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

WORLD BANK, IMF CALL GEORGIA 'REGIONAL LEADER IN ECONOMIC RECOVERY'

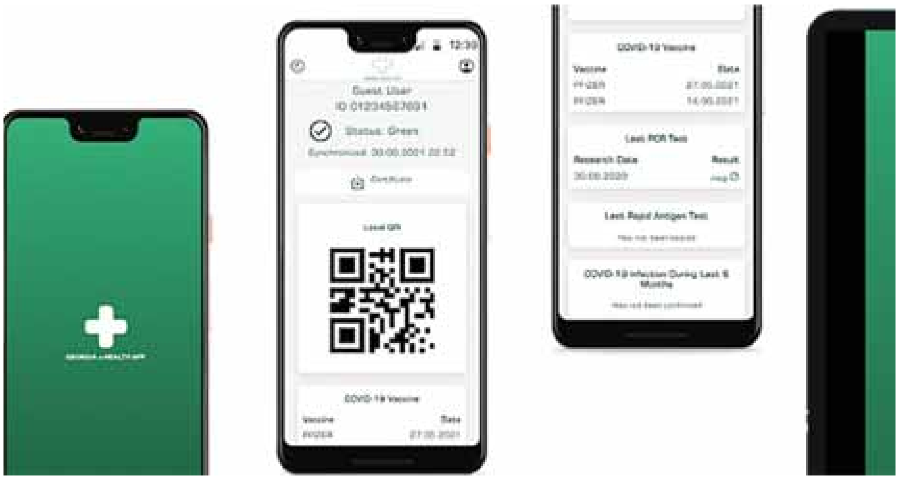
Georgia is leading the South Caucasus region with a projected rebound of 8% growth in GDP this year, says the latest edition of the World Bank's Economic Update for the region, released in October. "The country's recovery is expected to edge down to 5.5% in 2022 and 5% in 2023, as macroeconomic support continues to be removed," says the report.

The South Caucasus countries, and Georgia in particular, are seeing a robust recovery from the shocks of 2020, supported by pick-up in domestic demand and recovery among external partners. However, amid rising inflation and slowly recovering labor market outcomes, increasing the pace of vaccination remains a critical priority", said World Bank Regional Director for the South Caucasus Sebastian Molineus. Forecasting similar growth figures, the IMF's latest report entitled World Economic Outlook: Recovery During a Pandemic estimates that Georgia's economy will grow 7.7% in 2021 and 5.8% in 2022, giving it one of the highest economic growth rates in the Middle East and Central Asia. Commenting on the report, Economy Minister Natia Turnava said "We will have the highest economic growth rate of 5.8%, almost 6% per year. This will allow us to overcome the negative effects of the pandemic very quickly, to overcome poverty and to make our economy more diversified and stronger."

As for Georgia's neighboring countries from the same region, the IMF forecasts that the Armenian economy will grow 6.5% in 2021 and 4.5% in 2022, and the Azerbaijani economy is expected to grow 3% in 2021 and 2.3% in 2022. The Turkish economy is projected to grow 9% in 2021 and 3.3% in 2022, while the Russian economy will grow 4.7% in 2021 and 2.9% in 2022.

GEORGIAN GOVERNMENT INTRODUCES COVID-19 GREEN STATUS AND LIFTS FURTHER RESTRICTIONS

Despite the fact that the country's COVID-19 case numbers have remained high throughout the autumn months, the government has decided to lift additional restrictions and restrict access based on a new "green status." Starting on December 1, restaurants, cafes and bars can operate without hourly restrictions and the permissible number of spectators at cinemas, theatres and the opera house will increase from 30% to 50% occupancy. Also mandated from the beginning of December is the use of a "COVID-19 green pass" to enter



a number of establishments, including food facilities, cinemas, theatres, opera houses, museums, concert halls, entertainment centers, casinos, spas, gyms, hotels, and mountain resorts. Green status is available for any individual who is fully vaccinated, can prove they have recovered from COVID-19, or have undergone a PCR (in the last 72 hours) or rapid antigen test (in the last 24 hours).

2022 STATE BUDGET SUBMITTED TO PARLIAMENT

The 2022 state budget of Georgia has been planned with a 6% economic growth forecast, announced the Ministry of Finance of Georgia in October. The ministry says that tax revenue will be 23.5% of the gross domestic product (GDP) and the budget deficit will be 4.3% of GDP next year. The initial draft of the 2022 budget shows increased expenditures for pensions, social assistance to target groups of the population, infrastructure, and schools with 500 million GEL allocated for coronavirus healthcare costs. It also recommends the following parameters: consolidated tax revenues of 15.9 billion GEL, total expenditures of 14.2 billion GEL, a debt to GDP limit of 52.7% (compared to 60% this year), and a state budget allocation of 18.44 billion GEL. Georgian Finance Minister Lasha Khutsishvili presented the proposed budget at the beginning of October; it is expected to be discussed in parliament and finalized in December.

GEORGIA HOSTS NEARLY 1.4 MILLION INTERNATIONAL TRAVELERS IN THE FIRST TEN MONTHS OF 2021 AS FLIGHTS RESUME FROM KUTAISI AIRPORT

Nearly 1.4 million international travelers visited Georgia from January to October 2021, which is 1.8% less than in the same period of 2020, and 79% less than the same period of 2019.

In October, 205,680 international travelers visited Georgia, a 313% YoY increase and 69% decrease compared to October of 2019 levels. The National Bank of Georgia reports that Georgia received $886 million in earnings from the tourism sector in January-October of 2021, which is 73.5% more than the same period in 2020.

Travelers are also finding it easier to make their way to Georgia with the gradual resumption of international flights. The United Airports of Georgia reports that in October 2021 passenger traffic at Kutaisi International Airport was restored by 48% compared to the same period of 2019.

65% of flights were resumed at Kutaisi International Airport in October 2021, and November saw the resumption of Hungarian low-cost airline WizzAir direct flights from Kutaisi to Barcelona, Vienna and Berlin with a new direct route to Abu Dhabi scheduled to begin on December 15.

ADB ALLOCATES 101 MILLION EUR LOAN FOR UPGRADING INFRASTRUCTURE AND BOOSTING REGIONAL DEVELOPMENT IN GEORGIA

The Asian Development Bank has approved a €101 million loan to build and upgrade infrastructure and enhance services in urban centers to boost regional development and economic opportunities in Georgia. The project aims to support the country's recovery from the pandemic and 'make its cities more livable, inclusive, and climate-resilient.' "It will upgrade city centers, public spaces, parks, and public transport to improve mobility. The project will construct libraries, e-learning centers, kindergartens, sports complexes, and other community buildings," the ADB reports. It also aims to improve accessibility for older people, people with disabilities, women, and children via the ADB-developed Inclusive Cities Guidelines.

The ADB reports that the "Livable Cities Investment Project for Balanced Development" will benefit more than 1.5 million people both in Tbilisi and nationwide. ADB Director General for Central and West Asia Yevgeniy Zhukov noted that Georgia has made 'significant economic gains over the past few years,' noting however that 'growth has been unevenly distributed and severely affected by the COVID-19 pandemic.' Georgia has received a total of $3.92 billion worth of loans from ADB and undertaken technical assistance projects worth $28.9 million since 2007.

NATIONAL BANK OF GEORGIA: ANNUAL INFLATION WILL BE HIGHER THAN EXPECTED

The head of the National Bank of Georgia (NBG), Koba Gvenetadze, says annual inflation will be higher than earlier expected. The annual inflation rate stood at 12.8% in October 2021, breaking a 10-year record high, Geostat reports. The NBG originally projected a reduction in annual inflation to 6% in March, but Gvenetadze says rising international prices are affecting inflation. "Oil, for instance, is twice as expensive as it was a year ago and food prices have increased quite a bit," notes the NBG head. The annual inflation rate was mainly influenced by price changes in the following groups: food and non-alcoholic beverages (+18.4%); transport (+19.6%); housing, water, electricity, gas and other fuels (+11.9%); and health (+8.4%).

GEORGIAN EXTERNAL TRADE UP 22.3% IN Q1-Q3 2021

Georgia's external trade turnover amounted to $10 billion in January-

September 2021, which is 22.3% higher compared to the same period of the last year, shows preliminary data from Geostat. The value of exports increased 24% and totaled $2.98 billion, while imports also increased 21.6%, amounting to $7.02 billion. The trade deficit of Georgia in January-September 2021 amounted to $4.04 billion which is 40.4% of total trade turnover.

Turkey ($1.48 billion), Russia ($1.14 billion), and China ($1.07 billion) registered as Georgia's top trading partners during the same period.

The top three export items were copper ore and concentrates (19.2 % of total exports), motor cars (11.3% of total exports), and ferro-alloys (10.6% of total exports). The top imports were motor cars (9% of total imports), petroleum and petroleum oils (8.2% of total imports), and copper ores and concentrates (7.5% of total imports).

GOVERNMENT ANNOUNCES PLANS TO IMPOSE RESTRICTIONS FOR ONLINE GAMBLING AND INCREASE FEES

Georgian Prime Minister Irakli Garibashvili announced in late November that the government has plans to increase fees for online gambling businesses (which are mostly foreign owned) as well as a ban on ads and a minimum age threshold of 25 years for gamblers. The Prime Minister noted that about 1.5 billion GEL flows out of the country annually due to online casinos. "This is the money of the country's poor population. 99% of the individuals who are engaged with online gambling are socially vulnerable," Garibashvili said.

Garibashvili also offered the possibility that online gambling may be completely banned in Georgia in the future.

Finance Minister Lasha Khutsishvili says that increased fees for online casinos amid new restrictions which will decrease the number of users, will ensure lower impact on their contribution to the state budget. Khutsishvili also said that the complete ban on online gambling is not expected "this or next year."

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TOURISM AND BUSINESS DEVELOPMENT PROJECTS TO BE UNDERTAKEN IN SEVEN GEORGIAN MUNICIPALITIES

Urban renewal, tourism and business development projects will be undertaken in a total of seven Georgian municipalities in 2021-22, for which the EU will disburse about 4 million GEL (approximately $1.2 million), the Georgian government administration reports.

