or a permanent residency permit are required.

An investment residency permit is also available for those who have invested at least 300,000 lari in the country.

According to the government, the new rules are an effort to regulate the country's immigration law prior to it receiving visa-free travel to the EU.

The political and press section of the EU Delegation to Georgia told Investor.ge in an email interview that one of the benchmarks of the Visa Liberalisation Action Plan (VLAP) requires Georgia to "consolidate the legal and institutional framework for migration policy, in line with EU and international standards, including in the field of legal/labour migration."

In its first progress report on the implementation of the VLAP, the delegation noted that the EU Commission recommended that Georgia adopt the law on foreign nationals and stateless persons.

"The period concerning the visa-free stay indeed brings Georgia closer to the EU standards, where the '90 days in any 180-day-period' rule applies. The change was not explicitly required; however, it should be seen as a part of general approximation," the EU Delegation said in an email to Investor.ge.

A WELCOMING HOME BASE

Interest in Georgian citizenship – and residency – has been high in the past, even though foreigners from 118 countries enjoyed visa-free entry to the country and could stay for 360 days.

Giorgi Meurmishvili, a chief specialist in the public relations department at the Public Service Development Agency, which issues residence permits, told Investor.ge that the agency responded to 7,162 applications for temporary residence permits and 1,466 applications for permanent residence permits in 2013, and an approximately same number applied in 2012. Meurmishvili did not respond to questions about how many applications were approved. Under the previous legislation, which allowed citizens of 118 countries to enter Georgia without a visa and stay for 360 days, Georgia developed a reputation as a welcoming destination for freelancers, students, and travelers, noted economists Florian Biermann and Eric Livny in an editorial published in the Georgia Today newspaper on September 26.

"The foreigners are traveling in Georgia, working, bringing along investment and expertise," noted Inge Snip, a Dutch freelance consulltant, trainer and writer.

Freelancers and researchers like Snip provided Georgia with the skills and experience that the developing economy needs, Biermann and Livny said, adding that, unlike developed economies (they used Germany as an example), which are fighting against too much immigra- ▸▸

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tion from low-income European countries, Georgia needs the knowledge that its skilled classes of immigrants bring, especially consultants and students.

Having spent seven years in Georgia, Snip said she finds the new visa rules "troubling".

"The personnel [at Public Service Hall] were friendly, though no one really knew what kind of documents we needed and how to deal with particular cases. So you would hear different stories from different people," Snip complained.

After receiving only a six-month stay permit, she will have to reapply in December and spend additional time, energy and 210 lari ($120) because her document will expire in February.

"These regulations should have been debated beforehand and the service personnel should have undergone training," she told investor.ge.

Many in the expat community agree, citing uneven application of the rules – and a troubling prevalence of misinformation during the application process.

ISET, the International School of Economics at Tbilisi State University, where both Biermann and Livny work, has experienced the challenges first hand: ten foreign students from Armenia and Azerbaijan applied for residency permits. Their applications were identical; seven were approved, two were denied and one is still in process, the economists wrote in an editorial. Their experience is not unique.

"I applied [for a residence permit] using the same documentation as my American business partner,but I got one year and he got five," Joseph Alexander Smith, from the UK, told Investor.ge. A freelance journalist based in Tbilisi and a managing co-director of the American Language Center, Smith has felt a sense of instability, which is causing him to reconsider his investment plans.

"I want to be able to keep running the business, but right now I have no guarantee of staying after January 2015," he said. "Also, if I want to start another business it will be almost impossible to prove I'm employed [because immigration authorities] only accept contracts."

The Ministry of Justice has written that residency permits are accessible to those "who carry out entrepreneurial or labor activity in Georgia," including freelance professionals. Also, the law reads that, "any activity for which a person receives remuneration shall be considered labor activity."

Despite this, foreigners state it is very difficult to receive residency if one lacks permanent employment because one is requested to submit a contract or employment document.

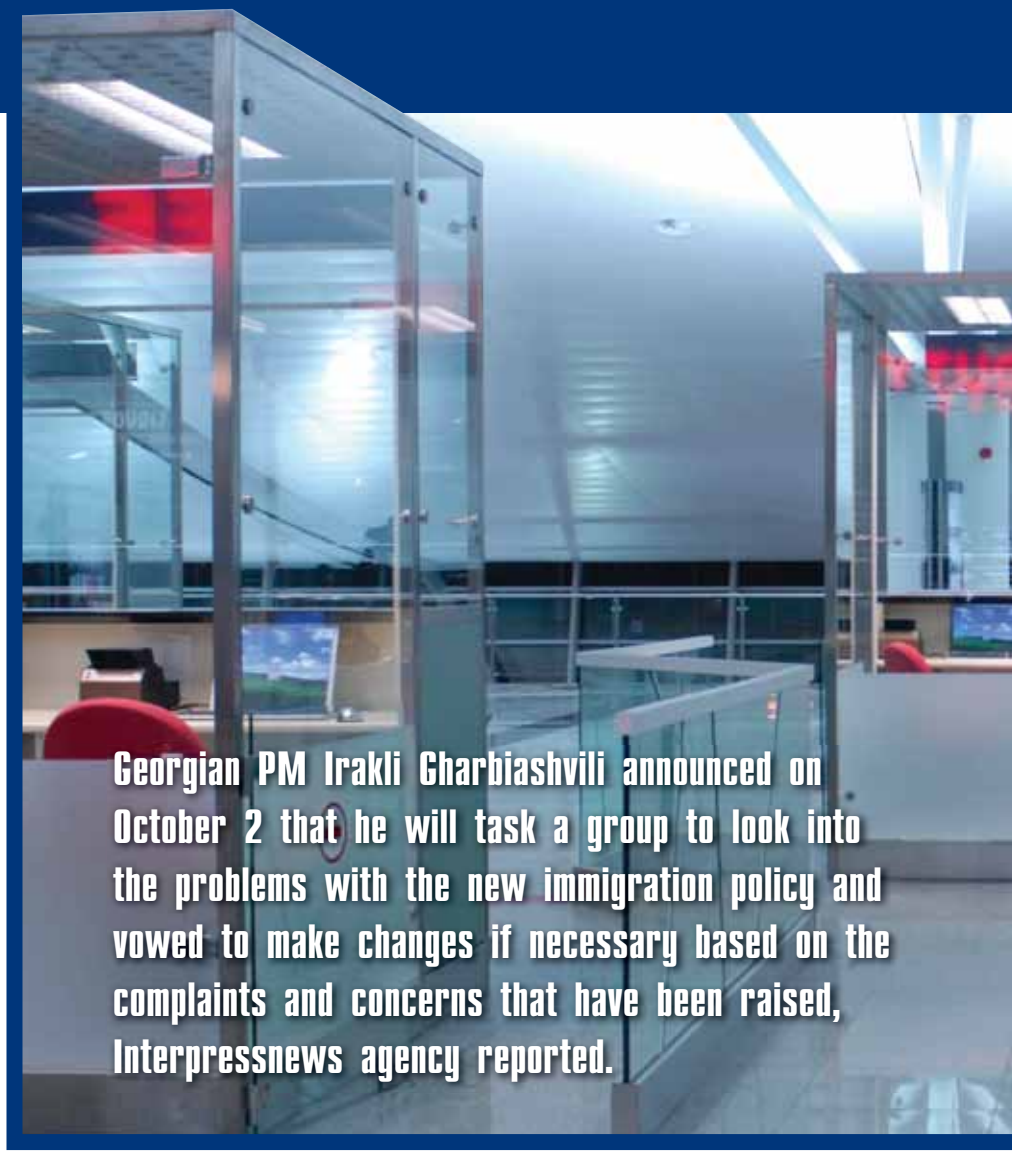
"Ours was a letter from our partner organization saying we were needed for the next five years and they [the government] accepted it, but no one who was freelancer or self-employed could submit a letter; they needed contracts," said Smith.

Those restrictions, noted Biermann and Livny, ultimately work against Georgia.

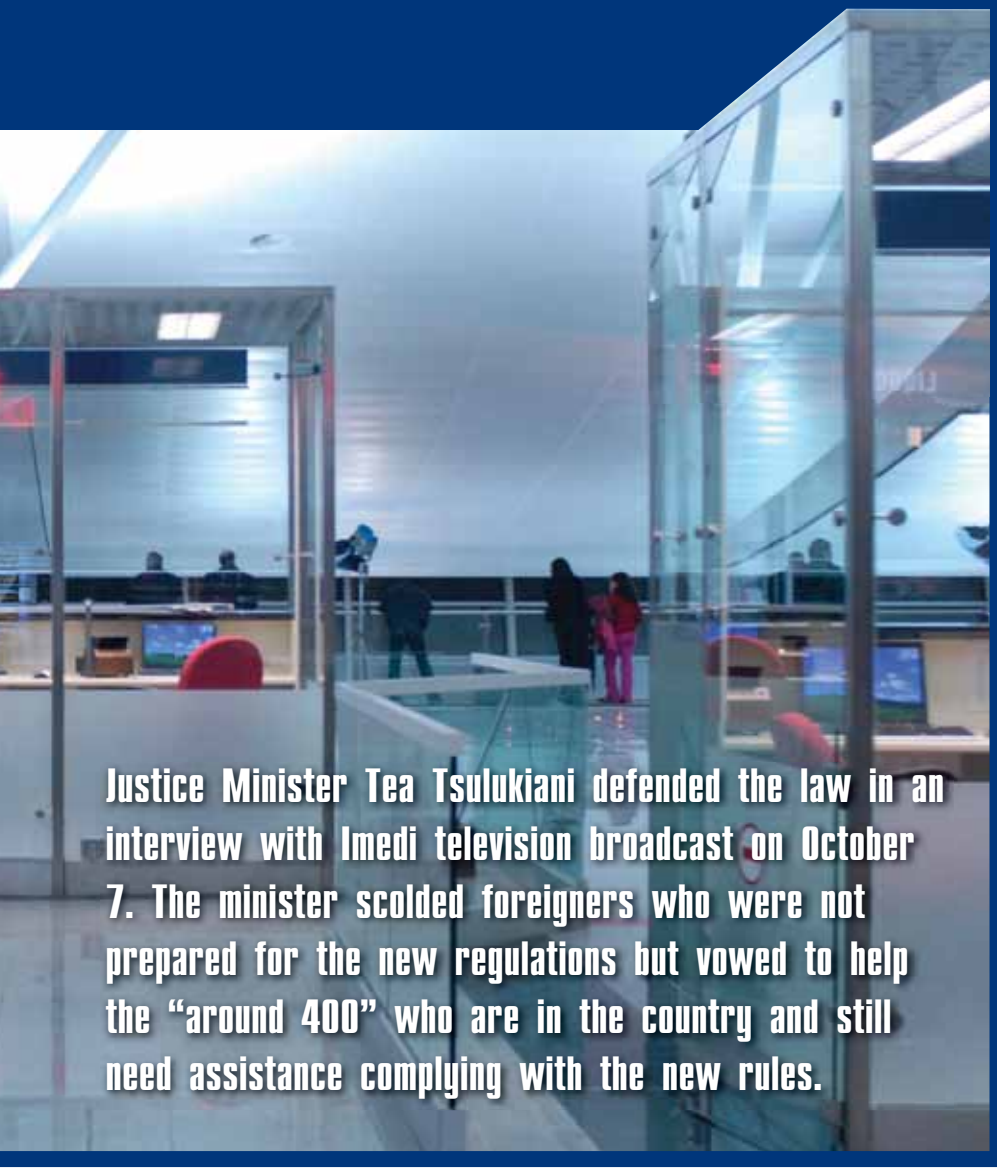
"Thanks to many of these irregularly employed foreigners, Georgia was about to become a 'cool' place, something that can be easily confirmed by reading their declarations of love for Georgia on the internet. To a considerable extent, this development came about because Georgia was so successful in attracting artists, bloggers, travelers and generally interesting people (in economics, these people are considered to belong to the 'cultural capital' of a country)," the economists wrote.

