DOING GEORGIA RIGHT, EVEN ON A BUDGET

GEORGIA REACHING NEW EU MARKETS TWO YEARS AFTER EU TRADE DEAL

START-UP GEORGIA: GOVERNMENT FUNDING INNOVATION

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INVESTMENT NEWS

INVESTOR.GE PROVIDES A BRIEF UPDATE ON INVESTMENTS AND CHANGES IN GOVERNMENT POLICY THAT COULD IMPACT THE BUSINESS ENVIRONMENT. THE INFORMATION IN THIS ISSUE WAS TAKEN FROM AGENDA.GE, A GOVERNMENT-SUPPORTED WEBSITE, AND OTHER SOURCES.

"SIGNIFICANT" FREE-TRADE NEGOTIATION WITH CHINA CONCLUDES

Free-trade negotiations with China have concluded, and the two countries expect to sign a deal by the end of the year, according to the Prime Minister's official website, gov.ge.

"This year, we expected to export around 2.5 million bottles of wine to the Chinese market and according to the data gathered during the first eight months [of this year], already 3.5 million bottles of wine have been sold," Prime Minister Giorgi Kvirikashvili said.

ZUGDIDI TECHNOLOGY PARK OPENS

Georgia's Economy Minister Dimitry Kumsishvili opened a new technology park in Georgia's western city of Zugdidi on October 3, agenda.ge reported.

GEORGIA RANKS 5TH FOR ECONOMIC FREEDOM

Georgia ranks 5th in terms of economic freedom, according to the international think tank Fraser Institute's 2016 data, gov.ge has reported.

Georgia follows Hong Kong, Singapore, New Zealand and Switzerland.

THE FIRST WIND FARM CONSTRUCTION ENDS

Construction of the first wind power farm in the Caucasus is complete, the Energy Development Fund of Georgia announced.

The plant, which consists of six turbines—each with a power output of 3.45 MW—is located near Gori.

The wind farm cost $24,000,000 and was financed by the European Bank for Reconstruction and Development (EBRD), the Georgian Energy Development Fund and the Georgian Oil and Gas Corporation.

$2.5 INVESTED IN ANAKLIA PORT CONSTRUCTION

The Georgian government and Anaklia Development Consortium signed an investment agreement on October 3 to start construction on the Anaklia deep water port. The construction will be handled by the Dutch company Van Oord, and is scheduled to start in spring 2017.

RULING PARTY WINS MAJORITY IN PARLIAMENT

The ruling Georgian Dream party has secured the majority of the 77 parliament seats open to party list candidates, according to the official vote as of October 10. Run-off elections, scheduled for 51 out of 73 single mandate seats, could give the ruling party a constitutional majority, according to Civil.ge website.

The opposition United National Movement is in second place.

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MCA Grants, Business Community to Spend Over $19 Million on Vocational Education

THE INDUSTRY-LED SKILLS AND WORKFORCE DEVELOPMENT PROJECT OF THE MILLENNIUM CHALLENGE ACCOUNT – GEORGIA (MCA-GEORGIA) HAS AWARDED GRANTS TO TEN BUSINESSES AND SCHOOLS FOR NEW VOCATIONAL EDUCATION COURSES.

Ten programs to educate a new generation of workers across Georgia have been awarded grants by the Industry-led Skills and Workforce Development Project (ISWD) of the Millennium Challenge Account – Georgia (MCA-Georgia).

"One of the major challenges facing Georgian today is the level of technical and vocational training. We know there are talented young people looking for good jobs, but we also hear from Georgian and international businesses that they cannot find qualified people to fill skilled jobs," noted Nancy Lee, Deputy Chief Executive Officer, Millennium Challenge Corporation.

"To close that gap, MCC is supporting the Georgian Government's efforts to transform the technical and vocational education system here into one that produces a highly competitive and qualified workforce that meets the needs of businesses in Georgia."

Grants worth a total of $12 million from MCA-Georgia will finance education in maritime, engineering, tourism, information technologies, aviation and agriculture at the following schools: Georgian Technical University; Batumi State Maritime Academy; Georgian Aviation University; Georgian Institute of Public Affairs; Georgian Mountain Guide Association; Agriculture University of Georgia; Vocational College Phazisi; Railway Transport College; Community College Spektri; and Vocational College Tetnuldi.

The winning programs have also pledged to invest an additional $7.6 million in their educational programs.

"On top of MCC's own commitment, the private companies are investing a combined $7 million, a full 40 percent of the combined total budget for this activity to provide Georgians with the skills they need to compete," Lee said.

"This significant private sector co-contribution is a prime example of a market-oriented focus to education. And thanks to their commitments, we have a real opportunity to keep skilled labor and jobs in Georgia."

WORKING WITH BUSINESSES TO EDUCATE NEW EMPLOYEES

The most innovative part of the program is that all grantees will work closely with businesses "from start to finish to ensure their programs meet industry's needs," Lee said.

"These grantees and their partners will be working in key growth sectors such as tourism, agriculture, infrastructure, aviation and construction and they will bring new approaches to job training in Georgia," she said.

"In total, our grantees will establish 27 new programs and bring 19 other programs up to international standards. Industries like tourism, transport and energy will be developing occupational standards that will set clear expectations for employers and educators."

The participating of industry partners mean that vocational students will have "unique opportunities for work-based training that will give them critical, hands-on experience even before they launch into their new careers," Lee said.

Grantees including Vocational College Tetnuldi, Georgian Mountain Guide Associations, and Community College Spektri will develop and roll out their curriculum in partnership with internationally recognized firms like Cisco, the Swiss Mountain Guide Association and globally-recognized education company Pearson.

In addition, industry partners like BP and Georgian Railways are "actively engaged in shaping these triple win programs – a win for the students, a win for the companies that benefit from a better trained labor force and a win for Georgian economy," Lee said.

FOCUS ON STEM, AGRICULTURE AND TOURISM

The ISWD program is funded under the second $140 million Compact between the Millennium Challenge Corporation (MCC) and the Government of Georgia.

The program is an important part of ISWD's work to develop and improve vocational education in Georgia, according to Magda Magradze, Chief Executive Officer, Millennium Challenge Account – Georgia.

"Program Improvement Competitive Grants (PICG) was officially launched in June 2015 with the aim to fund innovative, industry-driven proposals for establishing new or expanding and improving existing technical vocational education and training (TVET) programs that are aligned with industry demands, meet labour market needs and incorporate modern work practices, particularly in higher-level Science, Technology, ▸▸

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Engineering and Math (STEM) areas, Agriculture and Tourism," Magradze explained.

She noted that out of the 70 initial concept papers, ten were selected following "a rigorous three-level evaluation and selection stage and due diligence process."

The applications were also evaluated by the independent Technical Evaluation Panel and international experts.

One of the winners of PICG grants scheme is Georgian Transport College, established by JSC Georgian Railway, Georgian Technical University and Ministry of Education and Science of Georgia. Georgian Railway is financially contributing to the project.

"We conducted a labor market survey prior to applying for the grant. The research demonstrated that there is no institution in Georgia that is providing high-quality vocational education in railway sector. Only Georgian Technical University is offering the course, but it is not a vocational education provider institution," Akaki Saghirashvili said. He noted that currently the demand for employees at the railway is four times higher than the number of qualified cadre.

Georgian Mountain Guide Association is another grant recipient.

"Together with our partners, we have established a public private partnership, the Adventure Tourism School, which will train adventure tourism and related high-risk profession specialists. We will provide labor market with international quality specialists in the following areas: Alpine Guide, Ski Guide, Mountain Guide and Ski-Teachers," noted David Rakhviashvili, President of Georgian Mountain Guide Association.

BP, together with the partnership of Georgian Technical University, also received a grant from MCC, which it will use to develop a Georgian Technical Training Center, according to Tamila Chantladze, the communications manager at BP. "This will be a special center which will train technical workforce, not only for our company but for everyone who is in need of high-quality workforce, particularly in technical areas," she said.

"We strongly believe that high-skilled workforce will undoubtedly contribute to the Georgian economy."

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Georgia Reaching New EU Markets Two Years After EU Trade Deal

THE GEORGIAN BUSINESS COMMUNITY AND GOVERNMENT ARE CELEBRATING MODEST ACHIEVEMENTS TWO YEARS INTO THE COUNTRY'S DEEP AND COMPREHENSIVE FREE TRADE AREA (DCFTA) DEAL WITH THE EU. THERE ARE, HOWEVER, HIGH EXPECTATIONS OF BIGGER, MORE TANGIBLE BENEFITS IN THE LONG TERM.

MAIA EDILASHVILI

THE START OF A LONG TRIP

The past two years have been a starting point for a long trip, said Mariam Gabunia, Head of Department for Foreign Trade and International Economic Relations at the Ministry of Economy and Sustainable Development.

Over the past 24 months, Georgian products have been the most successful in Eastern European markets, she said. In 2015, for example, Georgian exports to Poland grew by 184 percent.

Georgian companies are also finding their niche farther west. For example, there has been a 13 percent increase in Georgian exports to Ireland.

Georgia signed its Association Agreement with the European Union, which included the DCFTA, in June 2014. Put into force on September 1 of the same year, the DCFTA became the foundation for a long-term reform agenda for the government.

The trade deal creates opportunities for various economic benefits, including easier access to the EU's 500-million-consumer single market—the largest in the world—and zero customs duties for 9,600 varieties of products.

In pure numbers, the share of Georgian exports heading to EU countries increased by four percent in 2015, even as overall foreign trade declined, according to official figures. The main exports driving the growth were a four percent increase in walnut exports, a 40 percent increase in the export of vegetables and canned fruit, and a 104 percent increase in the export of nitrogen fertilizers.

In addition to higher volumes of exports to Poland and Ireland, Georgia also increased its exports to the Netherlands by 35 percent, to Germany by 10 percent, and to Lithuania and Romania by 5 percent each.

The increases do not indicate any major new markets for Georgian products, as most of the Georgian products which are relevant to the EU market were already covered by the EU General System of Preferences (GSP+), noted Mariam Zaldastanishvili, Research Associate at the ISET Policy Institute, which is part of the International School of Economics at Tbilisi State University.

"Increasing capacities in new niche products, such as wine, will require time. However, Georgia's trade with the EU is still developing and there is potential for further expansion," Zaldastanishvili told *Investor.ge*.

NEW VARIETIES TO MAKE WAY TO THE EU'S SUPERMARKET SHELVES

The GSP+ program, which went into force in 2005, means that there is no tariff—or there is a reduced tariff—on 7,200 types of Georgian products. The DCFTA has expanded the list and simplified the import of products of animal origin.

However, due to the EU's advanced food safety system and agricultural

practices, Georgia cannot meet the requirements quickly and the agriculture sector requires constant reforms.

The Georgian government says the reforms are being implemented over a 13-year period so that new regulations will be introduced stage by stage, and will not be a heavy burden for producers.

"We are working hard to allow new varieties on the EU markets," Gabunia told *Investor.ge*. "For example, I see it as a success that after prioritizing honey and fish, these two products now have a chance to go there." Georgian honey will enter Europe "very soon," once some formal procedures are finalized, she said.

There are big hopes that Georgia will have similar result for fish, as all obligations have been fulfilled, she said, adding "Now we are expecting a mission to come and check the situation in the fish industry."

Over the past 24 months, Georgian products have been the most successful in Eastern European markets, she said. In 2015, for example, Georgian exports to Poland grew by 184%.

Putkara LLC, which unites up to 2,000 honey producers in Georgia and claims to be the largest honey exporter in the country, is focused primarily on Asian markets, since quality requirements there are less strict, according to the company's director, Gocha Tetruashvili.

"However, if we get a chance to sell [honey] in EU countries as well, that would be great," he told *Investor.ge*. At the same time, he thinks it will take two to three more years for Georgian honey exporters to be ready for Europe.

"Europe has a high demand for high-quality honey, and so far we cannot meet that," Tetruashvili said, explaining that many farmers use certain pesticides for their orchards and crops that are prohibited in Europe in honey production.

In the Soviet times, he recalled, beekeepers used to get notifications when such chemicals were used by farmers ▸▸

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so that their bees would be kept inside during those days. Now that these regulations are no longer in place, Tetruashvili is relying on farmers becoming better informed about this problem and hoping that they will eventually change their practices.

Another concern, he said, is that "chestnut, acacia and other trees—from which bees get nectar—are being cut down in recent times in big quantities."

Under the DCFTA, Georgia approved a plan in 2015 to monitor the use of antibiotics, as well as other veterinary drugs and various polluters in the beekeeping field.

A special laboratory for checking honey quality was opened.

When a Latvia-based laboratory checked Georgian honey in 2013, they found violations in 27 percent of the samples; by 2015, that had decreased to 19 percent.

For Tetruashvili, Georgia's inability to provide a large and stable supply is another challenge. "Germany, for example, asks for 20 tons of honey monthly, which is impossible for us to provide," he said.

Georgia produces approximately 4,000 tons of honey annually, and mainly exports it to the United Arab Emirates, Saudi Arabia, Iraq, Lebanon, China and South Korea.