The EU will fund projects under the "Pilot Integrated Regional Development Program" in the municipalities of Lagodekhi, Telavi, Kutaisi, Kharagauli, Lanchkhuti, Tskaltubo and Chiatura. The overall budget of the program amounts to 200 million GEL.

Additionally, the Georgian government will co-finance the municipalities with more than 42,000 GEL (approximately $13,000).

Overall, 48 million GEL ($15.36 million) has already been allocated for municipalities of the four regions under the program.

WINE EXPORTS UP 12% IN THE FIRST 9 MONTHS OF 2021

Georgia exported 72.5 million bottles of wine to 60 countries in January-September 2021, which is an increase of 12% compared to the same period of 2020, says the Georgian National Wine Agency. Export revenues for Georgia amounted to $168 million, an 11% YoY increase. The top five countries that imported Georgian wine in the first three quarters of 2021 were Russia (+7%), Ukraine (+8%), Poland (+24%), China (+16%), and Kazakhstan (+32%).

Georgian wine exports also increased in new strategic markets, including the UK (+178%), Lithuania (+36%), the United States (+18%), and Latvia (+2%).

In total, 397 companies exported wine abroad in the reporting period.

Meanwhile, Georgia exported 25.5 million bottles of Georgian brandy (+17%) and 660,000 bottles of chacha (+97%) abroad in the first eight months of 2021.

In total, Georgia has sold $270 million worth of alcoholic beverages (+15%) in the reporting period, including wine, brandy, chacha and others.

Q3 2021: UNEMPLOYMENT UP 2.5% IN GEORGIA

The unemployment rate in Georgia has increased by 2.5% in the third quarter of 2021 compared to the same period of last year, amounting to 19.5%, Geostat reports.

In urban areas, the unemployment rate grew by 1.9%, while in rural areas it increased by 3.5%.

The economic activity rate, or the percentage of the country's population that is able and willing to work regardless of labor status, has increased by 2.5% compared to the same period of the previous year, and totals 52.8% of the working-age population (aged 15 or older).

GLOBAL CORRUPTION INDEX 2021 RANKS GEORGIA "LESS CORRUPT" THAN SOME EU AND NATO STATES

Swiss risk management company Global Risk Profile has released the Global Corruption Index 2021 with Georgia ranking 41st among 196 countries, improving from its position in 50th place the previous year. On the index, which measures corruption risk levels in the countries, Georgia received a score of 33.26 on a 0-100 scale, while the risk of corruption in the country was evaluated as 'low'. Georgia ranked above the EU and/or NATO member states of Slovakia, Croatia, Bulgaria, Hungary, Romania, North Macedonia, Montenegro, Albania, and Turkey.

The head of the Administration of the Government of Georgia, Ilia Darchiashvili, said that Georgia ranking ahead of the EU and NATO member states on the list is an 'important impetus' to continue implementing anti-corruption reforms in the country. "For one's part, that [continual implementation of anti-corruption reforms] will assist Georgia on its way to Euro-Atlantic integration," Darchiashvili added. The index, composed of two sub-indexes related to corruption and white-collar crimes, relies on 43 variables based on datasets borrowed from internationally recognized entities, such as the UN, World Bank, and Transparency International.

NEW €47 MILLION 7-YEAR PROJECT LAUNCHED TO SUPPORT GEORGIA'S FOREST REFORM

The Green Climate Fund is launching a new €47 million project to support the implementation of Georgia's forest sector reform in 2021-2027, announced the Ministry of Economy of Georgia in October. The project will cover the Georgian regions of Guria, Mtskheta-Mtianeti and Kakheti with its eight municipalities of Akhmeta, Telavi, Dedoplistskaro, Kvareli, Tianeti, Lanchkhuti, Ozurgeti and Chokhatauri. As part of the project, the Georgian Ministries of Economy and Agriculture and the German development agency GIZ signed the technical cooperation agreement today. "We are launching a project ... [that] will help to establish sustainable forest management in the country, to introduce energy efficient and climate-friendly technologies and improve forest management. The project will contribute to the well-being of the local population, strengthen and improve the control of forests and forest resources," said Georgian Agriculture Minister Levan Davitashvili said.

Just a spoonful of fenugreek

– the nutritional potential of Georgia's ancient wheats and spices

GEORGIA'S TRADITIONAL FOOD STAPLES HAVE A CHANCE TO PROVE THEIR WORTH ON GLOBAL AGRICULTURAL MARKETS IF THEY CAN DEMONSTRATE THEIR UTILITY IN THE LOOMING CHALLENGES OF FEEDING LARGER POPULATIONS AND WEATHERING CLIMATE CHANGE

Marigold petals, also known as calendula, are commonly used in Georgian dishes involving walnut-based sauces, such as bazhe

SALLY WHITE

The traditional foods of the Caucasus have come into focus with the current global quest for healthy, resource-lite and sustainably grown fare.

It's certainly not the khachapuri and mchadi that star in tourist ads which are getting the attention, but the wide array of fruits and vegetables, the heritage wheats and millet, walnuts, and kefir as well as herbs and spices such as calendula, blue fenugreek, berberis, and caraway that have been used for centuries by Georgian cooks.

Research now tells us that so many health essentials can be sourced in Georgia. What is more, these heritage grains have high immunity to crop diseases and pests, reducing the need for pesticides. Their wide variety offers plants that can grow in differing territories and climates without the need for massive chemical boosters.

Reminders of the perils to come if the developed world continues its present ways of feeding its burgeoning population are now being published almost daily. November's COP 26 Climate Change Conference created new waves of fear about sustainability and the World Health Organization has heightened them with warnings of the impact of pollution and over-production on dangerously depleted soils.

The lack of sustainability in current approaches to food production is highlighted in a study by Donald Davis and his team of researchers in the Journal of the American College of Nutrition, which states: "Efforts to breed new varieties of crops that provide greater yield, pest resistance and climate adaptability have allowed crops to grow bigger and more rapidly," reports head researcher Donald Davis, "but their ability to manufacture or uptake nutrients has not kept pace with their rapid growth. There have likely been declines in other nutrients, too," he says, "such as magnesium, zinc and vitamins B-6 and E."

A diet that revolves around meat and dairy, which is on the rise as the developing world catches up with the west, will also "take a greater toll on the world's resources than one that revolves around unrefined grains, nuts, fruits, and vegetables", notes a study from the University of Nevada, where scientists have intensified their efforts to learn what they can about ancient diets.

Yet one of the most successful transitions of the 21st century has been that of kefir, an ancient food which has been revived for its health properties. Thought to have originated in the northern Caucasus, it differs from other fermented products. While most yogurts contain only four to six different culture strains, kefir boasts up to 61 different strains of beneficial bacteria and yeasts. It can be produced from whole, semi-skimmed or skimmed pasteurized cow (the most common), goat, sheep, camel or buffalo milk.

Not quite buttermilk, kefir is basically milk cultured by an odd-looking, living organic collective of yeasts and bacteria. Studies published by Cambridge University Press's Nutrition Research Review show kefir "to be effective in improving digestion, reducing blood pressure and cholesterol, preventing cancer, improving immunity, and reducing asthma and allergies".

Unlike modern grains such as wheat, corn, and rice, ancient grains have never been processed through hybridization or genetic modification. With exotic-sounding names like teff, einkorn, emmer, amaranth, millet, quinoa, black rice, black barley, and spelt, these grains are grown just as they were a thousand years ago. "Generally speaking, they offer more protein, fiber, and vitamins than modern grains," says Debbie Krivitsky of Massachusetts General Hospital in a Harvard Health Publishing article.

Georgia is famous as a source of ancient wheat varieties. "Until the 1960s, 14 species of wheat and 144 varieties were registered in Georgia. This was 62% of species registered in the world. At present, this number, especially of varieties, has deteriorated dramatically," states the Gardens of Biodiversity report from the UN Food & Agriculture Organization. Yet, Georgia's organic organization Elkana and Lali Meskhi, chair of the Georgian Wheat Producers' Association, admit that domestic production is limited and overseas interest is mainly focused on buying seed for research and development.

However, these ancient wheats have properties that are badly needed now in that they can adapt to a wide range of environments and are immune to many diseases.

Elkana states in its publication The ancient wheats of Georgia that emmer, for example, which originated from the cold mountain areas of eastern Georgia, can thrive "in places where other crops could not perform" and is resistant to diseases and drought. Other varieties, such as einkorn, thrive in both humid and dry conditions, and all seem to offer health benefits.

Steps are now being taken to protect ancient Georgian wheat varieties, including nominating them for listing among Georgia's Intangible Cultural Heritages. An action plan initiated by the Scientific-Research Center of Agriculture of the Ministry of Environmental Protection and Agriculture envisages the creation of a geo-information base on the genetic resources of Georgian wheat stored in gene banks, research institutions, and farms in Georgia and abroad. The action plan envisages organizing conferences as well as restoring and promoting the traditions of the bread festival.

Millet, which also falls under the "ancient grain" category, is now more commonly used in developed countries as bird seed or animal feed but has been grown in Georgia for countless generations. It has a wide range of gluten free benefits and can be used in a variety of different recipes, including the Georgian dish of ghomi. Though ghomi remains very popular and foxtail millet can be found in the Samegrelo region of west Georgia, these days it is more commonly made with maize.

Millets are thought to have been introduced into the Caucasus region between 8,000 and 6,000 BCE from China. In addition to reports published by Nature.com that show "millets are nutritionally superior to large-grained cereals like wheat or barley, in terms of proteins, minerals, and vitamins," research done by a team of biochemists at the Memorial University of Newfoundland in Canada found that several varieties of millet contain "high antioxidant activity".

Millets include varieties that are spring-warm weather crops and rain-fed summer crops, which do not need irrigation, notes the Nature.com study: "Millets require about half the water compared to wheat, and their cultivation does not require plowing due to their shallow roots. Thus, millets are very suitable for cultivation by semi-nomadic societies both in the past and still today, as they are low-investment agricultural crops."