They added that"[b]eing a 'cool' place is not about having a lot of people who work from nine to five every day, as Georgian lawmakers may have thought. Rather it is about artists and cultural entrepreneurs who may indulge in a precarious and unpredictable life."

"And this has economic implications, because it is much easier to attract economically relevant people to places which have a cosmopolitan, culturally attractive atmosphere, like Amsterdam and London. Georgia may now be squandering the advantage it had over much richer places like Almaty, Baku, and Tashkent," Biermann and Livny concluded.



Georgian PM Irakli Gharbiashvili announced on October 2 that he will task a group to look into the problems with the new immigration policy and vowed to make changes if necessary based on the complaints and concerns that have been raised, Interpressnews agency reported.



Justice Minister Tea Tsulukiani defended the law in an interview with Imedi television broadcast on October 7. The minister scolded foreigners who were not prepared for the new regulations but vowed to help the "around 400" who are in the country and still need assistance complying with the new rules.

REFORMING THE REFORM

But the government has argued that the regulations are necessary as part of a principle of "reciprocity" with other countries and for Georgia's own strategic interests, as well as a part of Tbilisi's efforts to adhere to the standards required for the EU's Schengen zone. The Ministry of Foreign Affairs did not respond to Investor.ge's questions about the implementation of the new rules or any government projection about its potential impact. The Ministry's press department did note, however, that several countries were removed from the visa-free list (countries whose residents can stay in the country for 90 days without a visa).

The ministries of these countries, however, did not respond to the Georgian government's proposal; the ministry plans to repeat the proposal at a later date.

Roman Gotsiridze, the president of the Tbilisi-based Economic Development Center of Georgia, argues, however,that a "reciprocal approach" does not make sense for a small, developing country like Georgia.

Once an advisor to former Georgian President Mikheil Saakashvili, as well as the former president of Georgian National Bank,he believes that instead of unnecessary bureaucratic principles, Georgia should seek to be innovative – "[This is] the only solution for a small country," Gotsiridze noted.

Economists are worried that because consular services abroad are usually located in the capital cities that this would complicate visa procedures for people leaving in other areas.

Additionally, Georgia has 63 diplomatic missions abroad, meaning that citizens of many countries would need to apply for Georgia's consular service in a neighboring country, which would further complicate the process of obtaining a visa.

The Ministry is planning to roll out a program of e-visas that will, in part, ease the burden on Georgia's limited number of consular offices.

In the meantime, however, Gotsiridze said that Georgia is losing out on tourists and visitors.

"Tourists in today's world make decisions very quickly, so the visa obligation will likely de-motivate many people to travel to Georgia," he told Investor.ge.

Kakha Bendukidze, who served as Minister of the Economy after the Rose Revolution, also denounced the new visa rules. On his Facebook page, the former minister wrote that issuing visas at the border is a common practice "in all developing tourist-[oriented] economies."

According to Bendukidze, the reform of easing visa rules, which he personally launched in 2004, was composed of three components: increasing the list of visa-free entries, providing visas on the state border and allowing long-term stays.

The reform proved a success. According to official statistics, the number of foreign visits started to increase progressively, jumping from a low of around 700,000 in 2006 to over 5 million in 2013. Currently the share of tourism in Georgia's service exports is as high as 58%.

Lambasting the stricter visa rules, Gotsiridze now expects that the worst outcome from the changes may be a decline in the inflow of tourists who would, before the reforms, had the chance to stay in Georgia and start working here.

"I personally don't mind them bureaucratizing the system and making sure they know who is who and where they are and for how long and applying penalties for over-staying, but Georgia isn't the UK, France or Sweden with a generous benefit system," said Smith, a journalist and the co-director of the American Language Center.

He warned the new regulations could be a deterrent for investors like himself against opening small and medium size businesses (SMEs).

"I don't really leach off the Georgian state; I pay taxes and employ locals. So I have a lot riding on staying in Georgia, but I don't want to stick around if they make it difficult for no reason. [The new regulations] will drive SMEs away."

FROM FIERCE MAIDAN TO NEW GLOBAL ORDER

A REPORTER'S VIEW FROM UKRAINE

HELENA BEDWELL

Central Kyiv is looking less sad now, months after the Euromaidan Revolution, when unimaginable violence occurred as the previous government attempted to break up anti-government demonstrations.

Once the capital's buzzing Independence Square, today it is simply called Maidan. When one walks across the square now, portraits of the deceased and flowers scattered across the area still remind one of the atrocities that occurred there.

Today, however, Maidan is full of sunshine and is calm. People are walking around completely freely and, for most part, it's business as usual: customers are sipping cups of coffee from the numerous cafes in the district; cars circle the area; buses and tourist minibuses are picking up visitors, going places. The most favored destination for tourists, ironically enough, is the in famous Mezhyhirya residence, the lavish home of the runaway president Viktor Yanukovich, complete with his personal zoo!

I was here last March, while on my way to Crimea; I stood where I stand now, then smelling the burnt tires and the aroma of military kitchen food that surrounded the area. It felt like a scene from a Hollywood disaster movie. A huge stage had been erected where the most amazing motivating addresses were delivered to the crowds during the times of the Maidan.

In those days of violence, the bravest and most vocal of the protestors were brutally targeted and fell onto the cobbles and barricades. But their slogans - Слава країні!, GEROYAM SLAVA [Glory to Ukraine! Glory to the Heroes!] - made them immortal in the hearts of Kyiv's citizens and abroad.

This bravery was rewarded when the pro-Russian government was deposed in February, followed by other whirlwind events like the giving up of Crimea without firing a shot. But eventually the residents of Kyiv grew tired of the black smoke, rallies and clashes.

Maidan was cleaned; commerce and city life returned.

THE UKRAINIAN CRISIS

Under the Maidan, however, there is a shopping mall called "Globus" where the revolutionary spirit lives on in the countless souvenir shops, where bubbly shopkeepers offer one anything one desires, from a simple Slava Ukraini brooch to Putin KHX t-shirts, from Ukrainian hero Bandera shirts to toilet paper illustrated with mockeries of Yanukovich and his closest allies. Or, if one is not feeling that humorous about it all, one can purchase Ukrainian national-dress-inspired clothing.

Natalya, who runs one of the coffee shops at Globus, told me that she fully supported Maidan when it first started, but was not pleased with the way it had progressed.

People are still searching for justice for those who lost their lives, but others have even forgot about the sacrifices made during the Maidan protests because — as some of my local friends remind me — today Ukraine faces even bigger problems.

"There is a war, which is wrongly called a 'Ukrainian crisis.' It's a Russian invasion, the same as it was in Georgia in 2008, masked as a separatist conflict," said Kakha Bendukidze, a former Georgian Minister of the Economy who is now chairman of the Free and Agricultural Universities and was recently invited to join the Advisory Board for National Reforms Council (NRC), President Poroshenko's initiative to coordinate reforms in Ukraine.

HELENA BEDWELL IS A BLOOMBERG JOURNALIST WHO HAS TRAVELLED TO, AND REPORTED FROM, UKRAINE THROUGHOUT THE CRISIS. THE OPINIONS EXPRESSED IN THIS ARTICLE DO NOT REFLECT THE OPINION OF THE AMERICAN CHAMBER OF COMMERCE IN GEORGIA OR STAFF.

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There is wide popular public support for radical reforms. People are sick and tired of corruption, regulations and want lean government with less spending.

"Ukraine is the most important country in the world today because the future of new global order, which was invented in the Ukrainian city of Yalta following WWII, depends on what will happen here," Bendukidze says.

Georgia's former economic minister is not alone in his thinking.

U.S. Defense Secretary Chuck Hagel, who spoke in Tbilisi earlier this month, also said that the world order has held fairly dramatically and effectively since WWII. But now Putin's actions have truly raised some questions about this world order

Pundit Mark Mullen noted in an email interview that Putin is known to be erratic – and is not a leader who prioritizes stability and predictability like many democratic leaders instinctively do. With his actions, Mullen said, the Russian president has led many Ukrainians to define their nation in opposition to Russia – a mentality shift that will prevail in the end unless Russia is able to change itself.