Last year, 5.4 tons of honey, worth $54,000, was exported. Under the DCFTA, Georgia can export up to 1,500 tons of honey annually to EU countries.

One solution for increasing Georgia's honey supply is to create cooperatives and to expand bee farms. The Ministry of Agriculture is helping in this process, Tetruashvili noted.

MORE EU CUSTOMERS BUYING GEORGIAN WINE

GSP+ did not cover a number of products, including a very important export item for Georgia—wine—so there is the expectation that the DCFTA deal will help wine sales to the EU.

During the first five months of 2016, Georgia exported more than 15 million bottles of wine—an increase of 44 percent compared with a similar period in 2015, according to National Wine of Georgia, which is part of the Ministry of Agriculture.

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The increased volume of exports included higher numbers to traditional markets, China, and EU countries. For example, wine exports to Great Britain increased by 79 percent, sales to Lithuania increased by 46 percent, and there was a 31 percent increase in wine exports to Germany.

In pure numbers, the share of Georgian exports heading to EU countries increased by four percent in 2015, even as overall foreign trade declined, according to official figures.

Poland has been one of the top five markets for Georgian wine exports this year.

The country bought 30 percent more bottles in the first five months of the year—835,800 bottles—than in the same period last year.

Giorgi Piradashvili, founder of the wine company Winiveria, told *Investor.ge* that exporting to the EU has become easier.

However, he added that he does not expect any quick, drastic changes. "We have to grow up, gain more experience and [growth] will come," he believes.

Half of Winiverisa's production is exported. In addition to Russia, Ukraine, China and other destinations, the company exports wine to a number of the EU countries, including Italy, Spain, France, the Baltic countries, and—this year—Great Britain. Last year, the company's sales came to 1,400,000 lari (approximately $607,000).

DCFTA FACILITY IN SUPPORT OF LOCAL SMES

Experts believe that more should be done to educate Georgian producers—especially small- and medium-sized enterprises—about the DCFTA requirements, and the timetable for when which rules need to be implemented.

"For example, there has been a lack of communication regarding the requirements for small- and medium-sized enterprises, and as a result, some agricultural producers and food processors are likely to incur significant compliance-related costs," Zaldastanishvili said, adding that even if properly communicated, there is a chance that small- and medium-sized enterprises and smallholders will not be able to fully comply with DCFTA measures.

"Exempting certain sectors from EU regulations might be a way to go. However, this may harm larger producers operating in the same sectors," Zaldastanishvili said. "The government should consider these sector-specific trade-offs before proceeding with the implementation of the requirements," she suggested.

Experts believe that more should be done to educate Georgian producers—especially small- and medium-sized enterprises—about the DCFTA requirements, and the timetable for when which rules need to be implemented.

One additional benefit from the DCFTA has been the creation of the DCFTA Facility for SMEs, under the management of the EU and the European Bank for Reconstruction and Development (EBRD). This regional initiative is aimed at mobilizing a 150 million euro grant to unlock around 1.5 billion euros in investments in the small- and medium-sized business sectors in Georgia, Moldova and Ukraine.

The initiative allows SMEs access to financing, including direct lending or loans through local partner banks.

Also, it provides the necessary know-how for entrepreneurs to increase the quality and standards of their product and services, expand their businesses and gain access to new markets.

The first project under this facility, for example, allowed the EBRD, along with TBC Bank, to provide a 1.9 million euro loan to Georgia's local broadcast operator Stereo+ Ltd, to support the switch from analog to digital broadcasting through a risk-sharing facility.

The EBRD and EU introduced small- and medium-sized enterprises in Georgia to the new facility implemented by the Bank of Georgia through credit lines on September 21. This project supports the modernization of local SMEs in accordance with AA/DCFTA requirements.

The EU, according to the EBRD's regional office in Tbilisi, will provide interested SMEs with investment incentives of up to 15 percent, as well as free advisory services from international experts.

The loans will be in local currency, and they will have a maturity of up to five years, with a two-year grace period.

The package also includes support for investment in new technologies and equipment. Other local banks will join the facility soon, the EBRD has announced.

TBC BANK CONSOLIDATES POSITION IN LONDON, AT HOME

IN SEPTEMBER, TBC BANK UPGRADED TO THE PREMIUM SEGMENT ON THE LONDON STOCK EXCHANGE AND ANNOUNCED ITS PLANS TO BUY OUT BANK REPUBLIC.

SALLY WHITE

The City of London is bemused—how can a tiny country like Georgia support three companies large enough to be quoted on its premier stock market?! Yet it is, with TBC Bank joining the ranks of Bank of Georgia and Georgia Healthcare to have its shares listed there. Startled it may have been, but the City welcomed TBC's debut on August 10 by rapidly moving up its share price, taking it from the debut 1,105p to 1,270p in about one and a half months.

TBC is, of course, no stranger to the City, as it has had a presence on the London market for two years, although on the international section, not the main market. An indication of how much the City liked TBC's move was its lack of concern when, a few weeks later, the bank showed it was going to waste no time in using its acquired status, issuing its new shares to help pay for a major deal. Rather than see this as diluting future earnings per share—a key investment metric—it welcomed the news as adding to TBC's earnings potential, as transformational and by easing share dealing.

BULLISH RESPONSE TO NEW DEAL

There was good reason for the en-

thusiasm. TBC is using its new shares to help enact its growth strategy. It announced a deal with Societe General (SocGen) to acquire its 93.4 percent stake in its Georgian subsidiary, Bank Republic (and, added for good measure, the purchase of tiny Progress Bank assets and liabilities). TBC is reportedly paying around GEL 315 million for Bank Republic, 70 percent in cash and 30 percent in newly issued shares.

Scheduled to be complete by the end of the year, the acquisition will make TBC Georgia's largest bank in terms of loans (increasing these by 7.3 percent, to 33.7 percent) and deposits (raising them by 5.3 percent to 34.5 percent).

International investment bank analysts—including UBS, the Swiss-based global finance group; U.S. multinational investment group Citi; the investment arms of Russia's Sberbank and VTB Capital; and London broker Peel Hunt—have been bullish about the deal.

STRONG SECOND-QUARTER RESULTS

Finally, TBC has established a good record, having delivered a 21 percent return on capital last year. 2016's expectation-beating second-quarter financial results, announced a few weeks before the Bank Republic deal, made the mood even more upbeat.

TBC's main shareholders have continued to support the bank, including London's major investment group Schroders (6 percent) and Sweden-based investment boutique Dunross (6 percent). At the moment, the majority of the shares are still held by the founders, associates and management (32.8 percent) and international financial institutions: European Bank for Reconstruction and Development (12.3 percent), the World Bank's investment arm, the International Finance Corporation, (6.2 percent).

TELLING ITS STORY TO THE WORLD'S CAPITAL MARKETS

However, new shareholdings are also expected with the closing of the deal for Bank Republic and as TBC tells its story to the world's capital markets. It has embarked on a series of road shows. The international institutions are likely to reduce their stakes, making still more available.

So far, the story has gone down well. Comment from London, New York and other financial centers highlights the business opportunities arising from Georgia's auspicious economic background. Cyclical improvement is coming from tourism growth and stable remittances, boosted by tax cuts, lower interest rates and improving outlooks in trade partners Russia and Turkey. Peel Hunt likes Georgia's stable currency and low inflation rate.

All seem to take for granted benefits flowing from Georgia's increasing links to Europe. None see any prospect of TBC following Bank of Georgia to diversify into non-banking areas.

Opportunities for new banking business, particularly retail rather than corporate, where bank penetration is much higher, are seen as substantial. There is currently relatively low use of financial services among Georgian consumers, says Keefe, Bruyette & Woods (KBW), seeing scope for 20 percent retail credit growth, giving 15 percent loan growth overall.

"There is upside to retail banking growth if banks' initiatives to develop the credit card market toward payment system vs. current 'loan product' succeed", it comments. Adding that a Turkey read-across "suggests 2.5-11 percent upside in bank profits."

A FEW CAUTIONS

Of course, the analysts do have a few cautions, which include geopolitical risks, foreign capital flows and high dollarization in the banking system, though the latter is easing a little. Caution within Georgia itself tends to center on whether fees will rise as this consolidation reduces competition. As it is, Georgian banks have the highest net interest margins of EMEA (Europe, the Middle East and Africa) banks, according to KBW. KBW assumes no cuts, but sees fee income increases coming from TBC's rising share of a growing market and wider credit card use.

Are there more M&As in the pipeline? Announcing the acquisition TBC's CEO, Vakhtang Butskhrikidze, described it as "a major step forward in TBC's ambition to build the leading banking group in Georgia and the broader Caucasus region." However, at this stage anyway, it seems that this does not mean steps outside of Georgia.

For now, TBC sees plenty of scope at home focusing "on the mortgage and consumer-lending segments, complemented by an attractive product offering for large multinationals operating in Georgia." KBW points out that the development of local syndicated loan and capital markets is still to come, as the country intends to become a hub in financial services for the whole region.

Now the City is waiting for Georgia's next listing. Not another bank, but it could hardly be lost on the brokers, bankers and fund managers attending London's May Georgia Investor Day , organized by London multinational finance group Barclays, that the speakers had come to London with a purpose. Among them, Georgian Oil & Gas Corporation and Georgian Railways have already issued corporate bonds in London. Other speakers were from Silknet, Silk Road, and Wissol — a good menu of the Georgian economy.

Georgia's External Debt: An Analysis

ECONOMIST ALEQSANDRE BLUASHVILI MAPS OUT GEORGIA'S EXTERNAL DEBT, INCLUDING THE HIGHER RISK SHORT TERM LIABILITIES (19 PERCENT OF THE TOTAL EXTERNAL DEBT) AND THE ROLE OF DOLLARIZATION.

EXTERNAL DEBT OF GEORGIA: A BIG PICTURE

Georgia's external debt is currently $14.6 billion, $430 million less compared to the end of 2015.

As of the first quarter in 2016, the larger borrowers were the government (31 percent of the total external debt of $4.5 billion), followed by private companies ($3.1 billion, or 21.5 percent of total debt) and commercial banks ($3 bn or 20.5 percent of total debt).

External debt (even if high) is not necessarily a bad thing: access to foreign funds allows firms and the government to expand production or invest in infrastructure, which increases the productive capacity of the economy as a whole.

A simple cost-benefit analysis can be used to determine if additional borrowing can be justified: if projects financed by external borrowing will yield rewards worth more than the interest to be repaid in the future, the debt is viewed as sustainable over the longer term.

That means foreign borrowing goes into the productive sectors that will be able to generate enough exports of goods/services or substitute imports to reduce the current account deficit of Georgia and allow repayment of external debt in the future.

For countries like Georgia, several additional risk factors should also be taken into account. As Georgia cannot borrow in its own currency (with some exceptions), there is an exchange rate risk that comes with the external funds. During periods of lari depreciation, there may be questions regarding the solvency of private companies or government.

That makes intercompany lending in the form of FDI the least problematic part ▸▸

Table 2. Distribution of foreign debt by types of spending (share in total foreign borrowing)

Source: MOF

	2012	2013	2014	2015
Road infrastructure	31.9%	43.6%	29.5%	25.2%
Budget Support	**13.6%**	**18.2%**	**49.7%**	**44.4%**
Energy	23.5%	16.7%	5.6%	8.2%
Municipal infrastructure	**23.9%**	**17.0%**	**13.7%**	**19.0%**
Other	7.0%	4.5%	1.4%	3.2%

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of Georgia's external debt portfolio. With this kind of borrowing, the country pays dividends instead of some predefined repayments, which removes the risk of defaulting on foreign debt. This type of borrowing makes up around 16 percent of Georgia's total external debt.

SHORT TERM LIABILITIES = HIGHER RISK

The term structure for external debt is another important factor in the sustainability of foreign debt.

For instance, short-term liabilities are a high-risk form of external debt. A large share of short-term liabilities - debt with a contractual maturity of less than one year - in total external debt indicates that domestic borrowers rely heavily on "hot money" inflows to finance the investments/operations.

This type of foreign financing usually dries up fastest in times of economic crises, and during such crises it becomes harder for domestic borrowers to roll over short-term liabilities, which may eventually lead to series of defaults.