Walnuts are lauded for their ability to enhance cognitive functions, not just as the basic ingredient of delicious sauces or fillings for phkali. According to a paper published by the US National Center for Biotechnology Information entitled Beneficial Effects of Walnuts on Cognition and Brain Health, "several lines of evidence suggest that walnuts may reduce the risk of age-related diseases because of the additive or synergistic effects of their components with antioxidant and anti-inflammatory effects. Walnuts have a high content of antioxidants … [and] contain a high amount of n-3 a-linolenic acid (ALA), a plant-based omega-3 fatty acid that has a highly potent anti-inflammatory effect," it states.

Other Georgian sauces include the juice of pomegranates, which Healthgrades.com says contain antioxidants with powerful anti-viral properties; they also contain a wealth of vitamins, including A, C and E, as well as folic acid. Use of cumin, an herb found in a variety of Georgian dishes[MB1] , dates back millennia, according to an article in Nutrition Today, and has been used to treat gastrointestinal distress, diarrhea, and jaundice, as well as for hypertension, epilepsy, fever, childhood maladies, and gynecological and respiratory disorders.

Fenugreek is also widely used in Georgian cuisine and, says a Saudi Society of Agriculture Sciences paper, this spice is known for its medicinal qualities such as antidiabetic, anticarcinogenic, hypocholesterolemic, antioxidant, and immunological activities.

Calendula, Georgia's saffron, says the report on Turkish-based research led by the Department of Biology at Selcuk University, has been cultivated as a food and medicinal plant since the Middle Age and is described as a source of biologically active compounds. The herb's antifungal and antimicrobial properties "help prevent infection and heal injuries to body tissues. Calendula is also known to have anti-inflammatory and antioxidant components, which might help to fight cancer, protect against heart disease, and ease muscle fatigue."

The Georgian cook's larder is full of defenses against disease, but just one more! Plums, which take an important role in dishes such as kharcho as well as tkemali sauce. Plums are rich in potassium (a mineral which can reduce the risk of stroke) and fiber and belong to a select group of fruits which are low on the glycemic index, meaning that they can help manage blood sugar levels.

Alexander Pushkin wrote "Every Georgian dish is a poem", but he did not realize it is often also a medicine.

Georgia has petitioned UNESCO to place 'Wheat culture in Georgia and culture of endemic wheat species' on the List of Intangible Cultural Heritage in Need of Urgent Safeguarding

GITA's promising new 100K GEL startup winners

THE GEORGIAN INNOVATION AND TECHNOLOGY AGENCY HAS FINANCED A TOTAL OF 116 STARTUP PROJECTS IN THE PAST FOUR YEARS WITH 11.4 MILLION GEL. THIS YEAR'S COHORT, THE SEVENTH SINCE THE LAUNCH OF THE PROJECT, SAW 20 STARTUPS WIN 100,00 GEL TO GET OFF THE GROUND. APART FROM THE 100,000 GEL STARTUP GRANTS, GITA ALSO PROVIDES SMALL GRANTS UP TO 15,000 GEL AND 650,000 GEL MATCHING GRANTS FOR STARTUPS WITH AT LEAST ONE YEAR OF REGISTRATION AND ACTIVITY.

LIKA ERISTAVI

The seventh and most recent cohort of startups of the co-financing program sponsored by the Georgian Agency for Innovation and Technology saw 20 of 246 contestants take home 100,000 GEL. Investor.ge highlights what we think are the most interesting and innovative four below.

DAYONE

Georgia's gambling problem is no secret, with total turnover in gambling reaching a record 32 billion GEL in 2020. The Georgian government is now moving to limit access to both brick-and-mortar and online gambling for individuals under the age of 25, and for those receiving state aid, civil servants and individuals blacklisted on the request of their families by civil courts.

Georgian startup Dayone is also looking to help solve the problem, and intends to launch a platform which will provide gambling addicts and their family members with an online, anonymous rehabilitation course. Daily assignments and exercises with the involvement of a psychotherapist give users the opportunity to examine and address their addiction, Dayone claims.

Unlike a number of physical rehabilitation centers, Dayone incorporates a resocialization service as well. The platform plans to continue taking care of its users by contributing to their professional development after the rehabilitation course is finished. Dayone founder and head of the Gambling Research and Ludomania Prevention Center Guga Beselia says that built into the platform is a program to help users who have recovered from their addiction get started in self-employed professions such as furniture making or tattoo art.

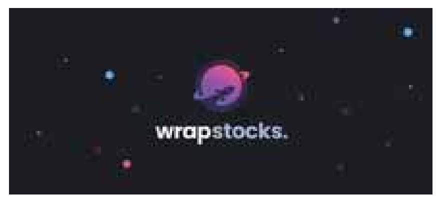
"If casinos have gone online, why shouldn't rehab?" Beselia, who has been working on the project since 2018 with a team of 15 people, told Investor.ge.

Beselia thinks that those who are willing to recover should stay in contact with Dayone 'almost for the rest of their lives.'

The startup aims to enter the online market of countries of the former Soviet Union after it accumulates experience in Georgia. Beselia says gambling addiction affects roughly 13-14% of the adult male population in Georgia, and the numbers are similar in Russia, Ukraine and other countries in the neighborhood.

The platform offers standard and premium packages. The monthly fee for the standard package is nine GEL, while the price of the premium package ranges from 39 GEL to 200 GEL as it includes psychologist's help with group and individual therapy.

WRAPSTOCKS



Investing in stocks in Georgia has generally been an either complicated or expensive process, but the startup Wrapstocks wants to change this and make equity more accessible to retail investors.

Wrapstocks intends to do this with the help of blockchain technology, by 'wrapping' shares in blockchain transactions. Project founder George Mokheve says this will have the effect of making equity more affordable and accessible, since the only asset needed to participate on the platform will be USD stable coin.

"The transparency and reliability of the blockchain is what Wrapstocks is based on. Because blockchain is limitless and available anywhere," Mokheve says.

The idea behind Wrapstocks was born in Osaka, Japan at the DevCon5 conference in 2019 where the problem of the difficulty of purchasing stocks with crypto assets was put forward.

The team of six has been working on the project for a year and is still in the development phase, and expects to release its first, limited beta product towards the end of 2021 or in the beginning of 2022. Users not admitted immediately to the platform will be able to sign up for the waiting list later to start trading.

The Wrapstocks team, six individuals from the tech field, bootstrapped their project in 2020 and have been developing the platform over the course of two years; they plan to use their 100,000 GEL grant from GITA on marketing.

THERMONORTH

ThermoNorth has developed an eco-friendly engine oil additive for shipping companies to reduce their fuel consumption and CO2 emissions. The additive does this by reducing friction inside the engine and in the process, saves fuel.

"We found that grinding surfaces inside the engine create higher friction and therefore, a significant amount of fuel is lost to overcome this friction. When we add our product to the engine, an ionic repulsion force is created between surfaces and they repel each other in nanoscale," co-founder and CEO of ThermoNorth, Elmar Asgarzada, says.

GITA welcomes innovative ideas not only from Georgia but from all over the world. ThermoNorth, a startup from Azerbaijan which has made its home in Georgia, is an example of this.

The main reason why the project was brought to Georgia is the better accessibility to the European market. ThermoNorth says 'Georgia is the best place to start and enter the EU market.'

ThermoNorth plans to open a small laboratory in Georgia to further test their products. The team consists of six experienced technology and business professionals. Last year they were joined by Colin Donohue as interim CEO. Donohue has a track record of experience in the startup ecosystem and is director of Startup Grind Tbilisi and Startup Connect.

Currently, ThermoNorth is engaged in the Maritime ClimAccelerator program powered by Climate-KiC that invested 20,000 EUR in the startup and provided it with the opportunity to test their product free of charge.

Asgarzada also told Investor.ge that their product is undergoing engine tests in one of the largest oil companies in the world, noting that they 'are close to having a deal with them.'

ENSOFY

Approximately 280 million people worldwide suffer from depression and more than 75% of the population in developing countries do not receive treatment for it, the World Health Organization says.

Medscape reports that people with untreated depression have a nearly 20% higher risk of suicide, while a recent study in The Lancet shows that during the pandemic, cases of minor depressive disorders alone have dramatically increased globally by more than 50 million.

To counter employee attrition and burnout, Ensofy uses artificial intelligence based on voice analysis to detect symptoms of depression. Ensofy is looking to target businesses concerned about their employees, and to help them prevent the outflow of employees due to anxiety and depression.

The startup uses depression screening and monitoring technology voice-AI which identifies depression in a person's voice and quantifies symptoms in real time while respecting an individual's confidentiality as Ensofy only uses short audio recording without analysing the content.