AFTER MAIDAN: LIVE FREE OR DIE

Despite the crisis, Ukrainians have remained united.

Many tell me that they should have never left Crimea because it fed Putin's appetite.

Today many western Ukrainians are also fighting on the front line in eastern Ukraine, against the Russian-backed separatists.

Vladymir Drozd, a taxi driver, drove me around the city and even took me to look around the ousted President Viktor Yanukovych's estate, Mezhyhirya. It is hard to concentrate in that tasteless—albeit sumptuous—concrete, wood and glass residence, so I decided—with my friend and several Ukrainian immigrants we met on the trip—to bicycle along the waterfront and simply talk about what they expect now that-Maidan is over.

It is clear men want to fight. Stepan Grono, who left Ukraine years ago, even brought his sons to Kyiv to awaken patriotic feelings.

"They should have stopped them right in Crimea and ended this then. If they call me to go to war, I will go! What else shall I do, wait when they come to Kyiv? But you are Georgian, and you know how Russia does things; you must live free, or die."

A shaky ceasefire was announced on September 5th, by which time 2,905 civilians (including 31 children), and 935 soldiers had been killed in Russia's war against Ukraine, the Kyiv Post newspaper reported,

citing official statistics.

Russia also has another powerful tool to make the world cringe: media propaganda, something everyone is talking about in Ukraine, like the atrocities Ukrainians supposedly committed, including the downing of Malaysia Airlines Flight MH17 and the "stopping" of humanitarian aid of buckwheat and rice.

"If we want to live in this new reality with Russia claiming more and more territories and taking on weak neighbors, calling them [Russia's] nearest neighborhood — if we will let Putin get away with this — we will all lose. If not, we will win, simply,"Bendukidze said.

The current Georgian government, however, has been trying very hard to find a common language with Putin by being reasonable. But it has rarely received a proper response.

WAITING ON THE WEST

The civilized world must certainly do more to help Ukraine; it should pay more attention to Ukraine's reforms, provide financial aid and even provide weapons. Sanctions may work and many may think that Putin is in some kind of deadlock, but time doesn't wait. Ukrainian President Petro Poroshenko's visit to the U.S. ended without a pledge of weapons to fight pro-Russian rebels.

When I came back to my hotel, a group of German financiers were eager for me to draw parallels between Georgia's and Ukraine's respective struggles for freedom. After listening to some of the voices gathered in the streets, one of them ironically said that it all sounded like Fox News television propaganda.

So it's true. Ukraine still has not gotten what it deserves. It appears to be going at it alone, while people from both sides - even those Russians who did not chose to be there - die, are wounded or are displaced.

My Russian hairdresser Olya, from Mariupol, located on the coast of the Sea of Azov, had her whole family, including her seven-year-old niece Nastya, evacuated to Tbilisi. They were even too scared to talk about it to me when I called them in Tbilisi. All they would say was that they want peace and Nastya cannot sleep after having heard explosions.

My Russian friend from Donetsk, who runs a successful business in Tbilisi but whose whole family remains in Donetsk says, "I am Russian, but I am helpless in this; there is nothing I can do."

On my way back to Tbilisi, I remembered my good friend Sergey the taxi driver, who helped to drive me around Crimea during the referendum period and even managed to smuggle me out of the country when it was officially declared as having joined Russia, making me an unwelcome Georgian citizen.

"Please don't call me anymore," Sergey begged, "we have enough problems here as it is. I do not wish to speak on the phone about it. Stay well and happy."

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THE SOUTH CAUCASUS: REGIONAL DIVISION AND DIVERGENCE

RICHARD GIRAGOSIAN IS THE DIRECTOR OF THE REGIONAL STUDIES CENTER (RSC), AN INDEPENDENT THINK TANK IN YEREVAN, ARMENIA.

For the three countries of the South Caucasus, the priority has always been to overcome the limits of geography. And for Armenia, Azerbaijan and Georgia, the preference has been to look beyond the regional confines of the South Caucasus. But never before has the region been as divided as it is now, as the South Caucasus has become a strategic arena of competition and confrontation with Russia seeking to push back and push out European Union (EU) engagement.

This confrontation is marked by the Russian-led Customs Union, or Eurasian Union, on the one side, as an instrument for Russian pressure and power, but based solely on short-term political pressure and economic coercion. And on the other side, the European Union offers a more seductive, incentive-based offer of "Association Agreements" and an "Eastern Partnership."

Yet beyond the broader geopolitical context, the confrontation is matched by a division of the region, based on a divergence of interests in three main areas: economic interests, political preference, and the imperative of security.

ECONOMIC INTERESTS

In terms of economic interests, the promise of greater market access and a "return on reform," Georgia has clearly embraced its Association Agreement with the EU. Unlike its neighbors, the Georgian Association Agreement represents a crucial step to bringing the country closer to Europe, and fulfilling a key strategic goal.

But for Georgia, the challenge was not in signing the Association Agreement. Rather, it is the implementation stage that promises to be the more difficult and daunting task.

For Armenia, the painful sacrifice of its own Association Agreement has been defended by the Armenian government's stated commitment to become a full member of Moscow's Customs Union/Eurasian Union. While the economic benefits are meager and the higher trade tariffs rather punitive for the Armenian economy, Yerevan seeks some relief by lobbying for a set of over 800 goods and products to be at least temporarily exempt from the higher tariff rates. Nevertheless, the economic impact of joining the Customs Union is inevitably negative, only reinforcing the lack of competition, triggering a rise in prices, and bolstering the market dominance of the Armenian "oligarchs," who control several commodity-based cartels.

Pursuing a unique and fairly effective "go it alone" strategy, Azerbaijan is neither interested in an Association

Agreement nor in joining the Customs Union. Its energy wealth, strategic significance and authoritarian government has each contributed to this stance, and only demonstrated the paucity and weakness of Western, or Russian, leverage.

POLITICAL PREFERENCES

The divergence is also evident in terms of political preferences. For Georgia, the EU model is a natural complement to the hard-won gains of the earlier reform period, which has also helped to make Georgia the true leader of the region. And despite some recent setbacks and shortfalls, Georgia has still set an important precedent in the region's only example of a peaceful transfer of power from an incumbent government to an opposition coalition.

And for Armenia, the economic cost of its fateful decision to align itself with Moscow's Customs Union model is only matched by the negative political impact. The trend of authoritarian rule in a one-party system will be that much harder to overcome once Armenia joins the Customs Union. And even more distressing, the political implications will only solidify Yerevan's vulnerable position within Moscow's orbit, thereby contributing to even greater dependence on Russia and even weaker sovereignty.

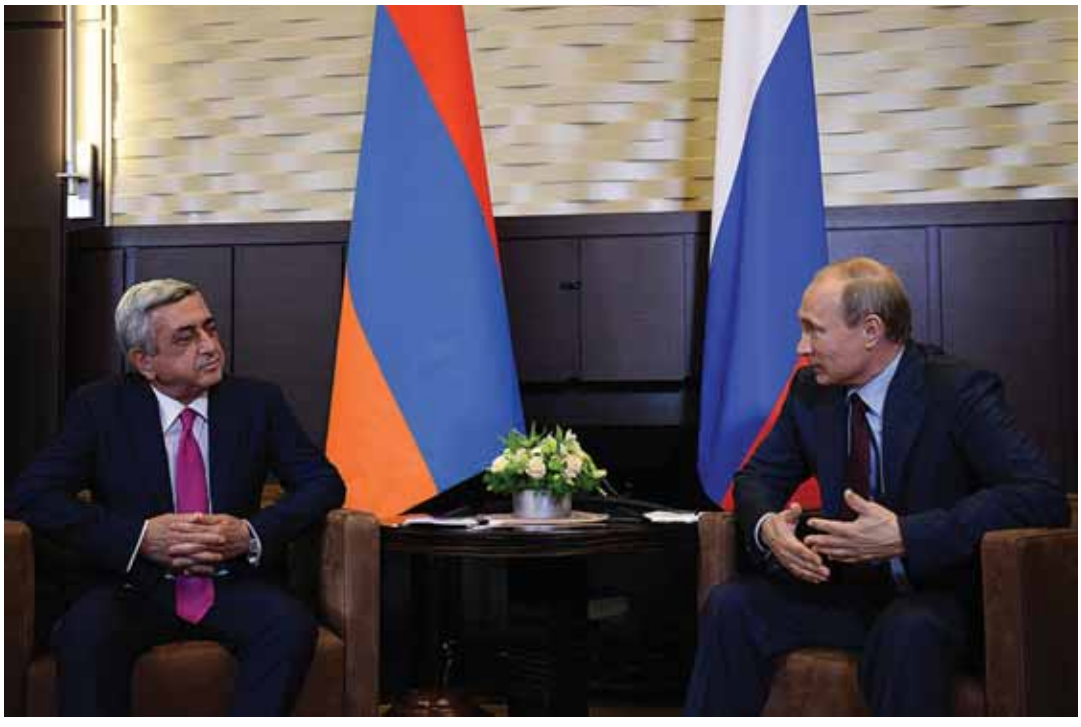
Yet it is Azerbaijan that loses the most from its isolation. The country has already been marked by a new stage of political repression, with the government only escalating its "creeping crackdown" on civil society. This trend is only expected to increase, as neither the EU, nor the West in general, has any real leverage or influence over the Azerbaijani leadership. And Baku's quest to remain independent of Russia will also only further drive its desire for "domestic stability" at the expense of even the trappings of democracy.

THE IMPERATIVE OF SECURITY

The third area of this regional divergence is defined by the imperative of security. In the case of Georgia, the strategic desire for deeper security to NATO and the West is a clear and present imperative. In the face of Russian aggression, well beyond the 2008 war, there is no recourse and no alternative for Georgian security. And while this security necessity has only reinforced the appeal of the EU, it also drives Georgian commitments to NATO and more recent pledges of partnership with the US in the new counter-terror campaign targeting ISIS, or the "Islamic State."