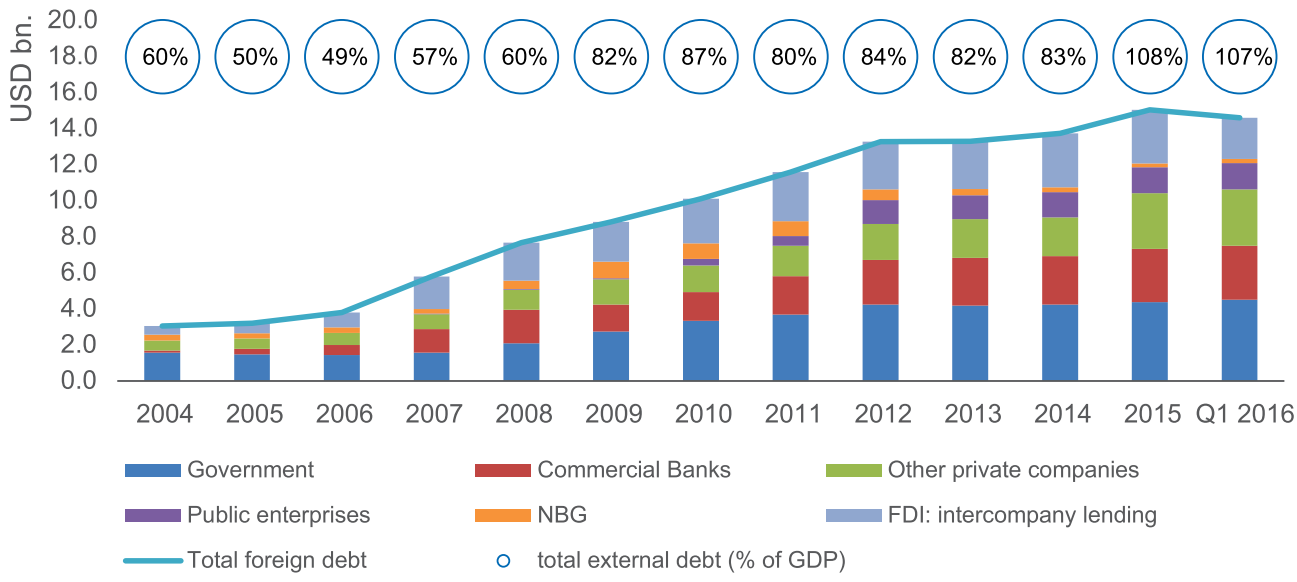
In 2015, short term liabilities were around 19 percent of Georgia's total external debt or around $2 billion in absolute terms. A closer look at debt numbers show that short term public external debt is only two percent of the total, while private companies (26 percent) and commercial banks (47 percent) have a relatively large share of short-term external liabilities in total external borrowings. It should be mentioned that a high share of short-term external debt of commercial banks is driven by non-resident deposits, which are classified as short-term regardless the actual maturity dates of the deposits.

ROLE OF LARI DEPRECIATION IN PUBLIC DEBT

As of the first quarter of 2016, the public debt to GDP ratio of Georgia stood at 40.9 percent, 2 percentage points higher than the previous year. Despite being still well below the 60 percent threshold defined in the "Economic Liberty Act of Georgia", lari depreciation against the dollar in 2015 resulted in a sharp jump of foreign public debt levels (from 26.6 percent in 2014 to 32.4 percent in 2015). The depreciation of the lari also increased interest rate expenditures for the state budget, from 3.2 percent of current expenditures in 2014 to 4 percent in 2015 and 4.7 percent in H1 2016.

"Despite the increase of the public debt to GDP ratio compared to 2014, this indicator is projected to decline over 2016 to 2019, according to Basic Data and Directions (BDD), which will positively influence the sustainability of the public debt," said Ioseb Skhirtladze, the head of external debt management division at the Ministry of Finance, in an e-mail interview with *Investor.ge*. "As of August 2016, the external public debt to

External Debt of Georgia and breakdown of debt by different sectors
Source: NBG



GDP ratio went down to 29.8 percent," he added.

Around 65 percent of the foreign public debt of Georgia is on concessional terms from multilateral organizations, which keeps the weighted average interest rate of external debt portfolio of the government below 2 percent, which means servicing this debt is less problematic for the Georgian state budget. "We expect access to concessional funding to continue over the medium term; over the longer run, interest rates on foreign borrowing will be subject to the macroeconomic indicators of the country," Skhirtladze said.

Concessional loan agreements with the World Bank, the Asian Development Bank, the Japan International Cooperation Agency, and others enable Georgia to invests in infrastructure and number of regional development projects. Without the support of these organizations, the government would have not been able to finance large scale construction projects (construction of the East-West Highway, for example), which are crucial to increase the long-term economic growth in the country.

The Georgian government receives two types of external funding: targeted funding, which is linked to particular projects and the disbursement of foreign funds depend on how successfully government implements those projects; and budget support funds, which are conditional only on general macroeconomic indicators and the government is free to decide where these funds are directed. The share of budget support funds in total external borrowing jumped up sharply in 2014, while share of external financing targeted for various infrastructure projects declined. This trend might create the risk that foreign borrowing is used to finance current spending, like paying wages of public servants, which usually does not have long term benefits for the country and raises questions regarding the sustainability of the external debt.

"Budget revenues exceeded current spending by more than 1bn lari in 2015, consequently budget support loans were also directed for different investment and infrastructural projects," explained Eka Guntsadze, the head of budget planning division at MOF in an e-mail interview with *Investor.ge*. "Budget support loans are used just as efficiently as targeted funding, which implies that a higher share of borrowing for budget support should not create any doubts on the sustainability of the external debt of the country."

Aleqsandre Bluashvili currently works as a macroeconomist at TBC bank, Georgia, covering macro environment that bank has to operate in. Previously Aleqsandre worked in the National Bank of Georgia, monetary policy division. He holds master's degree in economics from the International School of Economics (ISET) at Tbilisi State University.

DOLLARIZATION AND EXTERNAL DEBT

In the context of analyzing external debt levels and the sustainability of foreign debt of the country, it is important to look at the general health of the economy. Advanced economies usually have higher debt/GDP ratios compared to developing countries, and there are fewer questions regarding the sustainability of the foreign debt of economies like the USA or Japan as opposed to the foreign debt of emerging economies.

Emerging economies are usually seen as higher risk, due to the structural weaknesses that exist in these countries' economies. A high share of dollar loans and deposits in the total loan and deposit portfolio of commercial banks in Georgia is one of the factors that adds to the riskiness of the country. This, in turn, influences the interest rates that Georgian companies pay for their external debt. All things being equal, low dollarization would imply an economy that is more resilient to exchange-rate shocks and, consequently, fewer concerns regarding the sustainability of foreign debt in periods of domestic or external economic distress.

65 percent of loans issued by commercial banks were in dollars, as of August 1 of this year. Only 41 percent were short-term loans, which are mostly intended for consumer purchases, while the rest of the loan portfolio is 70 percent dollarized.

Looking at historical trends, the dollarization of the domestic financial sector has been steadily decreasing, from above 80 percent before 2005 to around 65 percent in 2016. This trend is mostly driven by broad macroeconomic stability and lower inflation, which has helped restore the public's trust in the lari, and allows banks to extend lending in the national currency.

In addition to broader policies aimed at promoting the country's overall economic stability, the National Bank of Georgia also incentivizes lari saving and lending through a variety of measures. Their most recent step was to increase the reserve requirements for dollar funding in commercial banks from 15 percent to 20 percent.

The pension reform planned for next year is also a step forward in this regard, as it will create long-term resources in the national currency that will allow banks to offer long-term lari loans at lower interest rates.

Overall, the experience of different countries shows that the de-dollarization of the financial sector is a long-term process and can only be achieved by maintaining low inflation, a prudent fiscal position and transparent institutions over an extended period of time.

NEW CHANGES SHAKE UP ACCOUNTING PROFESSION IN GEORGIA

ANDREW COXSHALL, KPMG

From June 2016 onward, a new law closely approximating EU legislation requirements is highly regulating the accounting and auditing profession in Georgia. Considering that before the new Law on Accounting, Reporting and Auditing came into effect, Georgia had one of the least regulated accounting/auditing professions in the world, this is a huge change. These changes are partly a result of Georgia signing the Association Agreement with the EU and partly a result of the World Bank project to improve the financial reporting, accounting and auditing environment in Georgia.

"All very interesting," I hear you say, "But why is this of interest to me as a business owner/CEO?" Well, one other aspect of the new law is that it introduces sweeping changes for the preparation, auditing and filing of the financial statements of all companies in Georgia.

KEY CHANGES:

For the year ending 31 December 2017, all Medium and Large Entities (see the table below for their definitions), along with what are known as Public Interest Entities (PIEs) will need to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) or IFRS for SMEs.

These financial statements must be audited (in accordance with International Auditing Standards).

In addition, these financial statements will need to be filed and published on a website.

The last point will be of concern to many businesses, as this website will be open to the public, and hence, anyone will be able to access the information, see what profit a company made and also see the financial position of that business.

For Small and Very Small Entities, there are less onerous requirements that come into effect for the year ending 31 December 2018. The table below summarizes the new requirements, and the notes following explain some of the specific nuances.

THE CHALLENGE FOR BUSINESSES

For many medium-sized businesses the big challenge will be to prepare their financial statements in accordance with

Size of entity	Basis of accounting	Total value of assets GEL	Revenue GEL	Average number of staff	File accounts by 1 October	Audit	Management Report**	Effective from 31/12
Very small	Special rules	< 1m	< 2m	<10	✓	*	-	2018
Small	IFRS/IFRS for SME	>1m <10m	> 2m < 20m	>10 <50	✓	*	-	2018
Medium	IFRS/IFRS for SME	>10m <50m	>20m <100m	>50 <250	✓	✓	A	2017
Large	IFRS	>50m	>100m	>250	✓	✓	A	2017
PIE	IFRS	N/A	N/A	N/A	✓	✓	A, B, C	2017

Entities are categorized as very small, small, medium or large based on whether they fulfill two out of the three criteria above. So if a company has assets of GEL 30 million, revenue of GEL 5 million and 200 employees, then this entity would be classified as Mediumbecause it meets two of the three criteria.

***exempt unless covered by other legislation**

**** Management report- effective from 1 January 2018**

A – Review of entity's activities

B – Corporate Governance Statement - only needed if shares are listed on the stock exchange

C – Non-financial report - only needed for those PIEs which meet the Large criteria and have more than 500 employees.

PIEs – these are basically the following: Companies that are listed on the stock exchange; banks, insurance companies, micro-finance organizations and credit unions; non-state pension schemes; investment funds; and other entities defined as PIE by the Government.

Obviously, many of the above businesses already prepare IFRS financial statements and have them audited, but some do not (particularly those listed on the stock exchange and Investment Funds).

IFRS or IFRS for SMEs. The full text of the current version of IFRS runs to several thousand pages and can be very complex and difficult to implement for the first time. The average set of IFRS financial statements for a normal company in Georgia runs to about 40 pages (most of which are taken up with detailed note disclosures). IFRS for SMEs is essentially a slimmed-down version of IFRS. However, their use in Georgia is almost non-existent, as most businesses that currently have an audit do so because they are obliged to (e.g. banks and insurance companies) or because lenders or investors demand audited financial statements, and the former mandate IFRS, and the latter want to see the full version of IFRS being used.

TIME TO GET READY?

31 December 2017 may seem like a long way off, but to transition properly to IFRS, businesses will need to start the process now. A "full set" of IFRS financial statements are required to be prepared and audited for the year ending 31 December 2017.

A full set means the current year and the comparative (prior) year. Thus the figures for the year endimg 31 December 2016 (which will be comparative figures for the year ending 31 December 2017) will also need to be prepared in accordance with IFRS.

For companies that have previously not prepared their financial statements under IFRS, this means that they will need to comply with IFRS 1: First time adoption of IFRS. This could entail getting property, plant and equipment (PPE) valued to determine what is known as the deemed cost. Also, for auditors to be able to give a "clean" opinion on the 2017 financial statements, they will probably have to carry out procedures on the 2016 figures (especially if a company has a lot of PPE and/or inventory). So this means that many companies will need to start the process of preparing IFRS financial statements and getting them audited in 2016.

PART OF A BIGGER PLAN?

Although the process to approximate Georgia's auditing and accounting law with EU requirements started several years ago, the timing of this law now seems to be part of a bigger plan by the Government. The introduction of the Estonian Tax model (with effect from 1 January 2017) effectively does away with the annual corporate profit tax return and hence the need to keep "tax" books. Hence, the tax authorities will have less idea of the revenues and profits that companies are generating. However, if more businesses must have an audit this will give the tax authorities some comfort that the figures being reported in the monthly declarations are reasonable. Whether or not the tax authorities make use of these audit reports remains to be seen. In addition, under the new tax model, the moment of taxation is basically shifted from when profits are earned to when they are distributed (usually as dividends). Although the tax legislation is not clear, the implication is that the amount that could be distributed is based on the profit available for distribution in accordance with IFRS/IFRS for SMEs.

THE CHALLENGES FOR THE ACCOUNTING AND AUDITING PROFESSION

One of the issues that was raised by the accounting and auditing profession when the new law was being drafted was the lack of suitably qualified professional resources to either prepare or audit the financial statements as required under the new law. So simply finding enough competent people to prepare financial statements in accordance with IFRS/IFRS for SMEs could be a real challenge in the next few years.

Another major issue that caused concern during the drafting of the legislation amongst the biggest audit and accounting firms (known globally as "The Big Four") was the level of quality control the small audit and accounting firms exercised. The new law tackles this issue by setting up a proper registration, certification and quality-control process for all auditors. Although this part of the law will take several years to take full effect, the overall outcome is expected to be an increase in the general level of quality, since those firms that do not have the right systems and processes in place will not be permitted to carry out audits.