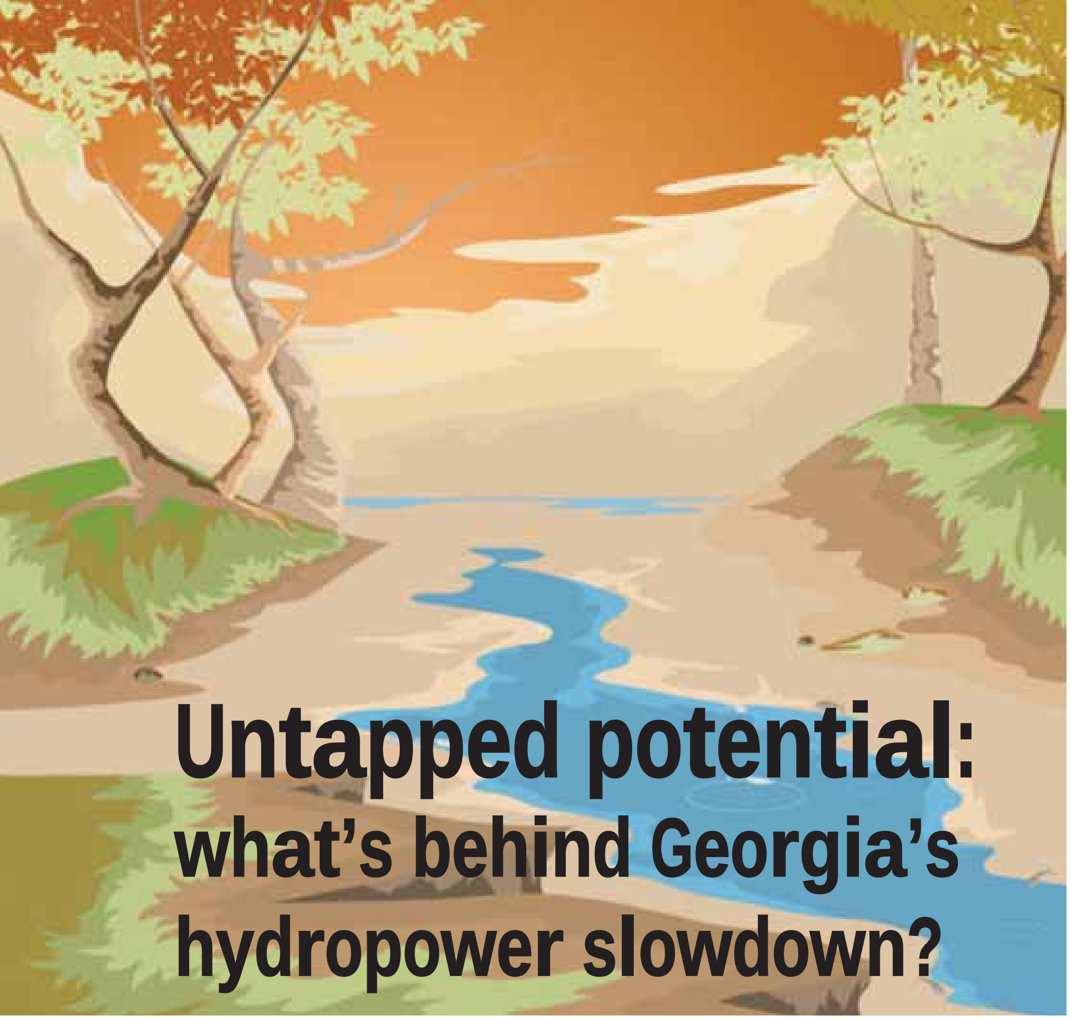
Speech processing technology detects traces of depression by identifying pauses, jitters, shimmers and other voice variabilities in the speech.

Co-founders of the project Irakli Lezhava and Iveri Prangishvili have ten years of work experience in the field of digital health and artificial intelligence and they aim to create a product which will identify various health mental problems with higher accuracy compared to already existing diagnostic standards as 'these approaches are quite outdated and relatively inaccurate,' Lezhava says.

Ensofy will be targeting companies that do not want to lose qualified staff due to psychological problems. The platform aims 'to increase workforce productivity by detecting burnout as early as possible.'

The startup was launched a year ago and now a demo release of the product is scheduled in about two months, while in the future they plan to enter the global market, starting with Germany and Switzerland as they have already established business ties with these two countries.

Lezhava says that the bulk of the GITA grant will be spent on the technical development of their product and also on its commercialization in local and international markets.



Untapped potential: what's behind Georgia's hydropower slowdown?

GEORGIA HAS BECOME INCREASINGLY RELIANT ON ENERGY IMPORTS IN RECENT YEARS, AND YET STATE SUPPORT FOR DOMESTIC HYDROPOWER DEVELOPMENT HAS WANED OVER FEARS OF MOUNTING FISCAL RISKS. HOW JUSTIFIED ARE THESE CONCERNS, AND WHAT ARE THE POTENTIAL CONSEQUENCES OF FAILING TO BUILD OUT THE COUNTRY'S GREEN ENERGY RESOURCES?

JOSEF GASSMANN

The number of hydropower plants being built in Georgia has slowed to a trickle in recent years. Shovel-ready projects have found it hard to move forward. The latest example is the $800 million Namakhvani HPP project, canceled after Turkish industrial conglomerate Enka terminated its contract with the Georgian government in late September following months of conflict and obstacles in moving forward.

Renewable energy sources have even lost ground in the total share of Georgia's total power consumption. Data from the Georgian electricity market operator ESCO show that in 2016, thermal power plants and imports accounted for just 22.9% of all electricity consumed in Georgia, while by 2020, the share of non-renewables and imports had increased to 34%, with the share of hydro sinking from 81% to 65% over the span of 2016-2020.

The hydropower slowdown is a problem not only because of the country's obligations to the EU to move in step with the bloc's plans to reach a net-zero carbon economy by 2050. 5% average annual growth in domestic energy consumption and the blossoming of a crypto-banana republic in Russian-occupied, breakaway Abkhazia have made Georgia a net energy importer since 2017, obliging the country to purchase between 11-13% of its annual electricity volume. Considerable dependence on natural gas imports from Azerbaijan and Russia to run the country's thermal power plants further exacerbates the looming energy security problem.

Put entirely to use, Georgia's annual hydropower generation potential is between 30-56 TWh per year, Norwegian Water Resources estimates in a recent report. At the high end, this is more than four times the volume of electricity the country currently consumes. Yet just a fraction of these resources are being used. Why?

An incentive mechanism called a power purchasing agreement (PPA) was on offer to investors up until 2017 and drove much investment until that point. The incentive has since been taken off the table due to fiscal concerns. Now the question is whether the government and the private sector will be able to find a solution that works for both parties.

POWER PURCHASING AGREEMENTS FOR ALL

Georgia was brimming with opportunities in hydropower in 2008 when the state launched a support program to promote investment in renewable energy projects, the main offering of which were PPAs on attractive terms.

Activity in Georgian hydro picked up around 2012, when the sector began attracting what some industry experts say was the wrong kind of interest: speculators looking to secure, sit on and pawn off PPAs when market prices would rise. Speculation itself isn't always a problem, and can foster competitive market growth. But as of January 2020, the Ministry of Economy had a portfolio of outstanding agreements with approximately 60 HPP projects (currently at various stages of development) which had been awarded PPAs and which are now the focal point of a discussion about how – and whether – to push the country's green energy agenda forward.

CAN'T LIVE WITH 'EM

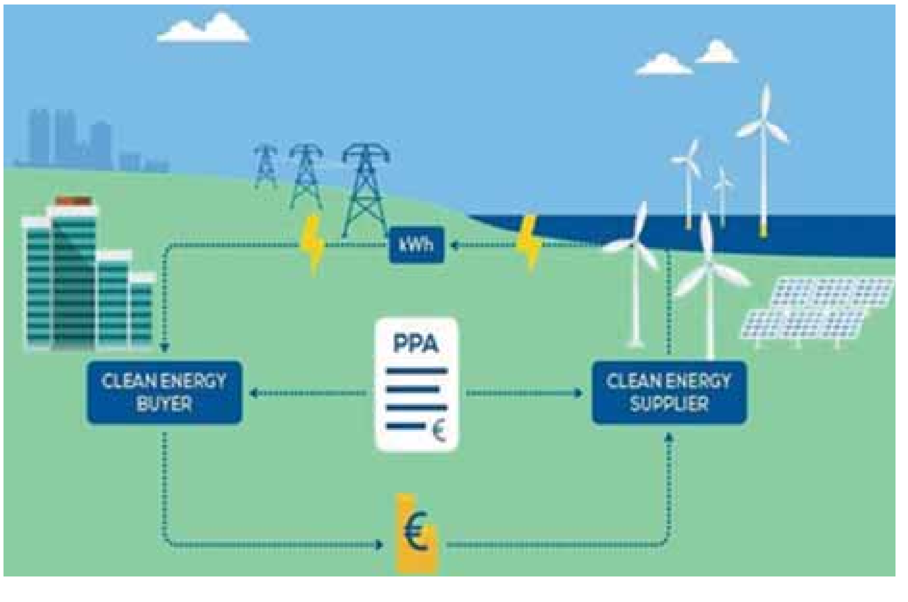
The IMF penned a letter to the Georgian government in 2017 advising the latter to determine whether it could weather the storm of financial vulnerability to which it would be exposed during a period of cyclical economic downturn due to its obligations taken on under the dozens of PPAs signed since 2008.

The Georgian Ministry of Finance calculated that the risk was indeed too high, and placed a moratorium on new PPAs that same year, claiming the state could face nearly 1 billion GEL (approx. $320 million) in exposure during the downturn of an 8-10 year economic boom-bust cycle, when it would have to purchase excess energy uncleared by the market due to the downturn in economic activity.

The calculation's methodology assumes the construction and exploitation of all of the country's outstanding hydropower projects that have been awarded PPAs (including the now-cancelled Namakhvani project, which alone would have accounted for a hefty percentage of the figure cited above), and a future market price of 6 cents per KWh, extrapolated from current import prices.

The ministry has since been nearly unwavering in its decision to put a pause on PPAs, and doubled down on its stance when Covid-19 sent the Georgian economy plummeting, which was "[a moment that] highlighted the importance of mitigating such contingent liabilities … and we used this opportunity to announce a more complete moratorium on PPAs", the ministry's Head of Fiscal Responsibility Department, Shota Gunia, told Investor.ge.

A power purchasing agreement is a long-term electricity supply **agreement between two parties – a** power producer and a customer, often the state. The agreement obliges the customer to purchase a certain volume of electricity at a defined price over a set period of time. The agreement also stipulates when commercial operation is supposed to begin, and covers termination and other contractual issues.



The ministry's goal is not to interrupt investments, Gunia stresses. "The MoF is responsible for ensuring sustainability. Our interest here is not in the quantity of investments, a phenomenon we have seen in the past, but in their quality. We see PPAs as a serious contingent liability, and we believe there are alternatives that will be acceptable to both the state and the private sector."

The Ministry of Finance concedes that the calculation methodology could be construed as contentious, but notes that the important takeaway is that the exposure is 'very large' and that both the IMF and the World Bank allegedly 'share our opinion and feeling of alarm about the situation.'

Other reasons the MoF remains skeptical of PPAs pertain to budgetary concerns: "When you disclose information in the state budget, the parliament doesn't know that this [PPA] liability exists because it's contingent, which doesn't exactly go into the balance sheet. It's in the annex. So it is a kind of tool, a conduit, that can be used for financial misconduct. We want to ensure this doesn't happen."

In place of PPAs, the Ministry of Finance has offered developers the incentive of feed-in premiums (FIPs) – a guarantee of up to an additional 1.5 cents on the kWh, with the final price not exceeding 5.5 cents.