The security imperative is equally serious for Armenia and was also the main determinant of the Armenian decision to choose the Customs Union. And given the leverage of the unresolved Nagorno-Karabakh conflict, Russia has long exploited the insecurity of both Armenia and Azerbaijan.

As the number one arms provider to both Armenia and Azerbaijan, Russia has also been able to maintain its power and position over both countries, making the imperative of security more of an instrument of insecurity.



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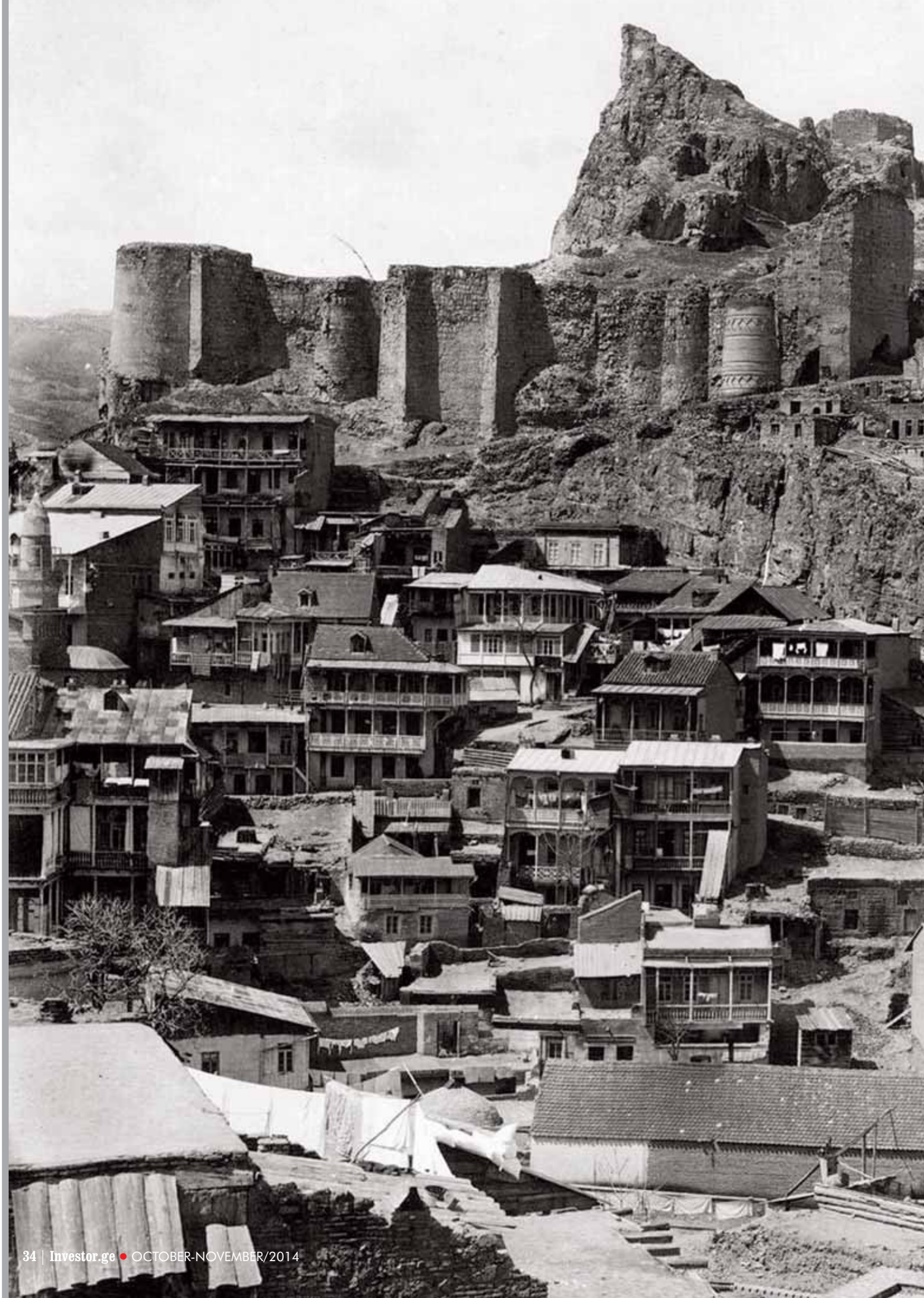
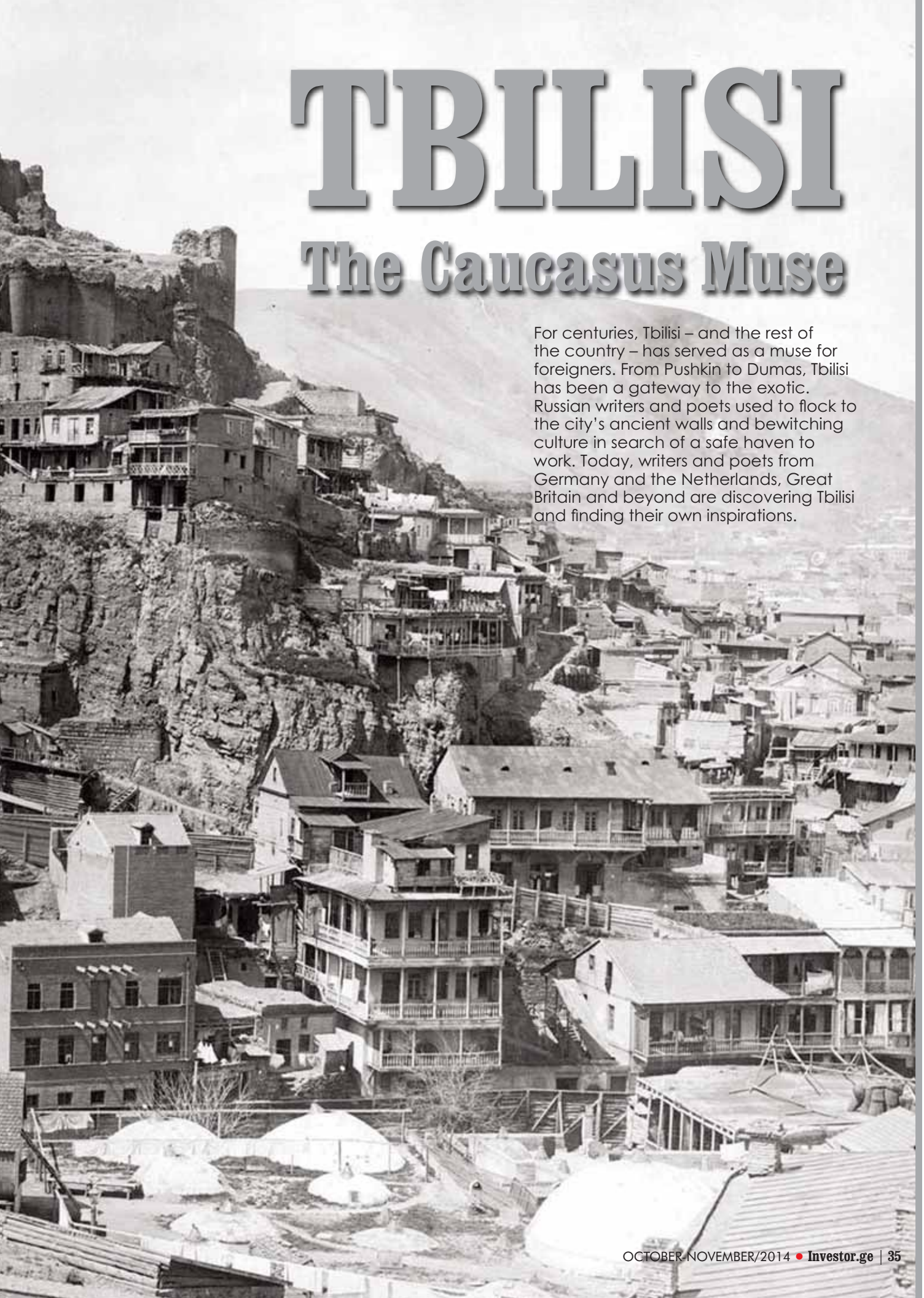


TBILISI

The Caucasus Muse

For centuries, Tbilisi – and the rest of the country – has served as a muse for foreigners. From Pushkin to Dumas, Tbilisi has been a gateway to the exotic. Russian writers and poets used to flock to the city's ancient walls and bewitching culture in search of a safe haven to work. Today, writers and poets from Germany and the Netherlands, Great Britain and beyond are discovering Tbilisi and finding their own inspirations.



AN EXCERPT FROM THE SNAKE EATERS BY TARA ISABELLA BURTON:

Maia went on talking, but Rebecca hardly heard her. She was caught up in the heart of the labyrinth, now, in the warren of old streets she could have sworn she had taken that morning but which were now newly revealed. The angels with their pockmarked cheeks and chiseled eyes stared down at her; the griffons beat the remnants of their wings. The light spackled and shimmered down on the tails of the wrought-iron mermaids, and in the cicada fullness of the silence surrounding them Rebecca felt at last that she knew on what ground she stood.

Yes, that smell in the air – she remembered, now; that was tone bread, dough hot-thrown against the sides of the oven – mixed with coriander and the curious and acrid sweetness of aubergine left too long in the sun. The signs – yes, by this light Rebecca could read them now – were for bakeries, market-stalls, churches, the shops of icon-makers.

It was real; it was unreal; it was dream-like and unfathomable. Once it had been a palace, in the old Moorish style, but time and fate had stretched out the stucco and weathered the stained glass; the carved ceiling curled with plaster tendrils; purple and pink, yellow and pale green. Above these carvings, a kaleidoscope of stained glass – shot through by holes through which the sky seeped in – rained down rays of many colors, dappling the marble staircase with shadows dense and dark as stones.