SHORT-TERM COSTS BUT LONGER-TERM BENEFITS

So, in the short term, companies will have to invest in getting their financial statements prepared and audited. Medium-term investments will be needed in systems, training and processes to ensure companies can prepare their financial statements in accordance with IFRS. However, larger companies should expect, or even demand, a decrease in the cost of borrowing, as lenders will have audited financial statements on which to rely when making their lending and pricing decisions. For other stakeholders, these changes should result in greater transparency, as more information, such as ownership (and ultimate beneficial ownership), profitability, tax paid, directors' remuneration, etc., becomes available to the public.

Overall, this is a lot of change to deal with in a short period of time, but change that should ultimately lead to improvements in audit quality, transparency, reliability of financial statements and lower borrowing costs.

Start-Up Georgia:
Government funding innovation

OVER 700 ENTREPRENEURS AND INVESTORS FROM AROUND THE COUNTRY - AND ABROAD - COMPETED FOR GOVERNMENT FINANCING AND THE CHANCE TO PRESENT THEIR IDEAS TO INVESTORS FROM SILICON VALLEY.

LIKA JORJOLIANI

From a new take on old-fashioned toys to inexpensive prosthetics, Georgian investors are pushing the envelope on science, art and innovation in a bid to win the support of Silicon Valley investors.

The "Georgian Ministry of Economy and Sustainable Development's Innovation and Technology Agency, together with the state-funded Partnership Fund, has launched a campaign to help aspiring entrepreneurs gain access to start-up capital and use it to finance new innovations, according to Irakli Kashibadze, the Head of the Innovation and Technology Agency.

The program received 11 million lari in financing from the Partnership Fund, plus an additional 24 million lari from the government, he said.

Over a six-week period this summer, 726 ideas were submitted, including 56 from Georgians residing abroad. A special commission, which included a panel made up of prominent IT companies from Silicon Valley, selected 50 finalists.

The group went through five days of training with experts from organizations and companies like MDI & Associates, NSI, Bay Area, FutureLab Consulting, and Next Generation Ventures. The finalists presented their projects to venture investors from Silicon Valley on August 24-26, and the top 20 were selected to continue to the next stage.

The 20 teams have each been paired up with a mentor, a foreign expert with experience who will help the team prepare to present their projects to investors in Silicon Valley.

Archil Sakuvarishvili, 21, a physics student, is one of the finalists. He heads a team of five students who created the Helping Hand project.

"The aim of the project is to create a high tech and inexpensive upper-extremity prosthesis. Our team is improving the project to pass to a new stage and present it to investors in Silicon Valley," he said.

"One upper-extremity prosthesis unit costs us $1,200. At the present time, there are several companies selling such prostheses on the Georgian market. They cost a minimum of $3,000. Some companies import the upper-extremity prosthesis made with the technologies used by our team, but we are the first in the South Caucasus to make them."

The team has received 100,000 lari from the startup fund to work on their project and Sakuvarishvili said they plan to manufacture a test model "in the near future."

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AMENDMENTS TO THE LAW OF GEORGIA ON CONFLICT OF INTERESTS AND CORRUPTION IN PUBLIC SERVICE

To the attention of all entrepreneurs at public service, we remind you that from 1 January 2017 onwards, new regulations come into effect. The amendments to the Law of Georgia on Conflict of Interests and Corruption in Public Service were introduced as early as 27 October 2015. However, it is from the beginning of 2017 that public servants will no longer be allowed to carry out entrepreneurial activities and may only hold stocks or shares in enterprises under the property assignment agreement – a Georgian analogy of trust. If pursuant to the former regulation, officials were precluded from holding any managerial position in any enterprise or own shares in the entities they controlled or supervised, now the limitations go even further - officials may no longer engage in any decision making in the company, not even on a shareholder level.

AMENDMENTS TO THE TAX CODE ARE UNDERWAY

On 23 June 2016 a bill of amendments to the Tax Code of Georgia was introduced to the Parliament. If at all adopted by the Parliament, the amendment will be effective from 1 January 2017 and allow the entities to pay out the utility charges, salaries, lease payments and other expenditures essential for company's uninterrupted operation from an arrested bank account. Amendments further concern the simplified rule of writing off the inventory destroyed or lost due to force majeure event as well as VAT exemption of residents and nonresidents providing carriage/container car services inside/outside the Georgian borders.

IMPORTANT COURT INTERPRETATION OF DOCUMENT PRODUCTION DURING TAX INSPECTION

Recently published decision of the Tbilisi Court of Appeals dated 11 May 2016 sheds some lights on the right of the Revenue Service to obtain documents from the taxpayer during the tax inspection. The court highlighted that accounting documents must be made available to the Revenue Service even if the taxpayer has a non-disclosure arrangement over such documents or the information includes confidential data. Revenue Service carries the duty to keep such information confidential.

IMPORTANT APPELLATE COURT INTERPRETATION REGARDING THE ELECTRONIC AUCTION

On 3 August 2016, Tbilisi Court of Appeals published a landmark decision regarding the offer made by the private individual in electronic auction. The court established that putting up the property for sale in the electronic auction constitutes merely an invitation to treat and, as such, does not bind the seller to sell the property to the winner of the auction. In such setting, the winner's proposal to buy counts as an offer, pending seller's acceptance.

ICC STANDARD ARBITRATION CLAUSE MAY NO LONGER REPRESENT A BINDING AGREEMENT TO ARBITRATE

As recently brought to the attention of practicing lawyers and scholars, the decision of Batumi City Court of 25 November 2015 questions the binding nature of ICC standard arbitration clause under the laws of Georgia. The court examined the validity of the standard ICC arbitration clause under the Arbitration Law of Georgia and the Civil Procedures Code of Georgia and concluded that an agreement to arbitrate under the rules of a particular arbitration institution, without naming the institution itself, does not constitute a valid agreement to arbitrate. Arguable enough, the decision undermines the validity of not only the ICC model arbitration clause but also those of the other famous arbitration institutions such as LCIA, SCC or VIAC where no reference is made to the actual institute administering the case but rather to the arbitration rules thereof.

NEW APPROACH OF THE SUPREME COURT ON THE STATUTE OF LIMITATION IN LABOUR DISPUTES

On 29 June 2016, the Supreme Court of Georgia delivered an important judgment regarding the term for challenging a dismissal by an employee. The Court clarified that if the employer fails to provide reasoning for dismissal to the employee in writing within 7 days at the employee's request or otherwise, the statute of limitation of any claim of the employee regarding the lawfulness of the dismissal shall be extended from 30 days to 3 years. We highly recommend to all our clients to issue substantiated reasoning for dismissal to the employees promptly upon dismissal and thus limit the risk of being sued to only 30 days.

SETTING STANDARD FOR RESPONSIBLE JOURNALISM – NEW DEVELOPMENTS ON THE TBC DEFAMATION CASE

BLC Law Office together with Kordadze Law Firm announces yet another successful outcome on a defamation case. On 9 September 2016, Tbilisi Court of Appeals rendered its decision on the case of TBC Bank and Mr. Mamuka Khazaradze against the local newspaper Asaval-Dasavali and its journalists. The Appeals Court upheld the decision of the Tbilisi City Court and ruled in favor of TBC Bank and Mr. Mamuka Khazaradze ordering the newspaper to reject false and defamatory statements disseminated by the latter and pay compensation for moral and reputational damage totaling to GEL 6,000. The decision continues the trend set by the Supreme Court of Georgia and the European Court of Human Rights on defamation cases and bears vital importance for development of responsible journalism in Georgia.

For more information and advise please contact us:

4, Gudiashvili Square
Tbilisi, 0114, Georgia
Tel.:(995 322) 92 24 91, 92 00 86
blc@blc.ge
blc.ge

NEW FORM OF FUNDING

Natia Turnava, a Deputy Executive Director of the Georgian Partnership Fund, told *Investor.ge* the program has provided a way for the government to fund start-ups, which are normally seen as a risky investment.

She noted that because the fund usually works with large companies, they created StartUp Georgia to implement this funding program.

Funding for the program's projects varies from 15,000 to 100,000 lari.

The funding mechanism also allows for private investors to help finance start-ups, and includes a contribution from a given idea's authors.

"A maximum sum for the participation of the author of a project is 10 percent of the project's total cost. The author of a project has a right to purchase his or her share in the project on preferential terms in the future. The maximum payback period is up to ten years," she said.

Vazha Menabde, the director of the company StartUp Georgia, noted that funding is particularly problematic for start-ups, since they are seen as being too risky for commercial banks.

He said that this funding program has already encouraged more Georgian start-ups. "We have begun holding free-of-charge seminars for creators of start-ups. Local experts will hold trainings to discuss financial issues, marketing, and how to develop business plans."

FROM AGRICULTURE TO PARKING

Submissions included ideas for agriculture and the production of chemical fertilizers, in addition to IT innovations, the Innovation and Technology Agency's Kashibadze said.

There were proposals for manufacturing apple chips, a device to help park cars, and toys for children with special needs, to name a few.

Innovation is taking hold in Georgia, he said – and the trend is already making a difference in how Georgia is viewed internationally.

"Georgia has gained nine places and ranks the 64th in the Global Innovation Index. This is a very good fact, as Georgia has entered a list of countries that are rapidly developing in the sphere of innovations," he said.

"The current report considers innovative policies oriented toward economic growth and development. These are indexes for 2015, and I am sure the 2016 index will show will show Georgia has made considerable progress."

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10 Years in Georgia

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Connecting the Caucasus: The Transcaucasian Trail Association

A NEW PROJECT SEEKS TO BUILD HIKING TRAILS FROM THE BLACK SEA TO THE CASPIAN SEA.

JOSEPH LARSEN

It took the Russian Empire nearly a century to build the Georgian Military Highway, the 212-kilometer road that cuts through the Greater Caucasus Mountains to connect Tbilisi and the Russian city of Vladikavkaz. The winding, alpine road was finally finished in 1863, but only at great financial and human cost. Transportation is much better a century and a half later. Still, a group of hikers based in the South Caucasus think there's ample room for improvement.

The Transcaucasian Trail Association is a group of hiking enthusiasts based in Washington, DC, and their vision is a network of trails to take intrepid hikers from the Black Sea to the shores of the Caspian, crossing mountains and several borders—political and natural—along the way. Most of the group's members have ties to the South Caucasus. For co-founder Paul Stephens, it all started when he came to Georgia as a U.S. Peace Corps volunteer in 2005. "I did a lot of hiking, even though there wasn't a lot of infrastructure," he recalls. A turning point was time he spent in Svaneti and Racha in 2012. He observed a lot of untapped potential, so he and other like-minded hikers, including co-founder Jeff Haack, decided to get to work building up the infrastructure.