The offer has not gone entirely shunned. The ministry claims more than 25 projects with a potential total installed capacity of 525 MW, that's about one-ninth of Georgia's current generation capacity, have either agreed to sign up for FIP agreements or transitioned from PPAs to FIPs since the introduction of the mechanism in July 2020. However, many of these projects already had expiring PPA agreements, and decided to proceed with FIP agreements to avoid walking away entirely empty handed. ▸▸

Whether these long-standing projects will continue on into development is another question.

FIPs address the MoF's budgetary concerns, says Gunia: "The FIP system reduces liabilities enormously. And here, they're not really contingent liabilities: we can budget for this. It becomes a line item approved by Parliament. This solves the transparency issue for us."

CAN'T LIVE WITHOUT 'EM

But FIPs don't address the concerns of the private sector, which remains largely unconvinced.

Georgian Renewable Energy Development Association (GREDA) CEO Giorgi Abramishvili says that the Georgian market is too small and the future price of electricity on the upcoming competitive energy market, due to launch in March 2022, too unpredictable to justify investing in new projects at this time without the provision of incentives more substantial than feed-in premiums.

"PPAs can cover the financial risks of operating on a market with as many unknowns as Georgia, at least for a time until the competitive power markets are operational. It is unimaginable that investors will come without the restoration of PPAs," Abramishvili says.

FIPs do not appear attractive to either investors or financial institutions, the GREDA chair notes, and may even pose two serious risks to project profitability in the face of the new market: "State-owned HPPs such as the Enguri HPP [ed. which accounts for more than 35% of energy consumed in Georgia, not including Abkhazia] have too much clout in setting the market rate because of their large production volume and low tariffs. Power plants that come online with FIPs too early could end up exposed to the downward price pressure. What investor wants to take on that risk?"

Similar potential pressure lurks outside Georgia's borders as well: aggressively predisposed neighbors could strike a serious blow against Georgia's energy sector by taking advantage of the country's liquid-market-to-be through dumping, rendering FIPs unsustainable.

Therefore, Abramishvili argues, PPAs must be retained, if only for their value as price floors, and provide security for banks, investors and the grid as a whole.

Many in the private sector say feed-in premiums may be a great target for the future, several years after the power sector has settled following competitive market reforms. This will allow for the generation of real market prices, and only then will the offerings of an FIP system

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be worth assessing.

But energy security advocates insist Georgia doesn't have the luxury of being able to wait years before continuing the pursuit of a green future. Focusing exclusively on current power needs means the country could end up more dependent on dirty power: fossil fuels and gas-fired thermal generation from its neighbors.

This trend is already observable on the market in the absence of state support for clean energy. The Georgian National Energy and Water Supply Regulatory Commission's (GNERC) annual report shows that generation capacity grew 5.6% (253 MW) in 2020, of which 230 MW (91%) was accounted for by the installation of a thermal power station in Gardabani (read – gas from Azerbaijan). The six remaining HPPs added just .5% generation capacity in 2020.

Private sector investors have objected to the position taken by the Ministry of Finance on other grounds as well, one of the first and foremost being that some level of risk is unavoidable when building an energy portfolio for the future, if only because of the rate at which power plants' operability declines (approximately 5% yearly over the long term).

The nearly 1 billion GEL ($320 million) exposure has to be further measured against the fact that the country's consumers are already spending $50 million a year on imports to cover shortfalls in domestic energy production, which would outweigh the

expected shock of an 8-10-year economic cycle downturn. Moreover, there is an argument to be made that the potential loss of 1 billion GEL spread out over nearly a decade in an economy with a gross annual GDP of nearly $16 billion is stomachable to keep the lights on and ensure energy security.

To boot, the billions of dollars in investments (the Namakhvani HPP alone had a projected investment size of $800 million) behind hydropower plant projects offer substantial tax revenue streams, developers argue, both at the initial construction stage and once in operation. Furthermore: one kilowatt hour produced in Georgia has a different economic value than one KWh that has been imported. Energy produced in Georgia means jobs and taxes, in addition to improved energy security, all of which would have to be weighed against the risk of facing a large theoretical payout in the future.

A final point made by private sector stakeholders: mechanisms are in place on both the current and coming markets to prevent arbitrary energy production and subsequent unjustified claims to payment from state coffers. Grid operator GSE currently has a dispatch license and can control production levels; power plants are unable to generate power in situations where it is not needed. On the coming markets, however, power plants will have more freedom to schedule production, and will be rewarded for correctly forecasting additional needed resources, but will also be penalized for oversaturating.

HOPE FOR COMPROMISE?

Whether or not PPAs present serious fiscal risks to the state budget is debatable, and there are a number of other issues facing the sector.

A spokesperson for the 5-year USAID Securing Georgia's Energy Future program told Investor.ge that the implementation of the competitive energy market mentioned earlier is absolutely critical, as it will provide potential investors with access to real data about local market conditions and prices.

Energy pundits in the country often say that political resolve to push the country's energy sector forward also seems lacking, particularly in light of Enka's recent decision to terminate its contract with the state, which may have repercussions for the energy field for years to come.

"Regardless of the myriad of issues, taking a long-term approach is necessary to ensure stable growth in Georgia's energy sector," says the USAID Securing Georgia's Energy Future program spokesperson. "Demand has grown steadily in the past decade, faster than generation has been able to keep pace with, even with the addition of gas-fired power plants. PPAs may have their associated issues, but they are critical for the bankability of projects that the country so very needs."

But there's a caveat here: PPAs only have to remain a part of the local investment ecosystem for a limited period of time. Indeed, Georgia's power market is scheduled to 'go liquid' in 2022, and long-term PPAs could distort market prices:

"So, what we really need is a 'transition solution'", the spokesperson notes. "One of the potential compromises we'll be promoting will-be agreements based on five years of a PPA, and an additional five years of an FIP, to ease in new plants."

There are yet other compromises the program says warrant discussion. Stalled HPP projects with PPAs could be reworked, or their license rescinded to make room for other potential plants which have a chance of meeting with less public resistance and running up against less red tape and technical barriers. Yet another interesting proposal: a mechanism that would adjust PPA payments against project IRRs, addressing concerns that PPAs could pose large fiscal risks to the budget, while assuring investors that returns would be guaranteed to a certain extent.

In response to the issues mentioned above, the Ministry of Finance notes that its "existing PPA portfolio highlights that [it] has an appetite for risk," but how that will manifest in a more secure and eco-friendly future for the country's power sector remains to be seen.

How e-bikes can promote cycling in Tbilisi

HANS GUTBROD

Many of the bike paths are now there, throughout various parts of Tbilisi – but where are the cyclists? Those moving on spokes still are a trickle, rather than a steady stream flowing across town.

One factor that could soon change this is the increasing prevalence of e-bikes. This, at least, is the view you hear from aficionados, who highlight that Tbilisi's many hills are an impediment for potential cyclists. Even for those with athletic ambitions, cycling over Mtatsminda to reach Vera from Sololaki is a noticeable challenge – all the more if your hosts expect you to arrive with a mostly dry shirt.

Here, e-bikes could make all the difference by helping when the going gets tougher. The most sophisticated e-bike systems, such as Europe's market leader Bosch eBike Systems, give gradual support and allow users to switch settings from eco (primarily supporting the weight of the bike) across tour (more support, yet still focusing on range) all the way to turbo. At this top setting, riders can zoom up steep hills at almost 25 km an hour, which is the maximum support speed for most systems sold in the EU.

Certainly, e-bikes have become popular across the EU in recent years. In Germany, of the five million bikes sold during the pandemic, nearly 40% had an electrical motor. Studies for the e-bike industry have found that every other German commutes less than 10 km to work (think upper Saburtalo to Sameba, or Vake to Varketili), making the e-bike likely the fastest mode of transport in urban areas, especially at busy times.

Jeffrey Kent, honorary consul of the Republic of Ireland, is an early adopter in Tbilisi. While his drilling work often takes him outside the city, he says that once in town he usually leaves the car at the office and returns home by e-bike: "I mostly enjoy not being frustrated by traffic", he says, and adds that it is a special pleasure to scoot past cars stuck in long jams. A strong motor helps him get where he needs to be. From time to time you can spot him on Rustaveli Avenue, too. Jeffrey is one of several million who have found e-bikes transformative. No wonder that the CEO of Bosch eBike Systems estimates that half the bikes sold in the EU in 2025 will have a motor, according to a report in the Financial Times.

So what inhibits the uptake of e-bikes in Georgia, in 2021? Some of the factors preventing their wider adoption may be about to melt away. For a few years now, premium bike shops such as Bikes.ge on Abashidze have offered quality e-bikes as part of their selection. Bikes.ge says they have sold 25 e-bikes in the last two years. Local availability is critical, as airlines do not permit e-bikes as sports equipment because their batteries are a fire hazard.

While e-bikes remain expensive, proponents say that their cost should be seen in the context of them replacing a car for most urban trips: half the wheels and more than double the fun. While midmarket e-bikes are priced at \$2.000-\$4.000, a steep cost even inside the EU, these remain cheaper than a car, and much cheaper to run, too. Bosch, again, calculates that at EU prices, 100 km on an e-bike costs about 0.30 cents, compared to nearly \$8 for only the cost of fuel for a car.

Volto Bikes, a Tbilisi-based company, offers to upgrade existing bikes to an e-bike, as one less expensive alternative. Used e-bikes, or budget versions with limited ranges, are available at upwards of $1200. A substantial chunk of the cost is a lithium-ion battery – imagine many dozens of iPhone batteries strung together – and a new quality battery can easily set you back as much as what now is known as an organic bike. The strongest battery at Volto-Bikes is $600, without engine, steering unit, and installation. In return, such batteries offer a range of more than 100 km on undulating landscape, and in steep terrain still easily enough to go from Lisi Lake down and back up to Tsavkisi, Kodjori, and beyond.