TBILISI, WITH ITS BEWITCHING STREETS, EXOTIC SMELLS AND AGELESS HOSPITALITY, HAS BEEN LURINGWRITERS AND POETS TO COME AND SEEK INSPIRATION IN ITS ANCIENT WALLS FOR CENTURIES. FROM PUSHKIN AND DUMAS TO JOHN STEINBECK (HE CAME TWICE) AND BORIS PASTERNAK, GIANTS OF THE LITERARY WORLD HAVE FOUND THEIR MUSE, AND SOMETIMES EVEN SANCTUARY, IN THE CITY'S ANCIENT STREETS. AND THAT LEGACY IS CONTINUING TODAY AS MORE FOREIGN WRITERS AND POETS ARE DISCOVERING TBILISI'S QUIET CHARM.

"THE FABULOUS LAND"

For Alexandr Pushkin, one of Tbilisi's most exalted expat writers, Tbilisi was a gate from Europe to Asia. Today, there are even tours around the country inspired by his writings about Tbilisi and Georgia, which he famously referred to as "the fabulous land."

Pushkin was far from alone: Waves of Russian writers and poets have come to Tbilisi since the 19th century, seeking safety, inspiration, or simply the foreignness of the near abroad, Ilia State University Professor Bela Tsipuria told Investor.ge.

There was Mikhail Lermontov, who reportedly wrote Mtsyri in Tbilisi. There was also Alexander Griboedov, and Lev Tolstoy, to name a few.

Not only Russian writers fell under Tbilisi's spell: French novelist Alexander Dumas famously documented his stay in the city in Tales of the Caucasus – and spent enough time in Tbilisi to fall in love with the local ritual of going to the baths.

Some expat writers, like Dagny Juel-Przbyszewska, left their mark on the soul of the city. Juel-Przybyszewska, the Norwegian writer who was just as well known for her liasons with famous artists as for her writing, was killed in Tbilisi in 1901. Her death has inspired its own books, including the novel *Dagny or a Love Feast* by Zurab Karumidze.

THE DAYS OF THE BLUE HORN

Writers and poets who were drawn to Tbilisi wrote about the city's culture and traditions, Tsipuria said, adding that the writers and the poets also drew inspiration from Georgian food, wine and women.

As Georgia embraced its independence after the Russian Revolution, Russian avant-gardists flocked to Tbilisi to escape the brutal war and revolution hardships at home and they found kindred spirits in the Blue Horn movement of the time, she added.

"During the period of the first Georgian democracy, 1916-1921, Tbilisi was a real safe haven – the whole generation of Russian avant-gardists came to Georgia," she said, noting that the love affair continued in the Soviet era, through the repression of the 1930s and on. The state even sponsored the close relations between Russian and Georgian writers.

"In 1950s and 1960s there was another wave of Russians coming to Georgia and getting inspired by Georgia…For this generation – Georgia was kind of a resort… they were coming here and finding some relaxation and warmth, some wine and some sun, and they were all writing… and some friendships were also struck," she said.

The Soviet state even paid for Russian writers to travel to Georgia's rich sanatoriums and soak up the local color, allowing them to create, translate, and publish their works while enjoying the country's resorts.

The close relations did not last in post-Soviet times, however, Tsipuria noted. "They could not accept Georgia's will for freedom. So when the Soviet Union collapsed, this kind of friendship also collapsed," she said.

"AN EXTRAORDINARY HISTORY OF CULTURAL AMALGAMATION AND DEFIANCE"

In the waning days of the Soviet Union, and during the heady years of new independence and conflict, a new wave of writers, journalists and poets fell under Tbilisi's spell.

Peter Nasmyth first came to Georgia as a tourist and journalist. His writings about Georgia – and his love of the country - have gone much deeper than the chaotic political turmoil of the 1990s, however.

"I first came as a tourist in 1987, when I was a journalist. Two years later I came again with a publisher and through one of those lengthy commissioning processes ended up writing 'Georgia, Rebel in the Caucasus' (1992)," he told Investor.ge.

"My trip timed itself one month after the 9th April and I was witness to those huge Soviet-era demonstrations on Rustaveli.

Alexander Dumas

After that I was hooked - it seems for life!"

He added: "It's hard not to be inspired by Tbilisi - which is the natural byproduct of these magnificent mountains and an extraordinary history of cultural amalgamation and defiance. I view the city in breaks of about three months so receive the changes more powerfully than most."

Former First Lady Sandra Roloefs has also watched Tbilisi change with a writer's eye. A published author, Roloefs wrote her first book, an autobiography, in Tbilisi and she has already started a second one, also inspired by the country.

"I like to write about Georgia, about its customs, traditions, culture and about its health system. I like to share my experiences from Georgia and usually do that in the form of blogs or articles. I have only written one autobiographic book (back in 2004-2005) which I enjoyed a lot doing," she told Investor.ge in an email interview.

"I have been thinking of writing a second book (even started a sketch) about a woman in Darkveti (region of Chiatura). She has really existed and fell in love with her foreign neighbor honored years ago (a Belgian)."

Roloefs added that she writes mainly in English but also in Dutch and Georgian.

Katie Davies was also already writing when she came to Tbilisi. She first started writing books while living in Spain and has self-published two volumes of her five-book series Blood Omen, writing under the name KR Davies.

But Tbilisi was the city that appreciated her writing talents the most: a local publishing house is republishing the first book of the series in Georgian, Vampire Wars. (The original English title is Blood Omen Book I: The Vampire Wars (Blood Omen Saga 1). It will be out this fall with an official launch on October 31 at the Museum of Theatre, Music, Cinema and Choreography.

Roloefshas also helped bring more European writers to the city through the EU's City Books project.

One, Stefan Hertmans, captured the essence of the city in a short story about trying to track down the knife sharpener who captivated his imagination during an earlier trip to the city.

"I descended the steps to the shadowy, subterranean underpass that takes pedestrians to the other side of the traffic-choked square – a shadowy world of undefined stench in which musicians, lace-making widows, needy woodcarvers and impoverished booksellers importuned the clacking heels of every-hurrying women," he wrote in The Knifemaker of Tbilisi, a tale so full of the color that, as a reader, you feel as if you were in Hermans' back pocket as he jostles around the glorious –and grimy - moments of street life that make Tbilisi great.

The streets of Tbilisi have inspired other expat writers, as well.

Tara Isabella Burton first came when she was in college, and eventually started to write and establish herself as a freelancer from Tbilisi.

Now widely published, Burton still returns to Tbilisi when she has work in the region.

Tbilisi, she said, is a writer's city.

The streets, smells and sounds of Sololaki played a starring role in her latest book, currently at the on submission with her agent, *The Snake Eaters,* a novel that features Machabelis Kucha.

"I love all of Georgia, of course, but for me there's something quite special about Tbilisi. The art nouveau buildings in Sololaki, the sense of faded grandeur, the way public and private spaces are not quite so strictly delineated (i.e., courtyards that emerge just off streets, gorgeous entry halls you can just peer into, like the one on Machabeli St. that inspired the novel I've recently completed) all give walking through the city a sense of magic," she said in a skype interview with Investor.ge.

"I love the carved angels you find above doors, the wrought-iron mermaids you find on balconies. Culturally, it is that blend of influences that you find in Tbilisi that excites me most. It's certainly a writers' city."

AMCHAM

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Law Office

LEGAL NEWS

In this issue we shall discuss the most significant legislative amendments, currently deliberated in the respective ministries, as well as some legislative novelties with implication on businesses.

UPCOMING LAWS on agricultural lands

Among the intended amendments are the legislative initiative elaborated by the Ministry of Justice applicable to the ownership of agricultural lands by the foreigners and the companies (including Georgian) with the foreign interest. Despite the decision of the Constitutional Court overruling the previous attempts of the government of restricting foreign ownership of agricultural lands, the intended legislative novelties are further restricting the ownership rights of foreigners with no demonstrated experience in agriculture business or in the proximity to borderline, etc. Currently the public registry, authority under the Ministry of Justice, routinely refuses to register title transactions over agricultural lands when the buyers are either the foreign natural persons or companies with foreign participation.

On Commercial Arbitration

Ministry of Justice will soon submit to the Parliament amendments to the Law on Arbitration intended at synchronizing the current model with UNCITRAL model law.

Amendment to the laws on ownership of firearms

The respective amendments to the current regulations applicable to the ownership of firearms are intended to introduce certain restrictions to the acquisition and ownership of firearms. Respective licensing requirements, as well as the rules of safekeeping are changed.

On the Law on Entrepreneurs

Parliament will soon review the amendments to the corporate laws clarifying the rights of the partners of the companies on bringing derivative suits vis-à-vis the third parties. Partner's derivative claims are valid if the companies fail to file the law-suits or justify the respective action within 90 days.

On the Civil Procedure Code

Under the proposed amendments to the Civil Procedure Code, the Supreme Court shall review the compensation cases only when the claim exceeds GEL 200 000. According to the whitepaper appended to the intended amendment, the law is aimed at decreasing the workload of the Supreme Court. At the same time, the explanatory note clarifies that the cases with the claim amount exceeding the said threshold shall be deemed accepted by the Supreme Court automatically. Currently the supreme court is deliberating on the acceptability of the claim for several months and in the most cases refusing to review the case. Supreme Court is currently acting only as a judicial authority observing the correct court practices and application of the proper procedure by the lower courts, but according to the amendment, Supreme Court may act as a second appeal on the civil cases.

GEORGIAN GOVERNMENT ON COMPETITION

On September 1, 2014 the GOG introduced regulations on the Competition Law. The respective regulations intended to introduce exemptions applicable to the agreements restricting competition. The exemptions are applied if the agreements are intended to support improvement of supply, technical progress, etc. The respective regulation applies to the vertical agreements with distributors and the ones in the transport sector, horizontal or vertical agreements on the transfer of technology, aimed at focusing the production/business in certain specific segment, mutual research tools, etc.

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President Giorgi Margvelashvili Meets, Addresses AmCham Members

Georgian President Giorgi Margvelashvili was the keynote speaker at AmCham's October luncheon at the Tbilisi Marriott Hotel. The president thanked AmCham for its work and highlighted the country's economic prospects. He also took questions from members during a frank discussion following his address. The following are excerpts from his speech, taking from his official website, www.president.gov.ge.