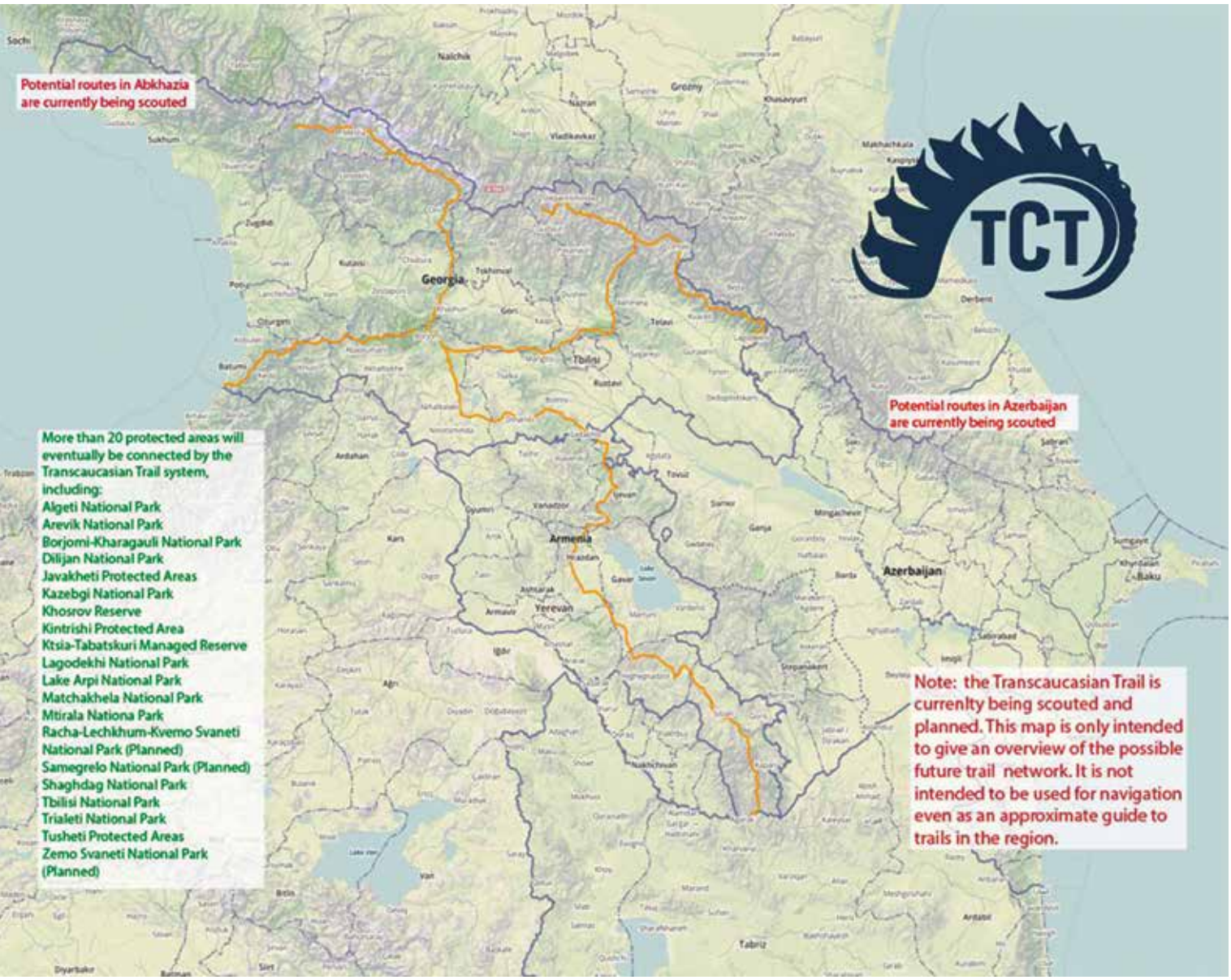
The Transcaucasian Trail project is ambitious and will take years to complete, cost millions of dollars, and depend on the dedication of countless volunteers. Trail construction began this summer, when the association built a number of trails in Western Svaneti, one of Georgia's wildest and most beautiful regions. For Stephens and his associates, it was the natural place to start. "Svaneti gets lots of visitors. Tourism has really taken off. There's very little infrastructure, though," Stephens explained. That started to change this summer, when more than 20 volunteers spent eight weeks scouting, marking, clearing brush, building river crossings and, in Stephens's words, "having a good time." Thanks to their hard work, there's now a 100-km connection from Chuberi to Mestia that can be crossed in three to four days. They also improved existing trails between Mestia and Ushguli, and that stretch can now be made in roughly the same amount of time.

Trail construction began this summer, when the association built a number of trails in Western Svaneti, one of Georgia's wildest and most beautiful regions.

"It went really well, way better than I had even hoped," says Stephens. "Next year we want to scale up times four: Racha, Southern Georgia, and Eastern Georgia." They also plan to build trails linking Georgia and Armenia. Expanding the project will require more funding, however. A recent profile by The Guardian estimated that between $3-5 million will be required over the life of the project. Fortunately, they have a plan. "We raised $25,000 this year. We're aiming for a lot more next year. We're trying to raise roughly $200,000 for 2017."

Of the $25,000 raised in 2016, a large chunk, roughly €3,000, came from Gebrüder Weiss, the association's sole corporate sponsor. The Austrian logistics company learned of the project through a personal meeting between its owner and a member of the association. According to Gebrüder Weiss's Managing Director in Georgia, Alexander Kharlamov, they're optimistic about the project's success. "We believe that it's going to work", he told Investor.ge. "It's a nice connection between Georgia, Armenia, and the North Caucasus . . . More tourism, more income, more investment, more infrastructure, and more friendship between our countries."

Corporate sponsorships can take years to secure, so Stephens and company are also turning to crowdfunding to raise the necessary capital. Last year they ran two separate campaigns with Indiegogo, a popular flexible-funding platform. The first campaign was devoted to raising money to scope out suitable trail locations. That raised $4,165 from 46 donors. A second, larger campaign raised money to actually build the trails in Svaneti; that one brought in just over $10,000. The money came "all, really, from international donors—a lot from the U.S., people who know about Geor- ▸▸



gia, who have lived or worked here," according to Stephens. The Association's remaining funding comes from the capital of its board members and fees provided by its volunteers.

Most of the Transcaucasian Trail Association's financial support currently comes from outside the region, but Stephens is optimistic that more Georgians, Armenians, and Azerbaijanis will take interest as its profile gets bigger. He also sees enthusiasm for the project show itself in non-financial ways. For example, community engagement initiatives in Svaneti found local residents to be very positive about the Transcaucasian Trail. After all, it's intended for their benefit as much as that of hikers. For The Transcaucasian Trail Association, the goal is to bring diverse groups of people together to experience and conserve the region's natural beauty: "The more people see the region, the more they'll take an interest in these areas, in preserving and protecting them," Stephens said.

"It went really well, way better than I had even hoped," says Stephens. "Next year we want to scale up times four: Racha, Southern Georgia, and Eastern Georgia."

DOING GEORGIA RIGHT

Even on a Budget

GEORGIA IS ATTRACTING A GROWING NUMBER OF TRAVELERS WHO ARE USING TECHNOLOGY AND WORD-OF-MONTH TO SEE THE COUNTRY'S WONDERS ON A SHOE-STRING BUDGET.

JOSEPH LARSEN

Things move quickly in Georgia. Tbilisi is a hotbed for startups. And the skyline in Batumi is continually being transformed by new construction.

Some things stay constant, however. People are optimistic, food is fantastic, and hospitality is always a priority, even in bad times. It's partly due to those things that Georgians have become accustomed to something else, too: a steadily growing number of incoming tourists. Arrivals grew from fewer than 560,000 in 2005 to 5.9 million in 2015, according to the Georgian National Tourism Administration. Nearly 4.25 million foreigners came to Georgia during the first eight months of 2016, which is primed to set a new record.

BUDGET DESTINATION

Russia is the largest source of tourists; more than 700,000 have come to Georgia so far this year. And Georgia's popularity isn't just because of historical ties and its abundance of Russian speakers. "Georgia is cheaper compared to Europe, especially restaurants, hostels and hotels . . . Because of the ruble's weakness compared to the euro, trips to Europe, Spain, Italy, France, and the Czech Republic, have become too expensive for Russians," according to Oksana Sarycheva, a Tbilisi resident who works for a Moscow-based travel agency.

Her agency offers an all-inclusive seven-night package for $800 per person and a shorter, four-night package for $500 per person. They serve mostly upper-middle-class clientele, but Sarycheva finds that Russian visitors usually want a budget-friendly experience: "The most popular [accommodation] is city hotels in the Old Town for $60 per night per room. Hostels are also very popular among individual budget travelers—from $10 per night in a dormitory."

Where are the other tourists coming from? And what are they coming for? More than 60,000 Israelis have come so far in 2016, a 59 percent spike from a year ago. That's to say nothing of Iranians, who are coming in droves now that the Georgian government is allowing visa-free travel again. Even arrivals from France topped 10,000 for the first time in 2015.

Tourists come from all over, but the bulk are still bound for Tbilisi and Batumi. According to a report by Colliers International, the two cities contained roughly 57 percent of Georgia's 16,786 hotel rooms in 2014. And hotels still account for nearly two-thirds of the country's total accommodation units. This August, Tbilisi unveiled the Biltmore, a massive, luxury hotel ▸▸

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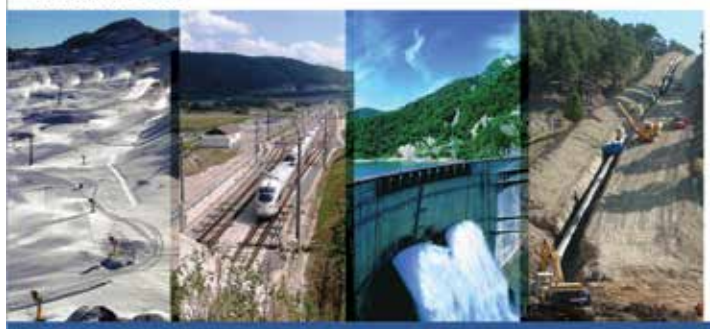

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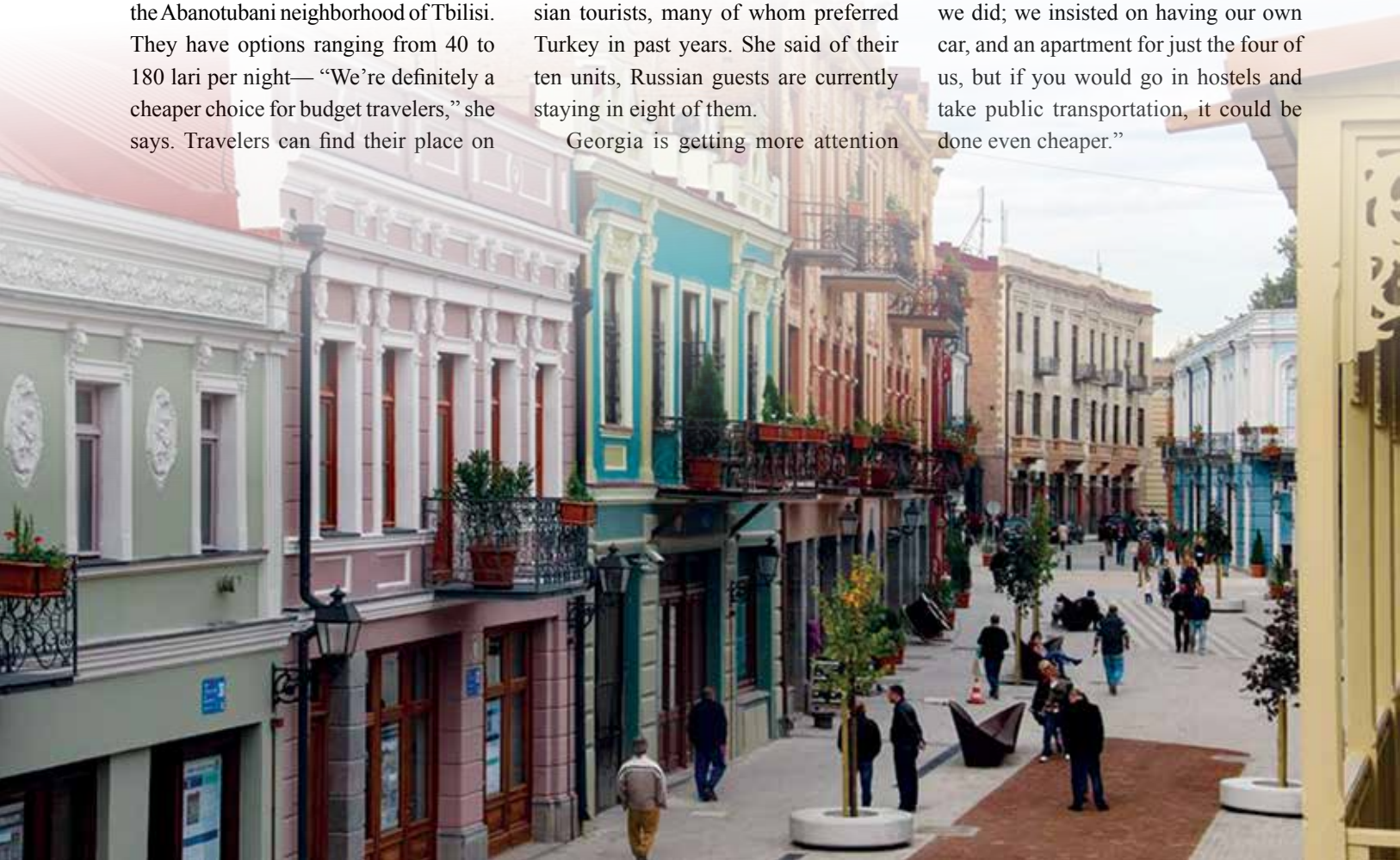
► with an average single-room rate of 930 lari per night. Kazbegi is another popular spot and is home to the famous Rooms Hotel. But don't be fooled. The country is full of small hostels and family-run guesthouses where rooms can be rented at rock-bottom rates.

Sofi Bokuchava's family rents a number of guesthouses out of their home in the Abanotubani neighborhood of Tbilisi. They have options ranging from 40 to 180 lari per night— "We're definitely a cheaper choice for budget travelers," she says. Travelers can find their place on Airbnb.com and Booking.com, but some simply walk in. "Taxi drivers take them here. They often recommend our place." In Bokuchava's view, Georgia has also benefitted from Turkey's recent political instability and its complex relationship with Russia. "It's so much safer to be in Georgia than in Turkey . . . It's [also] cheaper." That has helped bring in Russian tourists, many of whom preferred Turkey in past years. She said of their ten units, Russian guests are currently staying in eight of them.

Georgia is getting more attention from Western Europe as well. Steef Van Gorkum, a Dutch citizen, recently visited Georgia with three friends. They were impressed with the culture, natural beauty, and pristine hiking trails. As he told Investor.ge, affordability was also a plus: "There's plenty of great stuff to see for a relatively low cost. And it's probably possible to do it even cheaper than we did; we insisted on having our own car, and an apartment for just the four of us, but if you would go in hostels and take public transportation, it could be done even cheaper."