With such an investment, protection from theft is a major concern: “I can leave my house with a bike”, comments one cyclist, “but then I don’t know where to park it once I reach the destination and the risk of somebody just taking it away is quite big.” Here, too, some solutions are now finally making progress. Several startups have developed viable GPS trackers. As the eBike battery can feed power, the trackers – usually priced between $150-220 – can send signals for weeks, and don’t require separate recharging at home. The signals are sent via GSM/mobile phone networks. One Austrian firm, PowUnity, since October 2021 has included Georgia in their coverage. The first year of tracking is usually included in the purchase price, and thereafter the annual subscription fee is between $40-50 for most systems.

When you step inside a restaurant, you set the alarm to receive a notification once the bike changes its GPS position, and you can follow on a map where it goes. PowUnity claims that it has assisted in the recovery of more than 160 e-bikes in recent months. It is likely that once these systems catch on in Georgia, a few bike thieves will be surprised to find their pursuers so accurately on their heels.

The tracking systems don’t, however, solve the overall challenge of parking the e-bike. With battery and engine coming in heavy, many mid-range models weigh in above the luggage limit of even generous airlines. Add in some shopping, and the weight becomes quite a proposition for your third-floor apartment.

There will be a need for new urban solutions. Recently, one e-bike was spotted in the garage of Stamba Hotel. With video cameras, a permanent fixture to lock, and possibly even electrical charging, e-bike owners may well become enthusiastic clients for underground parking. London, in turn, has pioneered neighborhood bike hangars, which replace a car park on the street, for six bikes at a time, with yearly rental fees offsetting the municipal subsidy. The hangars are locked, in addition to the bike lock, giving extra protection also from the elements.

A less likely solution are bike lifts, popular in various ways as a storage solution, in which bikes are pulled out of reach, for example under a balcony. On a stormy night in Tbilisi, you would have to worry about it raining down sustainable modes of transport.

Sustainability is a key feature of e-bikes. Some studies have suggested that more cycling could have ten times the positive impact towards reaching net-zero cities than a comprehensive switch to electrical cars. While e-bikes need to charge, one Tesla could power an entire fleet of them.

Yet the parking conundrum illustrates that increasing cycling in Tbilisi requires more than just integrating the existing bike paths into a connected system. The multidimensionality of that challenge is also brought home when you ask people why they don’t bike. Many still see the roads as too fraught, in spite of many new bike paths. Vakho, a local student, says that he “thought about cycling as a way to get past the terrible Tbilisi traffic, especially on big crowded streets like Chavchavadze and Rustaveli. But I can’t do it because the roads are too dangerous, so I’d rather try those new scooters that you see everywhere.”

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Reducing speeding and reckless driving remains important to make more space for those that will be particularly vulnerable once they are on the street. Here, too, the actions of a few hundred or thousand men (and it's almost exclusively men) with misdirected testosterone greatly constrain what everyone else can do and enjoy in the country. There is still a long way to go (and a few extra-reckless drivers to be removed from their wheels) before many parents will be comfortable strapping their children into a Cargo eBike to cruise them to school.

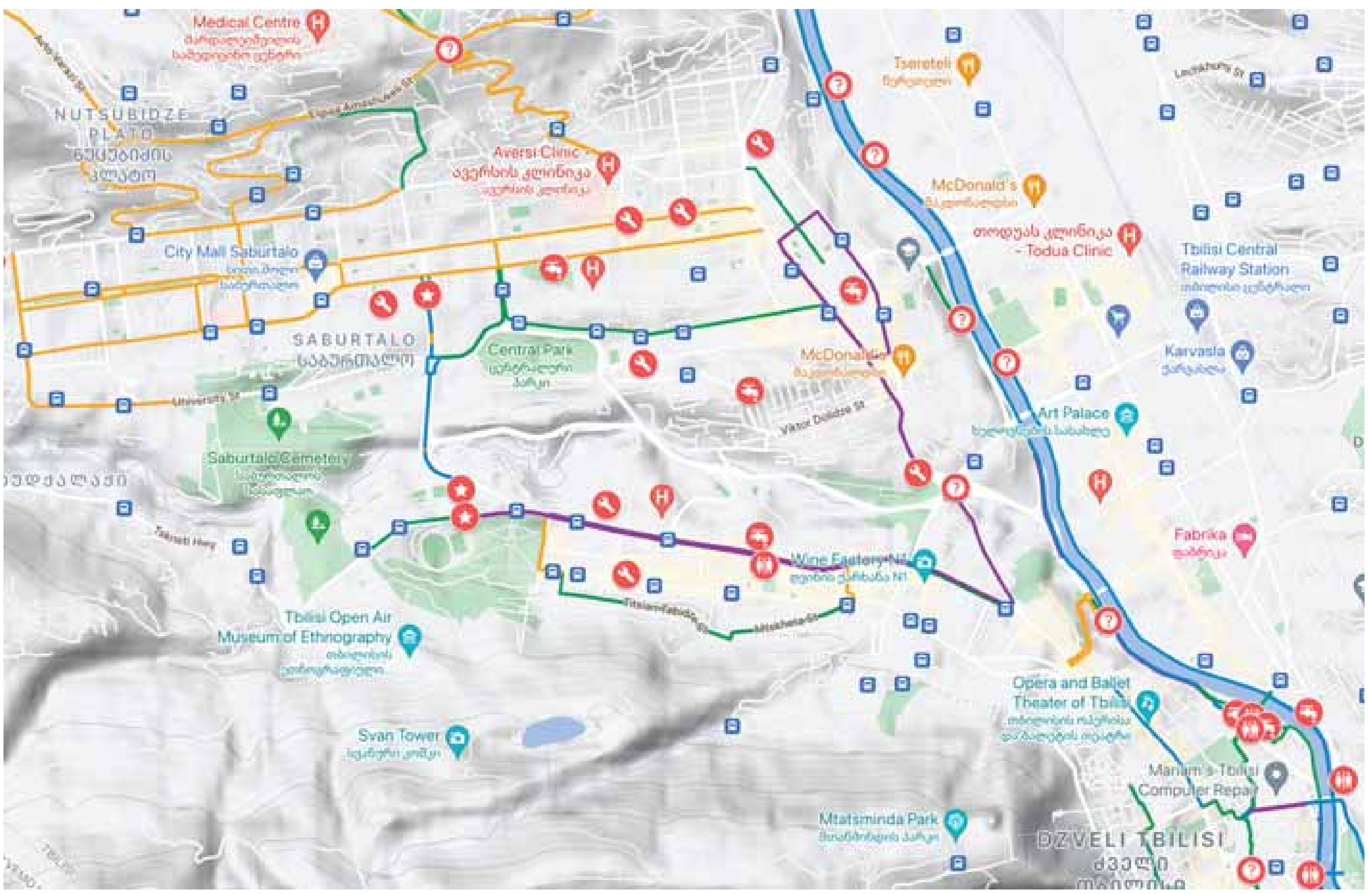
For safety reasons, too, it would make sense for Georgia to adopt regulations similar to those in many other countries: bikes that offer assistance up to a maximum of 25 km/h are free to use. Faster bikes, with assistance up to 45 km/h, require registration, insurance, and a helmet.

For many in Georgia, another basic building block is missing: "I would never cycle because I do not know how. They [parents] never taught me", says Iva. Related to that, another student comments that while they cycle in their village, they don't think they have enough practice to navigate mean city streets.

Social contagion is likely to lead to dynamic change. "I don't have anyone to cycle with", a student said. They might try "if I had someone to go with." Bringing a friend out to bike, and showing them safe paths to cycle, may thus be one of the single best things that any cyclist in Tbilisi can do to contribute to help people switch. The Caucasus Cycling Network, a group of cycling enthusiasts, regularly organize exactly such community rides, with increasing participation.

With regards to taking safe paths, e-bikes could be a game changer. There are many back roads in Tbilisi, some of them with sufficient potholes to make them thoroughly unattractive for anyone in a low-stance BMW. Douglas Morris, an active member of the American community, together with local cyclists created a detailed map showing such paths, from Dighomi down to Ortichala, available here: https://goo.gl/maps/VN-Ha9mUrieAHN5SU6. These scenic back channels could indeed contribute to a greater flow of cyclists, but often require that bit of extra uphill muscle. As the old adage goes, sweat saves blood, and now that magical electrical charge can take care of the sweat, too.

Hans Gutbrod has been cycling in Tbilisi since 2005 and survives on Twitter at https://twitter.com/HansGutbrod. Gurami Jajanidze, Chelsea Backer Leegstra and Anna Maria Wilczynska, all students at Ilia State University, contributed research to this article.



Screenshot of Tbilisi cycling map. The map can be found here: https://goo.gl/maps/VN- Ha9mUrieAHN5SU6

ORIENT LOGIC® launches Agile transformation project

Maintaining a solid IT infrastructure, network environment, cybersecurity and ongoing digital transformation processes has been a major challenge for almost every organization in recent times. Orient Logic has been offering technological support to Georgian companies for more than 26 years. Recently, the Orient Logic team has launched Agile transformation project, which will increase the flexibility and efficiency of the company's structure in the future.

By introducing the new methodology, the company plans to increase employee involvement in ongoing processes across the organization in order to achieve the company's long-term goals.

ALEXANDER BAGRATIA, CHIEF EXECUTIVE OFFICER | ORIENT LOGIC

The transition to an Agile methodology, in our case, was related to an increased focus on specific sectors operating on the market and developing our services according to those sectors' needs. We have identified three main directions: banking and finance, government and strategic business development. We have rearranged our human resources according to industry-based technical knowledge. The essence of the Agile transformation is to choose specific sectors in which we have a high level of competence and have our team members focus on them to make the maximum contribution to the development of specific industries.

OTAR TABATADZE, CHIEF OPERATING OFFICER | ORIENT LOGIC

It was a fairly large-scale transformation that affected every structural unit of the company. In our case, the need for the Agile transformation was largely driven by the demands of the market. Certain business sectors set specific requirements where success requires high competence and a special approach based on the individual requirements of the industry. Now, our sectoral teams are fully embraced with required competencies related to particular businesses. As a result, the communication process has also been greatly simplified and the whole team is working together in a better way.