I think that the new government, as well as the coalition, has very clearly defined that the future priorities of our country are basically built on development of economics, furthering economical processes, and some of the main issues in our society are going to be solved with effective economic development.

FUTURE PROSPECTIVE OF GEORGIAN ECONOMY

Let me start from the most important that I think has happened this year - Georgia signed the DCFTA agreement, the Association Agreement with European Union, which is a very important milestone on Georgia's European development, but also it is a very important asset for Georgia's economic development.

Through signing this agreement, an impressive market, European market, which overall is the biggest market in the world, has been opened for Georgia, for the investors that are doing their business in Georgia.

The achievements are important in several contexts– first of all we believe that it will improve the quality of products that are produced in our country, it will further our economy as well as investments. In this respect, there are several challenges that we have to overcome. First of all, it is, sort of, binding or going deeper into European standards and European formats of doing business and I think that those challenges will be overcome eventually, because Georgian business, I believe is flexible to adopt those new standards and open itself to European market.

It is very important that at the same time we are creating opportunities for new businesses in Georgia, and I think that people all around the world will be interested to invest in a country that has free access to European market. That is an open possibility for new foreign investors.

The projects that are developing in our region, especially the Trans-Anatolian Project for gas pipeline, as well as the TAP project, are creating possibilities for Europe to access the Caspian Sea resources for gas and oil.

That is very interesting, especially in the context when we see that some of the geopolitics are linked to Russia's policy, to the energy security issues, and I think that we are suggesting a very interesting solution to some of our European partners and doing this in a close contact between Georgia, Turkey and Azerbaijan; this context has been re-defined and re-stated recently, when we had a summit of three presidents here, in Tbilisi, and we decided to have this summit every year for further advancing of this issue.

There is also a very interesting development in Georgia's economy, which is linked to the railway project - Baku-Tbilisi-Kars Project. By this project we are opening possibilities for the Caspian resources to be transferred to Georgia. Actually we are also opening resources for the ISAF mission to withdraw their forces through Georgia; but I think we are also opening a great possibility for development of logistics business in our country through this railway, and I have already talked on the issue with my colleague presidents.

WEALTH DISTRIBUTION IN GEORGIAN SOCIETY

First of all, this is the fact that the Georgian market is small and you are

all aware of it; our GDP is growing - we have had a positive growth this year and eventually, I think, it will come up to six percent of growth.

But, at the same time, one of the main problems that I am personally concerned about is a distribution of existing wealth among society.

We have a relatively lower GDP compared to some of the other countries, even among the post Soviet Union states, but the distribution of wealth among society, which is also a part of jobs creation, is pretty poor. If we look at the GINI index, one of the indexes that gives us a possibility to observe this, we'll see that it is pretty poor, which is eventually a problem for our social stability.

If look at either parameter of the distribution of wealth and look at the portion of small and medium businesses now in our economy, the picture is even worse. We are up to 20%, which eventually shows that those are the problems for our future development and stability.

Another problem, of course, is the stability in the region and we look at those projects as two sides of a process – on one hand, if we increase the number of our global projects and transportation of energy resources through Georgia, including the transition of electricity and gas and oil, as well as transportation projects, it must be stated that we are dramatically investing in the development of the transportation infrastructure.

It will increase the interest of many more countries to invest in Georgia; and not only among our European partners, but also among all those states that are interested in stability and safety of the route through which they transport their goods.

On the other hand, those projects will develop in a stable environment. So furthering and progress of them, I believe, will influence the stability of our country.

Defense Minister Irakli Alasania: Security neccessary for economy, future middle class

Defense Minister IrakliAlasania told AmChammembers security is key to providing the country with a stable and prosperous future during the Chamber's October roundtable meeting at the Radisson IveriaBlu Hotel on October 13.

The minister stressed that over the past two years the government has worked to create an environment that supports business and investment in the country.

"If the country is not well protected, economy development and social welfare can't be reached," he said, noting that the future of the country is tied to the economy and the future growth of the middle class.

But the minister also underscored the role of defense and security in the country's future, stressing the support Georgia is receiving from NATO and the United States. He said that the country received the "maximum" out of the NATO special package it received during the September Wales Summit, and Georgia is preparing to open a NATO training center in the country.

Alasania denied rumors that Georgia has been in discussion with the United States or NATO to train Syrian rebels; rather, he said, the training center will train soldiers from NATO countries around the globe. Georgia, too, will receive valuable training and insight both from NATO training at home as well as abroad. Skills include special efforts to combat cyber-attacks and protect the country from terrorist threats.

During the question and answer session, the minister fielded questions about media reports regarding Georgian-born Islamic extremist fighters in Syria and the threat of them returning home or using Georgia's Pankisi Gorge as a base for attacks against Russia.

Alasania said that the reports have been "exaggerated" and the Georgian authorities are fully aware of who is leaving to fight in Syria, and where the fighters are from. Georgia is also working closely with the Turkish government to track militant fighter movements, especially when they travel back to Georgia from Syria.

The minister stressed, however, that the situation in Pankisi requires the government's attention so it cannot, once again, be used by Russia as a pretext to attack Georgia. Alasania praised the government's strategy of reapproachment with Russia on economic issues but stressed that officials have to be careful of not reaching a "tipping point" that would allow Russia to use non-government organizations and other means to manipulate Georgia's domestic politics and polices.

Alasania also noted that work is continuing, through Swiss negotiators, to put customs control measures at the recognized Georgia-Russian border that is currently being manned by the separatist governments in Abkhazia and South Ossetia.

AmCham Georgia's Youth Leadership Program: Empowering students to reach their potential

AMCHAM GEORGIA IS TEAMING UP WITH MEMBER BUSINESSES TO SUPPORT BEST PRACTICES FOR FUTURE BUSINESS LEADERS.

In October, 2014 AmCham Georgia launches our Youth Leadership Program to support best practices for future business leaders in Georgia.

This unique pilot program brings 20-30 top students from AmCham member universities into a program of mentorship with some of the leading business representatives in Georgia. The mentors will lead interactive workshops for these students giving advice on international best practices in the Georgian context in areas such as intellectual property rights, time management, presentation skills, conflict resolution, business communications and more.

This program empowers students on their path towards a successful career, and benefits members by giving them access, through our student career promotion segment, to some of the most motivated university students in the country for jobs and/or internships.

Our program will help these future business leaders reach their great potential as responsible business men and women in Georgia.

AmCham expresses our gratitude to member representative mentors who enthusiastically support this pilot program. These mentors are top level managers from: PwC, CanArgo Georgia, Deloitte, Grant Thornton, BAT, Microsoft Georgia, National Center for Dispute Resolution, GAU and Liberty Bank.

PARTICIPATING UNIVERSITIES

- Georgian American University (GAU)
- Free University
- Agricultural University
- Caucasus University

PROGRAM MENTORS:

Robin McCone, PwC | Director,
Topic: Megatrends

John Robinson, Deloitte | Partner,
Topic: Presentation skills

Nelson Petrosyan, Grant Thornton | Director, Partner,
Topic: Consultative Selling - how to become a trusted advisor

ZviadSkhvitaridze, British American Tobacco | Head of Corporate & Regulatory Affairs Caucasus,
Topic: Government Relations, Lobbyism and its specificities in the Caucasus

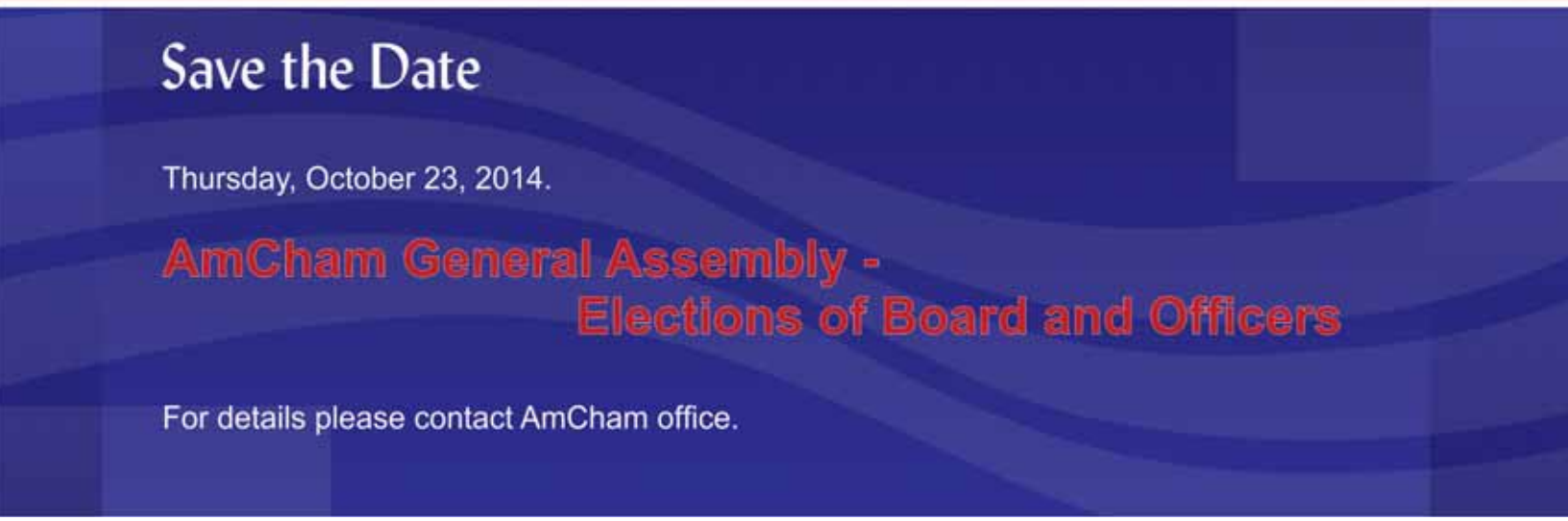
Michael Cowgill, GAU | President,
Topic: Business Communication

GiorgiChaladze, National Center for Dispute Resolution | Founder, Mediator,
Topic: Conflict Phycology, Alternative Dispute Resolution

David Asatiani, Microsoft | General Manager,
Topic: Intellectual Property Rights

Cliff Isaak, CanArgo Georgia | Chief Administrative Office,
Topic: The Art of the Interview

LadoGurgenidze, Liberty Bank | Executive Chairman
Topic: To be announced



AMCHAM PRESIDENT, EXECUTIVE DIRECTOR DISCUSS GLOBAL DIASPORA WEEK WITH MINISTER

AmCham President Sarah Williamson and Executive Director Amy Denman met with State Minister for Diaspora Issues Gela Dumbadze on September 9 to discuss Georgia's first Global Diaspora Week.