Shopping Saburtalo

SABURTALO IS AN OFT-MALIGNED RESIDENTIAL NEIGHBORHOOD IN CENTRAL TBILISI, REGULARLY CURSED FOR ITS TRAFFIC AND PLETHORA OF SOVIET-ERA APARTMENT BLOCKS. BUT THE AREA IS MORE THAN JUST A CONDUIT BETWEEN VAKE AND DIGHOMI – INVESTOR.GE UNLOCKS SABURTALO'S HIDDEN SECRETS FOR GREAT SHOPPING AND DINING.

Many expats living in Georgia have grown accustomed to traveling home with an empty suitcase, only to pack it full with everything they cannot purchase here when they make the trip back to Tbilisi.

But slowly the city is turning into a real shopping paradise, where finding real 100% cotton T-shirts, genuine American street styles, affordable designs or simply real Aquafresh toothpaste, is no longer a daunting task.

While the city's two largest malls – Tbilisi Mall and East Point – have become the go-to places to shop, there are great bargains for adventurous shoppers in nearly every neighborhood in the city.

Over the next few issues, Investor.ge will take you on an insider's tour of retail therapy around the city.

Our first destination is the central residential neighborhood of Saburtalo. Famous for its universities, traffic and seas of Soviet-era apartment blocks, Saburtalo has long suffered under the shadow of Vake.

But great deals await for those who brave the traffic and explore Saburtalo's main avenues – Pekin, Kazbegi, and Vazha Pshavela—as well as the smaller streets that make up one of the city's most vibrant and diverse neighborhoods.

RETAIL THERAPY

I was walking on Saburtalo district with my dog when I spotted "The American Market" (Kazbegi 32).

From the outside, it looked like one of those random shampoo-and-toothpaste shops. But, to my surprise, I discovered that it sold everything we miss from America, apart from food, of course: Vavoom shampoos, dresses from Talbots, cutlery, tableware, bedding and shoes. Prices start from under one GEL for various items, including hygiene and cleaning products.

THE PINK PANTHER JEANS

Retail clothing outlets have been mushrooming on Pekini Street for the past several years, and now include NEXT, New LOOK and many others. But where can you go if you and your daughter adore funky fashion? Glamour Boutique, located at 6 Pekini Street, is a small two-room paradise for those who like torn jeans, pearl necklaces, net tops and sparkling shoes. The place is not for the faint hearted, but shopping here won't break your bank as your daughter—or you—seek out original, stylish designs. You will keep people guessing just how much that original designer Pink Panther jacket cost.

A BITE TO EAT

Saburtalo has long been associated with McDonalds' at the Sports Palace. While that can hit the spot at times, the neighborhood has a lot more to offer for foodies of all sorts.

Strada (7 Sandro Euli Street) is justifiably famous for its waffle breakfasts and delicious entrees. The restaurant staff is friendly, with crayons and paper on hand for the kiddos while you wait for your food. There is a no-smoking section inside.

Gia's Acharuli Khachapuri (2 Gamrekeli) is one of the best places in town for Acharuli khachapuri. Service is quick, and you can watch the chef make your order through a special glass window. Take notes—the khachapuri is so good, you will want to make it at home.

Literaturi Cafe (31 Pekin) is the original location of this great Tbilisi chain. A good spot to buy books (they have a small selection of English-language books, as well as Georgian and Russian)—and to pick up one of their homemade cakes or signature lobiani.

Shua Kalaki (90 Vazha Pshavela) is a neighborhood favorite for khinkali, and ▸▸

8000 Vintages

is especially well-known for the kalakuri version.

8000 Vintages (26 Tsintsadze – previously known as Saburtalo Street) is a wine shop and bar that offers a new twist on wine selection: every vintage on offer was chosen via a blind taste test by an independent tasting committee.

Cheese House (20a Kazbegi) is a one-stop shop for artisan and traditional Georgian cheeses.

Assorti (22 Pekin; 86a Nutsubidze) is a Georgian bakery and cake shop with cafes across the city. There are two in Saburtalo, where they sell their trademark cakes and salads. Even if you don't have a sweet tooth, it is worth checking out the store front on Pekin - a treat for the eyes and the imagination.

Happy Shopping!

Student archaeologists at the site, Grakliani Hill

Uncovering the Ancient Secrets of Grakliani Hill

A FINDING AT AN ARCHEOLOGY DIG EAST OF TBILISI HAS COMPLETELY CHANGED THE HISTORY OF THE GEORGIAN ALPHABET.

NINO BAKRADZE

A finding at an archeology dig east of Tbilisi has completely changed the history of writing in Georgia.

Georgian archaeologists found the script, which dates back to 11th or 10th century BC, about a year ago on Grakliani Hill, east of Tbilisi.

AN ANCIENT, ADVANCED SOCIETY

The hill, one of the oldest inhabited areas excavated by archaeologists in the Kaspi region, in eastern Georgia, was the home of an ancient, wealthy society 3,000 years ago, according to Vakhtang Licheli, the head of the archeology expedition at the site.

He said the society that lived on the site was advanced, and worked with iron

Reconstructed view of room

and steel. The people were also believed to be talented farmers who produced enough wheat to export it to neighboring settlements.

"Almost in every room that we have explored are stone hand mills, which they used to grind their wheat. Wheat culture at Grakliani Hill's city was at a very high level. We have found pots with remnants of wheat meal," Licheli said.

He added that, based on the 300 graves that have been discovered in the area, the people lived well.

"Once, we found the grave of a young woman who was buried with gold and silver necklaces and with a small glass vessel filled with mascara. At this time, they would have imported mascara from the territory of present-day Iran, so this means they must have had money to buy some fancy stuff too," Licheli said.

One of the biggest discoveries, however, has been of a writing script.

AN UNKNOWN ALPHABET

The characters were found on the site of an old temple, and at first Licheli thought it was writing from the 7th century BC, but it turned out to be even older: Miami-based Beta Analytic, the world's largest professional radiocarbon-dating laboratory, determined the script was written in the 11th or 10th century BC.

This makes it the oldest writing ever to be found in the region – and the oldest alphabet in the Caucasus.

The script contains several symbols; most of them bear a resemblance to different alphabets active at that time,

Ritualistic oven used for fire-worship

like Greek and Aramaic. One symbol is totally unique, however, and does not exist in any yet-known alphabets, Licheli told *Investor.ge*.

Currently, the script, which could change the way scientists believe writing was developed, is at the site covered by a piece of fabric to protect it from the elements and is awaiting further analysis.

UNCOVERED BY MODERN CONSTRUCTION

Archeologists became interested in the site in 2008, when it was uncovered during highway construction.

Licheli, the head of Archaeology Faculty at Tbilisi State University, started exploring the hill with a group of young archeologists. The majority of that group are students, who continue to find artifacts every week. They have uncovered ancient toys, pottery and a 5th-century altar, among other items.

Over the past eight years, just one to two percent of the hill has been investigated, Licheli said. He noted that 50 years of exploration could be necessary for archeologists to discover all that Grakliani Hill has to tell them.

ANCIENT SURGERY, RELIGION

So far, the archeologists working on the site – which include specialists from Georgia, as well as the U.S. and Europe – have discovered the city was inhabited by fire worshipers and was probably abandoned after Georgia adopted Christianity in the 4th century AD.

People moved to a neighboring

Vessels founded on the site

village, Samtavisi, where they built an Orthodox Church.

Scientists have also discovered that the average life expectancy for a citizen of Grakliani Hill was between 40 and 50 years. In addition, the people who lived there used to suffer from tumors and they had the ability to perform some complicated surgeries, such trepanation. A member of the team found a man's skull with a hole – and evidence that he survived the surgery, Licheli said.

A MUSEUM ON A HILL

By the end of 2017, Grakliani Hill will have a new museum, planned for a site just below the hill, according to Nika Antidze, the head of The National Agency for Cultural Heritage Preservation of Georgia. The Agency has allocated 300,000 lari for the museum, which will exhibit all the artifacts (currently stored in different museums) that have been found at Grakliani Hill since 2008.

AMCHAM

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SARAH WILLIAMSON REFLECTS ON FOUR YEARS AS AMCHAM GEORGIA PRESIDENT

IN NOVEMBER SARAH WILLIAMSON WILL FINISH HER SECOND AND LAST TERM AS PRESIDENT OF AMCHAM GEORGIA.

INVESTOR.GE SPOKE WITH HER ABOUT THE CHAMBER'S ACCOMPLISHMENTS DURING HER TWO TERMS AS PRESIDENT.

Over the past four years, Ms Williamson has overseen membership growth, helped to launch the Investor Council, launched a new outreach to Capitol Hill in Washington and nurtured stronger ties with Georgian policy makers. Most of all, she notes, AmCham has continued developing and improving the business environment for its members and the wider investor community.

AMCHAM AS A MAJOR PLAYER ON POLICY ISSUES

Ms Williamson explained that AmCham has always engaged with the government on the important business and economic reforms of the day. In the last few years, she explains, they have been particularly effective. "In summary", she says, "When it comes to business and economic issues in Georgia, AmCham's input is taken very seriously at all levels of government."

"This is the result", she explains, "of many years of productive engagement."

"Our engagement with government is always focused on helping to ensure that we help to achieve the greatest improvement in the business and economic environment. We are apolitical and professional. We undertake our own research on new legislation as well as utilizing our large network to gain expert opinions on any proposed changes. As a result, the government knows that engaging with us is a useful way of helping to avoid any negative unintended consequences from new legislation," she says.

"Central to this has been the effectiveness of our committees and our role on the Investor Council. AmCham has seven active committees which provide

hundreds of hours of pro-bono support to the Chamber's engagement on a wide range of issues."

In 2015, she says, AmCham also helped to form the Investor Council. The Council is chaired by the Prime Minister and combines the major business associations, the IFIs (like EBRD, the World Bank and ADB) and the Georgian Government Economic Team. This provides a context for meeting directly with the Prime Minister and the Government Economic team every 6-8 weeks, and is followed by working group discussions to ensure that agreements are implemented.

"We have certainly been one of the main drivers of the Investor Council, and it provides a great venue for ensuring that decisions are made at the highest level and that these decisions are put into practice," Ms Williamson says.

How can the success of all of this work be measured? Ms Williamson argues that the clearest indication of success is the Chamber's growth in membership, in membership support and it's impact on key laws.

"Just since 2012 we have engaged directly on the labor code, to ensure that Georgia's commitments under the Association Agreement are consistent with a continued good business environment. After the first version of changes to the immigration law created such problems, we worked with the government to change it. We have also worked with the government on issues from land ownership to eminent domain, banking law to tax reform."

"One clear example is the Estonian tax model that the government is planning to implement, which will only tax dispersed corporate income," she said. "We are fans of this planned reform, as it will encourage investment and growth.

However, the government originally planned to implement the change in the middle of the tax year. After talking to tax and legal experts in our membership, it became clear that this law would be complex and challenging to implement and that initiating it in the middle of the year could create major challenges for business. Therefore we consulted with the government on this issue and they quickly agreed to delay the launch and implement it at the beginning of 2017."

"Following this positive result, we also helped to design a tax project to ensure that the implementation would occur as smoothly as possible and we are currently working to make sure that the business sector always receives the latest information on how the implementation is unfolding, and is kept up-to-date on any changes. As a result we are extremely optimistic that the implementation of this great new system will occur with as little disruption to businesses as possible."

WASHINGTON OUTREACH

In the last four years, AmCham has taken two delegations of senior Georgian-based US-business leaders to Washington. These groups met with US Congress Representatives, Senators and aides, as well as State Department, NSA, the Office of the US Trade Representative and US Commerce Department.

"The point of these meetings, and the engagement with Congressional Delegations in Georgia that have happened in-between, is to give US legislators and government officials an apolitical view from US business people living in Georgia".

"I am really proud of our Washington trips. I think we saw direct impact on the Hill that resulted from us providing a direct ground truth, let's say, from Americans and American investors about what is going on in Georgia," she says.

"The Representatives themselves have, on many occasions, expressed their gratitude for the perspective that we provide and many of them have visited Georgia following our meetings. Most tangibly, on our trip last spring, we were able to help get a House Resolution passed. House Resolution 660, restating the US's support for Georgia's territorial integrity, was stuck in committee when we arrived in Washington, but as a result of our meetings, the Georgia Caucus were able to get enough signatures to take it to the floor, where it passed, almost unanimously, in September. That was a very proud moment."

200 MEMBERS AND COUNTING

The Chamber has grown steadily over the years, and is the biggest international business association in the country. This growth has been particularly strong in the last two years.

"I am proud of how I am leaving AmCham. Our increased membership over the last couple of years reflects the success of the organization in providing a productive and enjoyable environment for connecting members, and our effectiveness in pursuing a pro-business public policy agenda," she explains.

A key part of that success, she stresses, is the AmCham team itself.