GEORGE CHITAIA, CHIEF BUSINESS DEVELOPMENT OFFICER | ORIENT LOGIC

The problem, which was very obvious regarding our company, was that despite the highly professional technical staff of the team, the market was not informed about their competencies accordingly. Based on the structural arrangement of the company, the sales and account managers team members had meetings with the customers, brought projects to the company, and then the technical engineers from different departments started working in the back office. According to the Agile methodology, we have created sectoral teams, where sales managers, account managers and technical engineers are united and jointly have communication with our partner organization representatives. During the process, our technology engineers are actively involved, sharing their qualifications, competencies and professional expertise. We do believe that these changes will trigger more efficient working process of the company, which will finally result in many successfully implemented large scale projects.

Helping businesses rehabilitate — meet Georgia's new insolvency practitioners

Georgia authorized its first large group of insolvency practitioners in September 2021, reaching a milestone in the country's ongoing insolvency reforms.

Georgia's new insolvency law aims at efficiently recycling assets back to productive use and restoring viable businesses to financial health through business rescue in a timely manner.

It should play a major role in Georgia's economic recovery as the country grapples with the pandemic.

The role of insolvency practitioners is to help businesses take full advantage of all the instruments offered by the new law.

"The development of this profession helps businesses receive the best possible option from the process of recovery/insolvency," stated Tamar Buadze, USAID's Economic Governance Program Component Lead overseeing the insolvency reform activities.

Insolvency is not a completely new profession for Georgia. Prior to the new law, USAID supported a group of leading practitioners to organize and establish a new association, Business Rehabilitation Insolvency Practitioners Association (BRIPA).

"BRIPA became a reform champion. The knowledge and expertise of the association's members were crucial to drafting the new law and advocating for its adoption," underlined Natalia Beruashvili, Chief of Party of USAID's Economic Government Program, which supports the reform's implementation.

Once the law went into force in April 2021, the government worked closely with USAID's Economic Governance Program to officially introduce the new profession of insolvency practitioners (also known as IPs) through a formal authorization process.

To receive state authorization, insolvency practitioners must be trained, tested and then certified based on a rigorous interview process. Insolvency cases are then assigned to the IPs based on their level of experience and specialization.

USAID's Economic Governance Program created the training curriculum for the first group of candidates and developed guidance documents for the interview process with the National Enforcement Bureau, the government body tasked with authorizing the cadre.

"The lack of an accredited cadre of insolvency practitioners was identified as a critical obstacle to a successful insolvency reform in an assessment the Economic Governance Program conducted last year. We were pleased to be able to provide expertise and guidance for the Georgian Government for the first round of insolvency practitioners' training and accreditation," noted Beruashvili.

The first round of training took place in June and, in September, 18 of them passed the authorization interviews and received government certification. As of today, Georgia has 23 accredited IPs.

Chairman of the National Enforcement Bureau Erekle Ghvinianidze said the selected practitioners have all the skills and experience they need to establish high standards for the profession. "The new insolvency practitioners will be able to gain public trust and continue the insolvency system reform successfully," he said.

One of the new authorized practitioners, Nino Kochiashvili, underlined the role of insolvency practitioners in the reform.

"Insolvency practitioners play a significant role in establishing an effective insolvency system and I am happy to be part of this important process, together with my colleagues," she said.

Eighteen out of the 23 new IPs are members of BRIPA. The association won a grant from USAID's Economic Governance Program to strengthen the capacity and skills of IPs through an international-standard training program.

In addition to training more insolvency practitioners, BRIPA is monitoring how cases are handled under the new law and is planning to create a hotline for businesses to field questions about the process and help them determine if they need an insolvency practitioner. The association is also working to raise businesses' awareness about the reform.

"Establishing the IP professional standards based on the leading practices in the industry will safeguard the professionalism of cadre and the ease of the process for business recovery/bankruptcy," Nana Amisulashvili, the head of BRIPA.

Using science to revitalize Georgia's potato sector

In Georgia, the potato is nicknamed the "second bread" due to its status as a staple food. It's commonly found on tables in all corners of the country, from Ozurgeti to Omalo and from Akhalkalaki to Ambrolauri. But while potatoes are in high demand by households, restaurants, and food processors, potato farming is not a major contributor to economic growth.

Why? Because the ever-increasing demand for potatoes is met mostly with imports – in July-August of 2021 alone, imports were 26 percent higher than for the past three years. Georgia's domestic potato production is inefficient and small in scale, with most potato farmers relying on low quality seed potatoes that are prone to a variety of diseases. This means that, despite the best efforts of farmers, much of the potato crop is lost each year, and most of what leaves the farm doesn't meet the quality standards of major supermarkets, restaurants, and food processors.

MORE INCOME FOR FARMERS, MORE JOBS FOR GEORGIAN WORKERS

To capitalize on growing demand, how can Georgia close the gap between potato consumers and the potato-producing rural communities most in need of revenue and jobs?

That's where USAID assistance comes in. In 2019, the USAID Potato Program was launched, an initiative with a straightforward name and a straightforward objective: to give Georgia's potato farmers the technologies, tools, and training they need to produce high-quality potatoes on a sufficient scale to compete with imports and drive economic growth in their communities.

To help farmers overcome key challenges in the sector, we brought in the expertise of the International Potato Center (CIP), the world's leading potato research institute. CIP provides potato farmers around the world with the technologies and techniques they need to upgrade their production and meet market demands - helping farmers and workers earn a better living by providing people with high-quality and affordable potatoes.

"This multifaceted program is increasing yields for farmers and placing nutritious, locally-grown potatoes on the marketplace at higher quantities and at affordable prices. And, what's more, our work with the private sector in this area is creating jobs for Georgians" said USAID/Georgia Mission Director Peter Wiebler.

BRINGING INNOVATION INTO A TRADITIONAL INDUSTRY

While the program has a straightforward goal, the technologies involved are sophisticated. In Akhaltsikhe, a city in southern Georgia at the center of potato country, the program established a state-of-the-art potato seed laboratory and model seed production farm.

The facility uses in-vitro fertilization to produce seed potatoes (the first stage in the field production process) for 19 different varieties of potato - all resistant to disease and competitive on international markets. These seed potatoes are then distributed to farmers in the local area, allowing them to upgrade their own production.

Every seed potato generated and sold in Georgia means fewer dollars going abroad, and not only because the resulting crop replaces potato imports. "Right now, we [Georgian farmers] buy seed potatoes from Holland and Germany for as much as eight million Euros annually," said Makhare Matukatov, a project coordinator with the USAID Potato Program based in Akhalkalaki. "We hope [our] demonstration fields will entice more farmers to join our project and elevate the potato sector to new heights."

To institutionalize the use of modern potato seeds and production methods, the program is building a network of partner farmers responsible for disseminating improved potato varieties and associated technologies throughout the country. By the end of 2022, the program aims to provide top-quality seed potatoes to more than 15,000 smallholder farmers across Georgia, resulting in revenue growth of about USD 8.7 million per year.

MORE POTATOES TODAY, MORE JOBS TOMORROW

The program is designed to bring long-term benefits. It also meets an immediate need in Georgia's economy. The supply chain disruptions created by the COVID-19 pandemic made more obvious the need for more domestic production. This strengthens food production capacity, and helps Georgia build resilience against future supply shocks, whether a pandemic or some other global challenge. A more competitive agriculture sector not only increases the ability to produce food domestically in times of crisis, but also boosts the country's export profile and creates jobs in rural communities.

ABOUT THE USAID POTATO PROGRAM IN GEORGIA

Funded by the United States Agency for International Development (USAID) and implemented by the International Potato Center (CIP), the USAID Potato Program in Georgia is developing a domestic supply chain of high-yielding, disease resistant potatoes that are commercially attractive, from generating high quality seed through improved production quantity and quality. This assistance helps farmers generate higher revenues and supply to local and international markets, establishing a potato industry that can drive economic development in rural communities. For more information, visit: https://www.usaid.gov/georgia/our-programs.

Apetenak Zandarian, a member of the USAID-supported Potato Producer Network in Georgia, holds a bag of disease-free seed potatoes cultivated at the seed model farm in Akhalkalaki

$50 million for Georgian startups

– Catapult VC fund puts boots on the ground in Tbilisi

Catapult VC General Partner Jonathan Tower

CATAPULT VC MADE GEORGIAN HISTORY THIS MONTH AS THE FIRST EVER VENTURE CAPITAL FUND TO OPEN OFFICES IN THE COUNTRY. OFFICIALLY 'CATAPULT GEORGIA I, L.P.,' THE FUND IS AIMING TO RAISE $50 MILLION. IT WILL COLLABORATE WITH USMAC AND STARTUP GRIND TBILISI TO PROVIDE BOTH CAPITAL AND MENTORSHIP TO APPROXIMATELY 50 GEORGIAN STARTUPS OVER THE NEXT TEN YEARS. INVESTOR.GE SAT DOWN WITH THE FUND'S MANAGING PARTNER, JONATHAN TOWER, TO FIND OUT MORE ABOUT THE FUND AND WHY IT HAS CHOSEN TBILISI AS THE LOCATION FOR ITS NEW REGIONAL HUB.

The introduction of a $50 million investment fund will be a transformative development for Georgia's startup ecosystem. Why have you decided to put boots on the ground in Georgia now?

The main thesis of our Catapult, as a firm, is that geography and capital have now been decoupled in the post-pandemic world, and this has accrued to the benefit of emerging tech ecosystems around the world, especially in the Caucasus. Our aim at Catapult here is to establish a physical presence in Georgia as the first Silicon Valley-based venture capital fund, where we can build a critical bridge between Georgian startups and Silicon Valley to make them globally competitive.

We think that the Caucasus represents an important emerging tech market. But when you look at what makes a tech ecosystem work, you need more than just smart people. It's a combination of lifestyle, climate, capital, infrastructure, a compliant regulatory environment, and a stable currency and stable government. Within the Caucasus, Tbilisi is the most obvious place that has those elements.

And it's not just the Caucasus that are developing, but the broader Central Asia region, too, and [founders there] are interested in Georgia as well. We're hearing people there saying "We'd love to be in Georgia." It's early days, but we've always had this vision of having a constellation of funds across the broader region. Today, we are establishing a Georgia fund, but maybe 3-5 years from now, we'll have a Ukraine fund, a Central Asia fund focusing on the 'Stan' countries, and possibly a broader Eurasia fund covering the Baltics and parts of Eastern Europe – all around the same Catapult strategy but with more tools and capital to really support the best companies from the region and help them achieve global scale.