The minister outlined his visions and future plans for the office and informed about the upcoming plans for Global Diaspora Week which will be held in Georgia for the first time this year (October 12-18). Mr. Dumbadze outlined the Diaspora Economic Forum as part of the week's activities and detailed his ministry's plans for encouraging diaspora to participate in the economic development and growth of Georgia.

Specifically, he discussed cooperation with AmCham on supporting the creating of special investment vehicles for Georgian diaspora. An estimated 300,000 Georgian diaspora are currently living in the United States.

Nina Matiashvili, the minister's advisor for economic and commercial issues, also attended the meeting.

GATEWAY TO EUROPE INTERNATIONAL INVESTMENT FORUM OPENING IN TBILISI

The Asian Development Bank (ADB), together with the Ministry of Economy and Sustainable Development of Georgia, is hosting an international investment forum, Georgia-Regional Hub and Asia's Gateway to Europe, on October 29-30.

For more information about the event, please check its official website: www.investmentforum.ge and mail@investmentforum.ge.

AmCham Working with Members to Navigate New Immigration Law

The Chamber is helping member companies with foreign workers navigate the government's new immigration law and visa requirements.

AmCham welcomes Prime Minister IrakliGharibashvili's initiative to task a working group to study the law and the problems and issues that have arisen during its first month of implementation. The Chamber is also committed to working with the government to help improve the implantation of the law.

The Chamber's on-staff lawyer, IrakliGelovani, has identified several major issues that have caused foreigners problems or unforeseen expense and delay. This is not an exhaustive list or legal advice. If you have any questions or comments, please contact AmCham atamcham@amcham.ge or i.gelovani@amcham.ge.

MAJOR ISSUES ENCOUNTERED

Under the new law, a foreigner who entered Georgia after September 1 is obliged to obtain a working visa back in his home country, i.e. the visa free regulations for foreign nationals who can still enter the country without a visa does not extend to work visas and work visas cannot be issued in Georgia. This is additional time and money expenses for foreigners, who entered after 1st September and who intend to stay and work in Georgia.

Another major issue has been the government's approach to family members: if a foreign national has already obtained all necessary visas and permits, his or her family members are still required to first obtain a visa and then apply for a residency permit. In practice, this has meant that families, once they have arrived in Georgia, are forced to travel to their native countries again to apply for a family reunion visa and then return to Georgia.

Energy, Mining & Utilities Committee Drafts Amendments to Eminent Domain Law

The AmCham Energy Mining and Utilities (EMU) committee, chaired by Frontera Resources' Levan Bakhutashvili, met on September 19 to discuss two major issues that negatively affect the development of the upstream oil sector in Georgia: VAT exemption under the Price Sharing Agreement (PSA) for upstream companies and the eminent domain legislation.

The eminent domain legislation, which creates the possibility of expropriation of land if deemed in the interest of the state or the public in exchange of compensation to be paid to the land owner based on fair market value, poses several problems to the investors, committee members said. The first problem is related to an obligation to buy the land, which energy companies may not be interested in buying. Plus, the fair market value for compensation is not defined by the law. Another issue is related easy access to land meaning that expropriator can be denied to access to land if the land owner is not satisfied with the compensation and sues them.

In practice, this law is affecting not only oil or energy companies but also the railway, hotel industry and several others sectors. The committee will be drafting relevant amendments to the eminent domain law to submit to the relevant government agency.

Committee members also agreed that Georgia's tax code should be amended to synchronize VAT exemptions with the PSA. The committee members will draft changes to the Tax Code to submit them with the Ministry of Energy and to facilitate further discussion.

Amcham Agribusiness and CLT Committee Secure Delay Over Agricultural Land Amendments

At the September 26 meeting, the committees discussed the most recent draft amendments to the law. Based on committee agreement, AmCham contacted several government officials requesting a delay of introduction of the bill in Parliament until the business community and other stakeholders had time to give thoughtful input and comments. AmCham continues to oppose over reaching restrictions on foreign ownership of agricultural land, and will continue to give constructive input on any proposed restrictions and welcome member input towards this process.

On October 6, the committee chairs from the agriculture and the CLT committees met with Business Ombudsman Giorgi Gakharia and his deputy, as well as the head of the Association of Banks of Georgia, the Georgian Young Lawyers Association and Transparency International to discuss the draft amendments to the law on foreign ownership of Agriculture Land.

AmCham is also pleased to announce that SacshaTernes, Bank of Georgia; and George Welton, GeoWel have been named as the new chairs of the agriculture committee.

American Friends of Georgia Celebrates 20 Years of Philanthropy

The American Friends of Georgia (AFG) will celebrate 20 years of philanthropy on October 15 at the Sheraton Metechi Palace Hotel.

The evening will include a cocktail reception, live music and a charity exhibition of photographs printed from National Geographic's unique archival materials, including the work of well-known photographersVittorio Sella, Maynard Owen Williams, Frederick Simpich, who all traveled to Georgia over the past century.

All proceeds from sales will go to support AFG's Palliative Hospice and Home Care Program and help to provide home-based service for more than 100 needy elderly in Tbilisi.

US AMBASSADOR RICHARD NORLAND SPEAKS WITH AMCHAM ABOUT NATO, SECURITY, AND POLITICAL DEVELOPMENTS

AmCham hosted a regular roundtable meeting with U.S. Ambassador to Georgia Richard Norland in the Courtyard Marriott hotel on September 11. More than 100 AmCham members attended the meeting. Ambassador Norland provided members with an Embassy perspective on local, regional and global issues of importance, including a roundup of the NATO summit in Wales and the subsequent visit of U.S. Defense Secretary Chuck Hagel. The Ambassador also relayed thoughts and information on the unrest in Ukraine, the situation with ISIS and how the U.S. and its partners, including Georgia, are dealing with these issues. Following the talk, members had an engaging Q&A session with the Ambassador.

New Chief Consular Christa Perozo was introduced to the members and spoke about US immigration procedures and visa issuance. She stated that Georgia had a very healthy amount of business travelers to the U.S. which is a good indication of our economic cooperation. She also discussed the new Georgian Immigration Law with members and answered questions regarding this law.

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GEORGIA'S MOBILE GAME PIONEER

For its second member feature, Investor.ge speaks with Lemondo, the Georgia-based mobile game and app designers.

When Lemondo founders Levan Kiladze and Giorgi Otiashvili started feeling a bit bored with corporate life a few years ago, the two childhood friends decided to start something new – a business that would allow them to use their "creativity and mojo" to create something fun, and useful, for smartphone users.

"It all started with a strong interest in digital entertainment," Lemondo CEO Kiladze wrote in an email interview with Investor.ge.

"We were keen to create products where we could utilize our technical skills, creativity and mojo to create products that would be useful and/or fun for millions of smartphone customers. Unless you jump and start taking the first steps yourself, it all seems 'difficult.' Once you are in, you start to solve daily problems, accept bigger challenges and see your company evolving."

The two created Lemondo in 2010 and have never looked back. Over the past four years, they have developed scores of mobile games and apps, including Kite Surfer, Pixel Hunter, Basketball Machine, and Rage Wars.

Their game Milk the Cow has even been featured in gaming apps' blogs.

Lemondo has been a pioneer at bringing Georgian produced apps to the international Apple App Store. Kiladze told Investor.ge that posting apps is "not a big issue." The main challenge, he said, is the product creation and marketing.

"The product should be useful, polished and well placed, so that it gets a high reach of potential customers," Kiladze wrote.

"A customer pays a dollar only when he/she sees a high quality product, positive reviews and trusts the developer."

Today, Kiladze notes, 99.9 percent of Lemondo's customers are not Georgian. The company is including a Georgian language option on games targeted for children under the age of 5. But Kiladze said the Georgian market – even though there are more than 150,000 Georgian iPhone owners – is not big.

"The Georgian market itself is not that big, especially taking into account that there is a low level of 'purchasing culture.' People lack the habit of paying for digital goods in Georgia. They expect to get everything for free," he said.

"We have discovered a few times some of our products being distributed by mobile device stores for free. We decided to close our eyes on this – let them enjoy their products for free if they like it!"

Lemondo is also a leading voice in the campaign to motivate and support the next generation of IT innovators.

The company was an official partner for Georgian Innovations Week this year, which Kiladze called "a big success" at creating a "buzz among young students."

"It gives a real torque to young innovators to start creating some products. It was a wonderful opportunity for networking and demonstrating your product," he said.

Kiladze noted that Georgia's IT sector is "taking pretty big steps forward" and the creation of GITA – the Georgian Innovation and Technology Agency – can provide strong support for the industry.

He added that at Lemondo, new staff goes through an intensive education once they are hired because there are few ready-made staff on the market.

Universities, he said, should "teach based on a more practical application of knowledge and thought during the sessions. For example, physics students should be able to create some devices, robots or other products as well instead of studying only formulas."

Focusing on buying locally can also help develop the sector. "Creating local demand on the market is key for new generations to start supplying products," Kiladze noted.

The mobile development boom, he said, is similar to the Dot Com era at the end of the 1990s.

"I think good positions are reserved for those countries where there are many professionals and entrepreneurs in the sector," Kiladze said.

"Whether it be web, mobile, or other wearable devices, professional HR availability and entrepreneurial spirit are the main drivers for success. That is why I like the initiatives of GITA to further stimulate the development of these two factors."