"There are so many people active in AmCham. So many people working hard," she says.

"Many on the Board of AmCham put in so much time. It really is incredible, given that they are some of the most senior business people in the country. I am so grateful to Vice President Michael Cowgill and Vice President/Treasurer Irakli Baidashvili. These guys are always there when AmCham needs them. They give a ton of time and input and do a fantastic job for AmCham. "

"The AmCham staff team is also incredible and I love working with all of them. They seem to effortlessly combine the serious public policy work that we undertake with the networking and social aspects.

Because, it also important to remember, that we have a lot of fun! People may join AmCham to help develop their businesses and to widen their professional networks, but after so many years, we really enjoy our events as an opportunity to keep up with old friends. "

"Our whole team is great, but I especially want to mention and thank AmCham Executive Director, Dr. George Welton," she adds.

"George does a fabulous job of coordinating the member needs and input, the Board, the Staff and the quality control of the work AmCham does. He a wealth of knowledge in his own right, and knows better than anyone else I've ever worked with how to find the best possible input for whatever discussion we are involved in. I honestly believe that one of my biggest accomplishments as president was bringing him on board when our previous, and also great, ED retired. He made me a better president and the Chamber a stronger, more professional organization."

But what does Ms Williamson see for the future?

"To me, the great thing about AmCham is that the institution is not based on any one personality. Its been a great four years and I really think that we are now incredibly well placed to ensure that the next president can build on our success, to do even better. That is what I am hoping for."

TURKISH AMBASSADOR MEETS AMCHAM MEMBERS

AmCham Georgia hosted a Members' only luncheon with Mr. Zeki Levent Gumrukcu, the Ambassador of the Republic of Turkey to Georgia on September 28, at Tbilisi Marriott Hotel.

The ambassador spoke about Turkish-Georgian relations and recent political-economic developments in Turkey. He also underlined the importance of solidarity of Turkey's friends and strategic partnership with Georgia. The presentation was followed by a lively Q+A between members and the ambassador.

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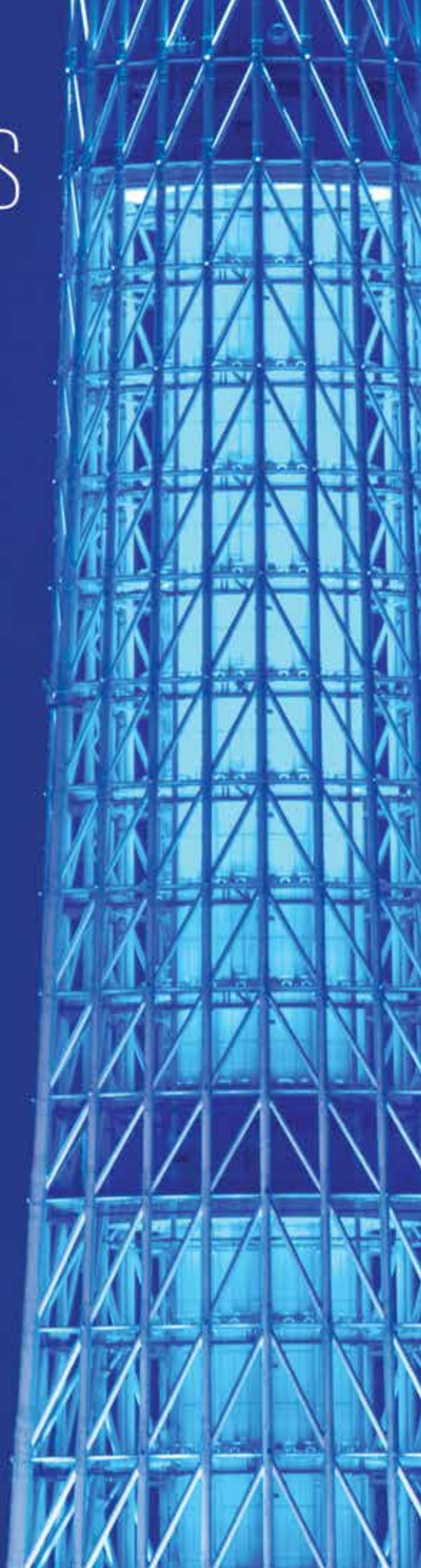

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MINISTER OF EDUCATION AND SCIENCE MEETS AMCHAM EDUCATION SUB-COMMITTEE

Representatives of AmCham Georgia member universities and other educational institutions met with the Minister of Education and Science Aleksandre Jejelava on July 22. Several issues were discussed during the meeting, including bringing international students to Georgia and fair competition among the private and public universities. The minister actively discussed possible solutions for the problems that were presented at the meeting.

ATTRACTING FOREIGN STUDENTS: A STUDY BY PMCG

Georgia has the potential to tap into the billion-dollar industry of educating international students, according to a recent survey by PMCG.

Over a one month period from July to August 2016, PMCG conducted more than 30 in-depth expert interview with representatives of higher educational institutions and other stakeholders to assess the existing policy on international students in the Georgian higher education system, and the main factors that assist or hinder the process of attracting more students to the country.

"Georgia has achieved a certain level of development and can offer the international education market a potentially interesting product from which it can benefit economically and in other ways," according to Ana Zhvania, a researcher at PMC Research and an education expert.

Countries around the world are developing their higher education systems to attract international students. PMCG found that, for example, last year the US earned more than $30.5 billion from its 974,926 foreign students – and created 373,000 working places.

In Switzerland a student annually spends about €19,500, in Poland €4,800, in Spain €9,000, in Holland €11,400. In 2011 in Germany 160,702 foreign students have spent €1.531 billion on non-educational expenses (US$2.09 billion), created €400 million fiscal revenues (each of the students contributed about €2,500 to the state budget, helping to create 22,000 new working places).

In Georgia, 6,643 were foreign students studied in higher education in the 2015-16 academic year, and they paid an average of $3,000 in tuition, plus an addition $3,000 a piece.

The country has the potential to attract more students, according to the study, if Georgia takes the necessary steps, including:

- Optimization of accreditation and authorization systems, and their integration into international systems
- Management decentralization and increasing universities' autonomy
- Internationalization of academic staff
- Development of students' accommodation program
- Development of individual scholarships for students and researchers
- Issuance of joint diplomas together with foreign educational institutions

The study was conducted by PMC Research, as part of the project "Policy Research for Sustainable Economic Development", with the support of the Konrad Adenauer Foundation. For more information, please visit www.pmcg.ge

AMCHAM HOSTS DINNER FOR U.S. TRADE DELEGATION

AmCham hosted a dinner reception for a U.S. Trade Delegation and AmCham Board members on September 13 at the Vinotel Hotel Restaurant. The reception was attended by AmCham President Sarah Williamson, members of the AmCham Board and members of the Delegation, which included representatives of eight different U.S. companies, the U.S. State Department and DC local government.

Vinotel organized a small tour of the wine cellars of the hotel for the guests. The guests sampled a special selection of Georgian wines and traditional dishes.

U.S. AMBASSADOR MEETS WITH AMCHAM MEMBERS

U.S. Ambassador to Georgia Ian C. Kelly, AmCham President Sarah Williamson, AmCham Executive Director, Dr. George Welton

AmCham hosted a monthly roundtable meeting at Tbilisi Marriot Hotel on September 21. U.S. Ambassador to Georgia Ian C. Kelly provided a frank overview of Georgian, U.S. and international politics that included discussion of the Georgian parliamentary election, as well as Georgian economic, judicial and political reforms and U.S. efforts to enhance those reforms.

The presentation was followed by dynamic Q&A session between AmCham members and the Ambassador.

BP Supports

Georgian Technical Training Centre

Georgian Technical Training Centre (GTTC), aimed at developing 21st century workforce, was awarded with program improvement competitive grant, announced under the $16 million Industry-led Skills and Workforce Development project of the Millennium Challenge Account – Georgia (MCA).

BP on behalf of its oil and gas co-venturers and in partnership with the Georgian Technical University (GTU) will establish GTTC, based on EU standards of vocational education for technical disciplines. GTTC will prepare mechanical, electrical (high & low voltage) and instrument technicians, as well as process operators, to the international standards.

The award ceremony, held by MCC on 27 September, revealed 10 winners, including BP-supported GTTC, to fulfil development projects in the fields of science, technology, engineering, math, tourism and agriculture development in Georgia.

The ceremony was attended by Alexandre Jejelava, the Minister of Education and Science of Georgia, Ian Kelly, US Ambassador to Georgia, Nancy Lee, MCC Deputy CEO, and other honourable guests. The speakers underlined the importance of the projects' role in closing the skills gap existing between employers and labour market and thanked the organizations and institutions involved in the projects for their contribution in the future economic development of Georgia.

BP and GTU will join the efforts to establish the vocational education centre from the scratch. Among numerous deliverables, the project scope encompasses design and refurbishment of the building, which will accommodate the GTTC; defining the curricula and course outlines; equipping the GTTC's labs, workshops, class-rooms, offices and other facilities; implementing the e-learning centre, etc.

The total cost of the GTTC project is USD 6,777,297; out of which MCC grant is USD 2,362,910.

BP's contribution includes USD 600 000 in cash, plus in-kind contribution. GTU's contribution includes provision of the training facility, its renovation funds (through State financing) and administrative support (in cash).

GTTC will welcome its first intake of about 120 students in autumn 2017. Trainings will last for 2 academic years. GTTC will offer its students 2 categories of certification: the National degree of Georgian „Diploma of vocational training" in relevant disciplines, and International degree of German „Facharbeiter" (highly-skilled worker).

Gia Gvaladze, External Affairs Manager for BP in Georgia - 'It fills us with pride to be the initiators and supporters of the Georgian Technical Training Centre (GTTC) – the project for developing highly-skilled technical professionals in Georgia. By educating technicians in the selected disciplines and bringing them up to the international level, the GTTC will have a significant impact not only on those companies that will recruit this trained workforce, but also on country's economy as a whole'.

GTTC is another project in BP Georgia's social development project portfolio, aimed at improving Georgia's future. It is the project we all should be proud of.

PARALYMPICS

BP Georgia athlete ambassador Zviad Gogotchuri became the first Georgian to win a gold medal at the Rio 2016 Paralympic Games. Zviad won the medal in the 90kg judo competition, defeating Ukrainian Oleksandr Nazarenko in the final.

Zviad's gold medal is the first won by a Georgian athlete in the Paralympic Games.

Before going to Rio, Zviad felt optimistic about the Games: "I have realistic chances to win the gold medal in Rio for my homeland and go down in history as the first Georgian Paralympic champion. I will not spare myself to make this a reality, and I hope there will be no bumps in my road toward this goal," Zviad said.

In 2016 Georgia was represented by five athletes at the Summer Paralympic Games in Rio de Janeiro, Brazil, two of whom were BP ambassadors: Zviad Gogochuri, Judo (BP ambassador); Lika Chachibaia, Swimming; Irma Khetsuriani, Fencing (BP ambassador); Akaki Jincharadze, Powerlifting; and Vano Tsiklauri, Archery.

BP has been the official partner of Georgia Paralympic Committee since 2012, supporting the development of individual athletes as well as Paralympic sports in Georgia.

100 MILLION USD INVESTMENT PROJECT OF HEIDELBERGCEMENT

- Upgrade of the Heidelbergcement Kaspi Cement Plant is launched

On September 27th, the groundbreaking ceremony of the USD100 million investment project of Heidelbergcement Caucasus – upgrade of the Kaspi Cement Plant to the modern Dry Line method of clinker production was held in Heidelbergcement Plant, Kaspi, Georgia.

The investment project calls for full modernization of Heidelbergcement Kaspi plant and construction of clinker production dry line. The project will further ensure the highest standards of the production process and will result in its greater efficiency. Apart from introducing new technologies, it will contribute to Georgia's economy through improved trade balance and better environmental management of the local nature.

The groundbreaking ceremony was attended by the Prime Minister of Georgia, Mr. George Kvirikashvili, the Minister of Economy of Georgia, Dimitry Kumsishvili, the Ambassador of Germany in Georgia, Dr. Heike Peitsch, Heidelbergcement Group Director of Northern and Eastern Europe-Central Asia and Member of the Managing Board - Dr. Albert Scheuer, the General Director of Heidelbergcement Caucasus, Mr. Michael Hampel, who made special welcoming speeches on this occasion.

General Director of Heidelbergcement Caucasus welcomed the guests and made short overview of the company's success story in Georgia: "Heidelbergcement Group stepped into Georgia 10 years ago in 2006 – therefore 2016 is an anniversary year for us. This are 10 years dedicated work to develop the Georgian operations into a modern and performing company and 10 years of permanent improvement of the manufacturing facilities and continuing qualification of our Georgian workforce."

"The Heidelbergcement Group is looking forward helping the state of Georgia in its biggest challenges for the next years: Developing the infrastructure: ports, highways, tunnels and bridges and Developing the huge potential of Hydro power technology. For both things cement is a basic factor and Heidelbergcement Caucasus will make sure that Georgia will never be dependent on imports of this key product." – stated Mr. Hampel.