AMCHAM GEORGIA INTRODUCES NEW FEATURE FOR MEMBERS

Recently AmCham Georgia asked its members for suggestions and feedback about Investor.ge. Thank you to all the members who took time to respond! Your comments, criticism, and insights were invaluable and will help us make changes as we move forward.

This page is the first improvement we are making based on the responses we received: more information about member companies. In every issue, we will publish interviews with member companies. We hope to publish at least two or three per issue. To participate, please contact amcham@amcham.ge.

JSC MINA

PRODUCER OF GLASS CONTAINERS IN GEORGIA

JSC Mina has been operating on the Georgian market since 1998. Its Ksani Factory supplies majority of Georgian companies manufacturing mineral waters, wine, soft drinks and beer.

In 2014,the company invested in new furnace construction and state-of-the- art modern equipment at Ksani factory.

The company holds an ISO 9001:2008 Quality Management Certificate and an ISO 22000:2005 food Safety Certificate. Implementation of new procedures has improved production control and quality management unified system, as one of the most major goals of the company. As a result, Mina has most updated production and technical abilities, newest equipment and experienced staff.

JSC Mina is actively involved in various charity projects, including environment preservation and supporting historical research of the history of our country. The company understands its social responsibility and tries to realize its industrial targets in order to contribute the development of our country.

NEW MEMBERS

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Cushman & Wakefield | Veritas Brown is an established Commercial Real Estate company active throughout Central Asia and the Caucasus with offices in Tbilisi, Astana and Almaty.

The firm offers professional advice across a range of services, including Agency (Leasing and Investment), Capital Markets, Consultancy, Valuation & Advisory, Research, Property Management and Serviced & Virtual Office accommodation.

Cushman & Wakefield are the worlds largest privately owned Commercial Real Estate services firm with 16,000 professional staff operating 250 offices in 60 countries. The firm has around $5billion of assets under management with global transactions valued at over $114 billion in 2013.

www.veritasbrown.com

CORPORATE B
AMK LAW

AMK Law is a Georgian based law firm, developing its legal practice in Georgia in all major practice areas, but mainly concentrating on commercial, business, investment related activities. Our partners have been advising on many of the Georgia's leading transactions in the corporate, finance, public and other business and civil law related matters, the experience they decided to combine and put in the service of clients.

www.amklex.com

CORPORATE B
CAPITAL BANK

JSC Capital Bank is a banking institution providing its clients with the wide range of banking products and services. The company is oriented on e-commerce operations, distance banking and providing clients with the fast and high quality banking services.

www.capitalbank.ge

NEW MEMBERS

CORPORATE B
DUTY FREE GEORGIA LLC

Compnay has has 5 border shops of 4 borders of Georgia: Red Bridge (Azerbaijan border) Sadakhlo (Armenian border), Sarp & Vale (Turkish border). For nes investments the company is in the process of negotiations to increase business both in Georgia and beyond its borders.

www.dfg.ge

CORPORATE B
MIRA-GROUP

Mira-Group is involved in Tourism since 2009. It operates a brand Hotel River Side Tbilisi - an official four star hotel with unique Georgian architecture, located in Old Tbilisi district. Accredited by CESO, awarded by ISAQ (Genève 2013) and Tripadvisor Inc. the hotel aims to become even better, working constantly to provide highest service available. This is one of the few hotels in Georgia who received certificate of excellence of Tripadvisor.com .

In February 2014, the company has opened the first Tiffany Bar in Georgia, with beautiful décor, atmosphere and attitude.

www.riverside.ge

NON PROFIT
SAN DIEGO STATE UNIVERSITY - GEORGIA

SDSU Georgia will provide US-accredited bachelor's degrees in Science, Technology, Engineering and Mathematics (STEM) areas in Tbilisi. This program is funded through the Millenium Challenge Account - Georgia, and was made official via the Memorandum of Understanding between San Diego State University and the Government of Georgia signed in July of 2014. The forst cohort of students in Electrical Engineering, Computer Engineering, and Chemistry will be accepted in the Fall of 2015.

www.sdsu.edu

AMCHAM BACK TO BUISINESS POOLSIDE PARTY AT HOLIDAY INN TBILISI

ON SEPTEMBER 17 AMCHAM HOSTED ITS BACK TO BUSINESS HAPPY HOUR FOR ITS MEMBERS AND PARTNERS AT THE HOLIDAY INN POOLSIDE.

THE HAPPY HOUR WAS ATTENDED BY MORE THAN 90 BUSINESS PEOPLE WHO WERE WELCOMED BY AMCHAM PRESIDENT SARAH WILLIAMSON. MS. WILLIAMSON BRIEFLY OUTLINED THE CHAMBER'S PLANS FOR THE REST OF THE YEAR AND INFORMED MEMBERS ABOUT THE UPCOMING HIGH LEVEL MEETINGS AMCHAM WILL BE HOLDING WITH GOVERNMENT OFFICIALS.

Tbilisi area hotels took part in the world-wide Ice Bucket Challenge in honor of raising money and awareness about Amyotrophic lateral sclerosis (ALS), also known as Lou Gehrig's disease. The first challenge was issued by Sheraton Metechi Palace Hotel, and other hotels – including the Tbilisi Marriott, the Courtyard Marriott, the Radisson IveriaBlu and the Holiday Inn – followed suit.

Sheraton Metechi Palace Hotel hosted Tbilisi's own Oktoberfest on October 1-5. Guests enjoyed real Bavarian cuisine and culture, including musicians flown in from Germany.

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2014 — Best Internet Bank

2014 — Best Bank in Georgia

2014 — Best Bank in Georgia

2014 — Golden Brand

2014 — Best Foreign Exchange Provider in Georgia

2013 — Best Bank in Georgia

2013 — Corporate Social Responsibility Award

2013 — Best Bank in Georgia

2013 — Best Bill Presentment & Payment

2013 — Best Internet Bank

2013 — Best Corporate Internet Bank

2013 — Best Foreign Exchange Provider in Georgia

2013 — Best Integrated Consumer Bank Site

2013 — Best Integrated Internet Bank in the World

2012 — Best Bank in Georgia

2012 — Best Bank in Georgia

2012 — Golden Brand

2012 — Best Consumer Internet Bank in Georgia

2012 — Best Bank in Georgia

2012 — Best Integrated Consumer Bank Site

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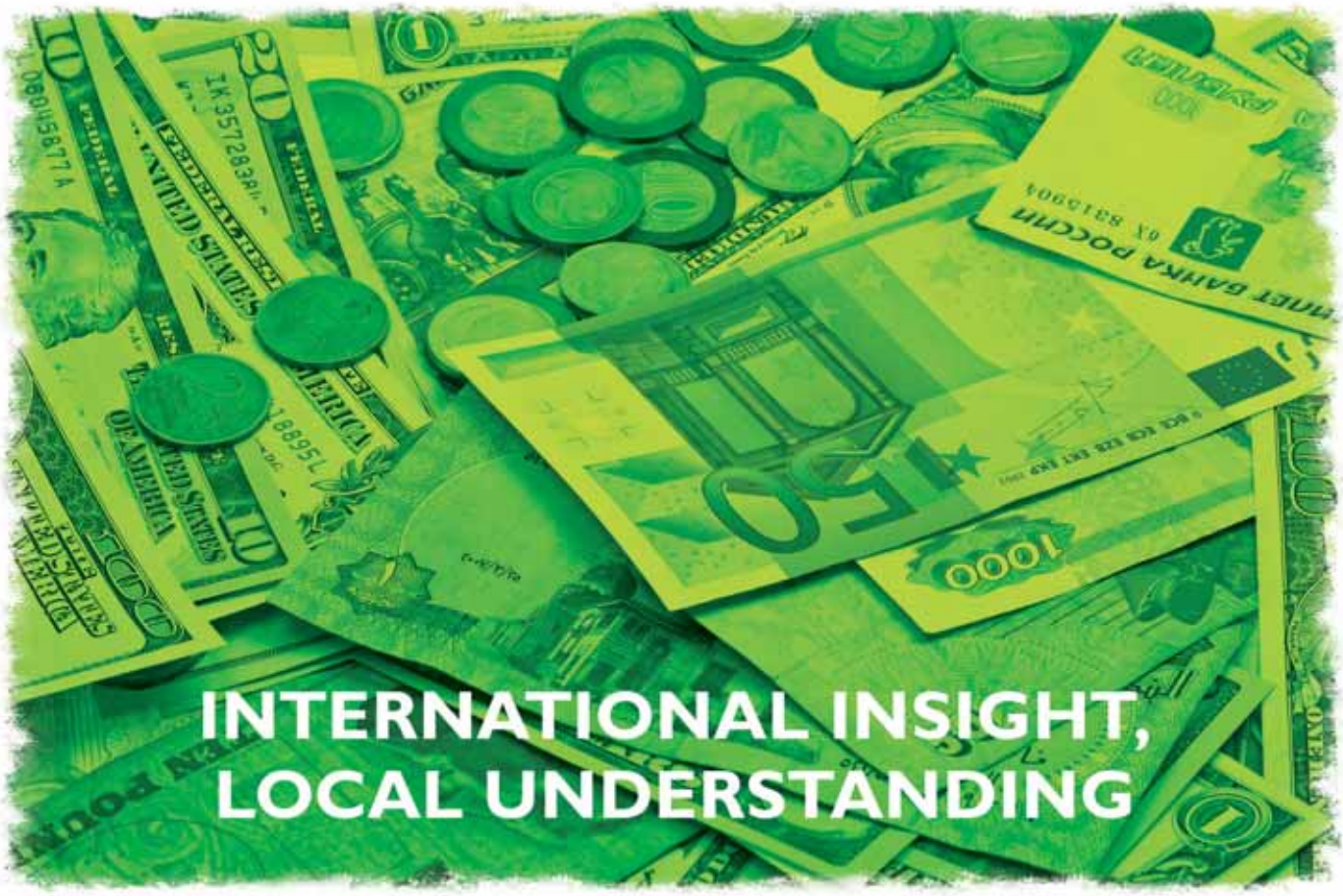

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