"With the new dry line in Kaspi, clinker capacity will be increased by more than 1 million ton of clinker, which will serve our own plants and also our external clinker customers. The project will guarantee high quality standard products at lowest energy consumption and costs. The new dry line will set new standards in terms of green technology application not only in Georgia, but also worldwide. All gases of the kiln will be cleaned in highly efficient bag houses. The kiln will have the lowest possible heat consumption and is prepared to fire maximum amount of alternative fuels. Raw meal and coal are exclusively milled in vertical mills with minimum electrical energy consumption. This will enable the company to produce its products at minimum environmental damage and will set a new benchmark in the industry", said Dr. Albert Scheuer.

The Prime Minister congratulated the company with the 10 Year Anniversary and with the new investment project: "It is important that Heidelbergcement - a German DAX company and one of the world's leading building materials producer further expands production and makes huge investments in Georgia", the said PM and wished success to the Heidelbergcement.

German Ambassador to Georgia Dr. Heike Peitsch talked about huge potential for development of Georgia-Germany economic relations. The Investments made by Heidelbergcement signifies huge confidence in the country. German logistics companies are also interested in making investments in Georgia, the Ambassador said. The upgrade and development of the Georgian business of Heidelbergcement Caucasus will take place between 2016 and 2018.

ABOUT HEIDELBERGCEMENT

Heidelbergcement Caucasus is the Georgian subsidiary of Heidelbergcement Group and the market leader for cement in Georgia. Heidelbergcement Group is one of the world's largest integrated manufacturers of building materials with leading market positions in aggregates, cement, and ready-mixed concrete as well as other downstream activities. The company employs 63,000 people at more than 3000 production sites in around 60 countries on five continents.

Heidelbergcement started business in Georgia in 2006. After ten years of continuous development of the business, the Georgian subsidiary Heidelbergcement Caucasus currently operates three integrated cement plants (Kaspi and Rustavi), a cement grinding facility in Poti and a cement terminal at the Black Sea coast. The cement production capacity exceeds 2 million tons of high quality cement annually.

The cement business is supported by a strong network of 12 ready-mixed concrete plants that produce more than 670.000m³ concrete per year. Sand and aggregates for the concrete is partly supplied by two own aggregate pits in Batumi and Tbilisi.

BGI LEGAL WINS LANDMARK CASE ON BEHALF OF COCA-COLA BOTTLERS GEORGIA

BGI Legal has just won a landmark case on behalf of Coca-Cola Bottlers Georgia, the largest bottler and distributor of soft drinks in Georgia. The Supreme Court of Georgia granted BGI's application to refuse recognition and enforcement of a foreign arbitral award rendered by an ad hoc tribunal seated in London.

The Supreme Court ruled that the arbitration award was not subject to recognition and enforcement under the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards on the grounds that the award contained decisions on matters beyond the scope of the submission to arbitration.

"The ruling of the Supreme Court of Georgia proves that the courts of Georgia are ready to apply international standards to recognition and enforcement of foreign arbitral awards and follow best practices in this field", says Sandro Bibilashvili who led BGI's team to this success. "We believe that this decision will serve as a guideline for practitioners and increase the level of certainty for parties seeking enforcement of arbitration awards", noted Mr. Bibilashvili.

NEW MEMBERS

MyGPS
Corp B

MyGPS being a pioneer in Georgia for vehicle fleet management systems since 2007 introduced fuel consumption measuring solutions and software development to Georgian Market. The company has expanded its activities to cover railway dispatching and monitoring solutions, remote control of melioration and irrigation systems, municipal transport management solutions, fuel consumption and routing optimization systems.

After 3 years of intensive R&D, in 2015 MyGPS introduced LED outdoor lighting system of its own technological design and launched its production in Georgia under the brand MLED. The company uses LEDs form American company CREE, which has tested MLED products and due to its impressive results and reliability, authorized MyGPS to use CREE LEDs band on its products or promotional activities.

MyGPS has already installed hundreds of LED lightings in several municipalities throughout Georgia and is in the negotiations with governmental offices to advocate for full replacement of old inefficient lighting solutions with breakthrough technology that can save tens of millions of public resources. MyGPS is exploring the opportunities to start exporting MLED lightings to US market.

mygps.ge

Rentals LLC
Corp B

Rentals LLC is a specially designed real estate agency to focus on residential and commercial rentals. Although the company is relatively newly established (2009) it already has a sound track of success and even more important- a great number of loyal corporate and individual clientele. Rentals LLC is one of the most recallable companies among the expat society based in Tbilisi. The company closely cooperates with the majority of Embassies and International missions accredited in Georgia.

reltals.ge

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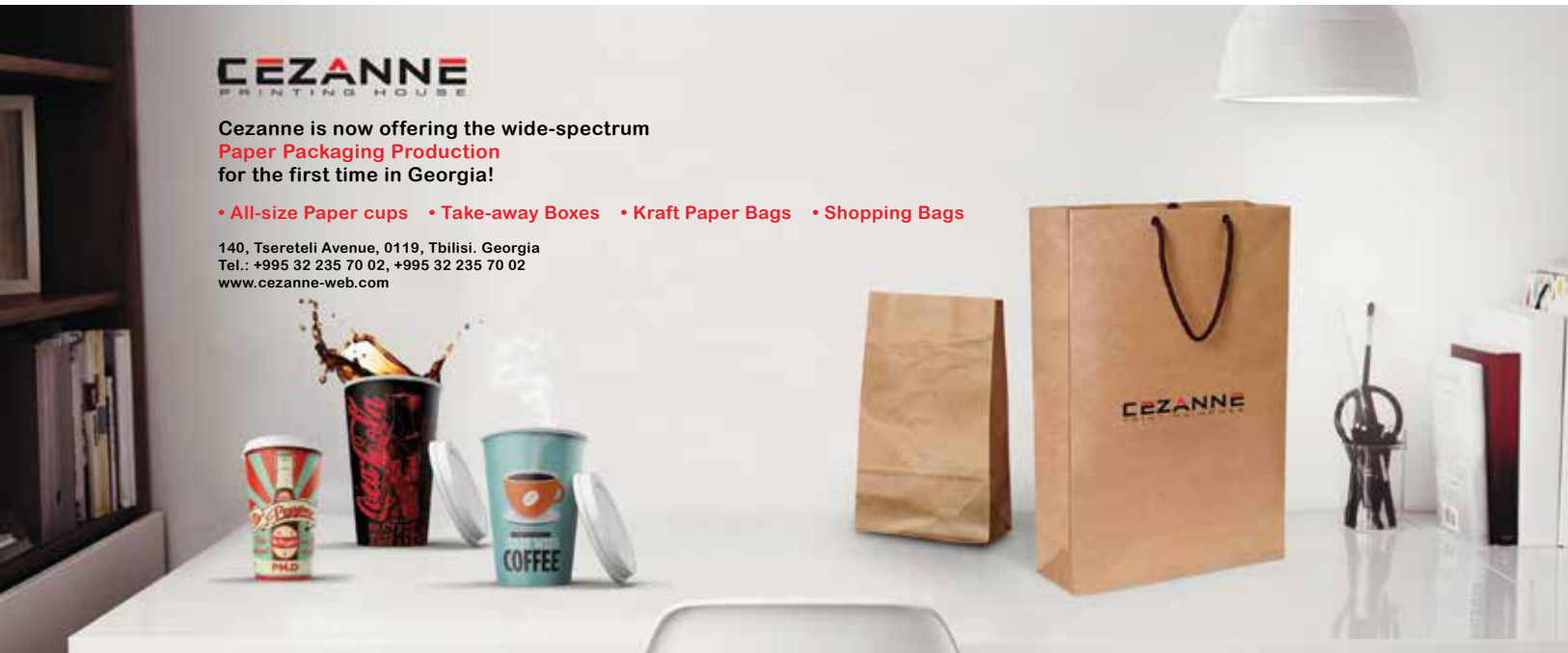


AMCHAM BACK-TO-BUSINESS COCKTAIL RECEPTION AT HOLIDAY INN

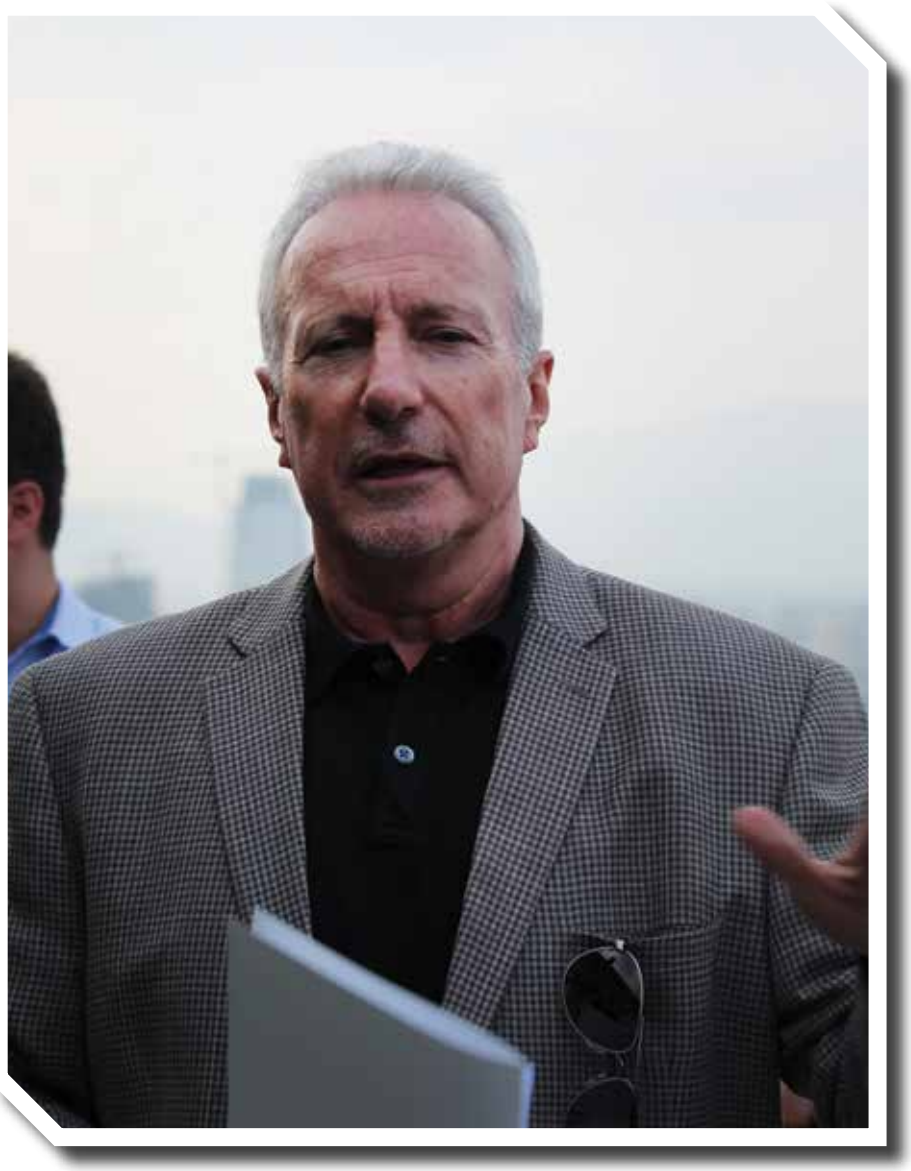
On September 16, AmCham Georgia hosted a Back-to-Business Cocktail Reception for AmCham members at the Holiday Inn.

AmCham President Sarah Williamson informed guests about AmCham's upcoming events and gave a short overview of the USAID/G4G sponsored Tax Project that the Chamber is implementing. More than 100 guests attended the reception.

AMCHAM COCKTAIL HOUR AT THE TERRACE HOTEL AND RESTAURANT

ON JULY 29, AMCHAM GEORGIA HOSTED AN APPRECIATION COCKTAIL RECEPTION FOR THE AMCHAM 2016 PICNIC SPONSORS AT THE TERRACE HOTEL & RESTAURANT.

AMCHAM VICE-PRESIDENT MICHAEL COWGILL GREETED THE GUESTS AND THANKED THE TERRACE HOTEL FOR HOSTING THE RECEPTION. HE ALSO THANKED THE SPONSORS OF THE U.S. INDEPENDENCE DAY PICNIC FOR THEIR SUPPORT.



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AmCham Georgia:
36a Lado Asatiani Street, 3rd floor. Tel: 2 22-69-07

amcham@amcham.ge
editor@amcham.ge | www.amcham.ge

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Otar Kipshidze, Office Managing Partner (otar.kipshidze@dlapiper.com)
Avto Svanidze, Partner (avto.svanidze@dlapiper.com) | **Ted Jonas,** Of Counsel (ted.jonas@dlapiper.com)

DLA Piper Georgia LP, 10, Melikishvili Street, Tbilisi 0179, Georgia | T +(995)32 2509 300 | **F** +(995)32 2509 301

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