How did Catapult get its start?

In 2016 and 2017, my partners and I did a deep dive into our portfolio and noticed some key macro trends. The first thing we noticed was that we were performing quite well by investing in smaller markets. We had deals like Dollar Shave Club in LA and Freshly coming out of Scottsdale, Arizona. The pattern was that my partners and I were getting in early, and because we'd been investing in Silicon Valley for so long, we had a very good relationship network established and were very credible with other top investors in Silicon Valley. We could make a fairly modest initial investment in one of those companies coming out of a smaller market and then leverage our network when that company was ready for the next round.

Because firms in Silicon Valley were typically getting larger with every fund cycle, many soon became multi-billion-dollar funds. For obvious reasons, if you're managing a multi-billion-dollar fund, it's hard for you to write a $25,000 check in an early stage company in a geography many times zones away – it just doesn't make sense. So those firms began moving further up the value chain and seizing opportunities from firms like ours that had already built a really good track record as a feeder fund for them. And because we had good brand equity with those firms, if we made an investment, it sent a positive signal for them to take a look at the deals.

We also noticed that startups were moving further from Silicon Valley and we were seeing the beginnings of what we now call the remote workforce revolution. For 40 years, if you wanted to build a global technology company it was very hard to do it outside of a 100-mile radius of Silicon Valley. It was very hard up until about 10 years ago to build a great company without having very deep networks in the Valley because that's where everything was: talent, capital, patrons, partners, mentors, etc. It was like being in Florence during the Renaissance.

Around 2016, we really noticed remote collaboration occurring in the startup world. We had companies pitching us that had a CEO based in San Francisco but a development team in Kansas City, a call center in Ukraine, and so forth. They were already distributed, which was not only cheaper, but also led to a constant development cycle across time zones.

At that time, we felt venture capital was still stuck in a 1990s mindset. Some Silicon Valley venture capitalists still prefer to only invest within a two-hour drive from their offices, which we thought was incredibly dated given the boom in emerging tech ecosystems. We realized that we needed to keep pace with these changes. And we now had the technology to do it. With remote working tools like Zoom, Slack or Trello, we can now access all this talent in emerging tech hubs and it's not limited by geographic location.

What types of startups will you be looking to invest in?

Our fund will focus its investments in three core sectors: consumer, enterprise, and frontier tech. In the consumer space, we will largely focus on e-commerce, marketplaces, digitally native brands - areas where we've been enormously successful. The second core sector is focused on the post-pandemic digital transformation we are now all experiencing, including remote workforce tools and SaaS. Frontier tech would focus on AI, AgTech, and machine learning, IoT, fintech, – kind of a catch-all for 'deep' tech developments. These categories will probably make up 90% of all of the investments we will do.

You mentioned the 'post-pandemic digital transformation.' Can you explain what that means for you?

The pandemic has really taken trends that we observed five to six years ago and accelerated them by an order of magnitude. I think we're in a unique moment where the world has fundamentally changed following the pandemic. Many of the trends I just mentioned have accelerated by 20 years in the course of two years.

I think all of that growth that we're seeing now is just the beginning. We don't think this is a bubble. The pandemic has accelerated these changes in every sector, whether it's education, healthcare, finance, retail – it's all being massively transformed and driven by tech. All of these industries are scrambling to stay relevant in an entirely new environment.

What is the involvement of USMAC and Startup Grind Tbilisi in the fund?

For quite a few years now, USMAC has been retained to come to Georgia to run an accelerator program with GITA. It's an 8-to-10-week boot camp that takes hundreds of startups and drills into them all the things they need to do. How to get your pitch deck together, how to think about going to market – all these mechanics. At the end of that program, experienced venture investors like myself come into town and do the final review. We then select the top 20 startups, and GITA gives those winners a government grant. USMAC has now been doing this twice a year for four-five years in Georgia.

We're collaborating with them because they approached us almost a year ago, and asked whether we were interested in launching a fund in Georgia because they'd been running this program with GITA, seen everything coming out of Georgia but had no way of supporting the companies financially after the accelerator program ended. USMAC felt that being unable to back the best companies that came through the program was a lost opportunity for them and a lost opportunity for the companies. The co-founder of USMAC, Chris Burry, has now moved to Tbilisi full time, which demonstrates USMAC's commitment to Georgia and to being our 'boots on the ground' for deal curation and mentorship.

Meanwhile, Startup Grind Tbilisi and its chapter head Colin Donohue will be our additional support on the ground by running education programs with the angel community and local founders here and organizing various events throughout the year.

That's how the fund has come together. We have this 8-10 week accelerator of mentors and other support networks working with every startup hand by hand through the program, and at the end of it, we have the ability to skim the cream off the top and invest in the very best startups. By virtue of the fund's network in Silicon Valley, we can build a bridge to the Valley in the next round and keep the cycle going.

Photo courtesy of Shavi Coffee Roasters

GEORGIA'S COFFEE MARKET – small beans, big innovations

A PERFUNCTORY GLANCE AT GEORGIA'S COFFEE TRADE REVEALS A RELATIVELY SMALL MARKET THAT HAS REGISTERED MODEST GROWTH IN THE LAST FIVE YEARS. HOWEVER, AN INFLUX OF NEW ACTORS, BOTH LARGE AND SMALL, HAS INFUSED THE INDUSTRY WITH INNOVATIVE IDEAS THAT AIM TO TRANSFORM THE WAY GEORGIANS DRINK COFFEE.

MACKENZIE BALDINGER

Whether sipping on a cappuccino while catching up with friends at the local cafe or getting a quick caffeine fix on the way to work, coffee consumption is a global trend that is on the rise. Daily ritual, social lubricant, or much needed energy boost – whatever the motive, more than 2 billion cups of coffee are consumed around the world every day.

In Georgia, coffee is often enjoyed socially and at home, while its preferred consumption style varies from region to region. Sitting seaside in the west, traces of Turkish influence can be seen in the unfiltered cezve batumuri kava (Batumi style coffee). Café visitors in Tbilisi are likely to see menus featuring European style espresso drinks with baristas offering an occasional American filter coffee. For consumers at home, instant coffee still dominates the market. But as the country continues to develop economically, coffee companies are offering novel ways to enjoy the ubiquitous beverage with an emphasis on premium quality and innovative consumption methods.

HIGH QUALITY AT HOME

Beyond statistical evaluations, a qualitative shift is occurring in the Georgian market towards coffee that is emphasizing premium products. This shift is part of a larger "third wave of coffee" around the world that focuses increasingly on creating high quality coffee with specific attention paid to the origin of coffee and how it is processed. While income limitations within Georgia's consumer market make this type of premium good accessible only to a certain sector of the population, new actors are increasingly offering high quality coffee to enjoy at home and in coffee shops.

Leading the way among large-scale producers is Meama, a Georgian coffee company that prides itself on importing high quality beans from 18 countries and roasting them in its Tbilisi facility. Most notable is the company's promotion of coffee capsules and machines for brewing at home, a trend more on par with European and American consumption.

Head of PR and Communications Madga Gugava says that at the time that "Meama started operating, coffee capsules were a completely new product in Georgia. The initial goal of the company was to create progress in the industry and offer a fresh way of consuming coffee for consumers who were still loyal to the traditional ways of making and enjoying their favorite drink."

Another trend among consumers that she recognizes is an appreciation of coffee specifications. "We see an increased awareness of coffee quality and origin," says Gugava. "This has further encouraged the company to continue actively working to offer customers new and diverse products, including an innovative coffee vending machine, 'Dropper', for offices."

WHAT'S BREWING IN TBILISI'S COFFEE SHOPS?

While pursuing a similar objective of delivering high quality beans like Meama, a group of smaller innovators within Georgia are capitalizing on the coffee craze through offerings of specialty coffee.

"Specialty coffee" is a term used to denote a way of producing coffee that currently only constitutes around 10% of the global market but puts a particular emphasis on both exceptional taste and the entire supply chain of coffee.

Ryan McCarrel, owner of Tbilisi-based Shavi Coffee Roasters, emphasizes the intricacies of the specialty coffee supply chain: "Every step of the process is important. From the smallholder farmers who are picking the cherries, to how they wash (or don't wash) those cherries, to how your coffee is roasted and the barista brews it in your cup. Every stage of the journey has the opportunity to go really right or wrong. Grind size, water temperature, the pressure, the way in which the coffee is tamped – all of these things can affect the taste."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MEAMA
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Sitting in the micro-roaster combined café that he opened with his wife, Laurie Tovo, in late October, McCarrel compares specialty coffee to a fine wine: "When you compare coffee to wine, for example, there are many similar taste profiles. For instance, we are currently offering an Ethiopian anaerobic coffee that has been fermented for 120 hours and is comparable to tasting a qvevri wine. What we're trying to achieve is positive types of acidity and a juicy, fruitiness on the other hand."

It is this appreciation for different flavors and notes that makes him confident that now is the time to introduce specialty coffee to the Georgian market. "Georgians have an amazing palette and cuisine that makes them appreciate quality products." He also says that his confidence in the changing culture of coffee in Georgia was partially built on the successful proof of concept developed by fellow roaster CoffeeLab.

CoffeeLab, which opened in 2016 in Tbilisi's Saburtalo district, represents the first specialty roaster and café to enter the Georgian market. Founder Giorgi Aivazyan remembers the uphill battle the company faced in educating its customers during its first few years. "For many Georgians, the acidity or fruitiness of specialty coffee was far from what they associated with coffee. In the beginning, I may have had ten people come into the shop and try our coffee and only five would ever come back. We even had an instruction manual for our baristas to explain what to expect with each drink so customers would not be shocked. But those five that liked us, they always came back and they told their friends, which is how we grew to where we are now."

Aivazyan's dedication to educating customers during the business's initial days is not the only innovative approach that sets him apart from the growing number of specialty coffee shops being established in Tbilisi.

Despite the fact that specialty coffee is a more developed industry outside of Georgia and tourists make up an easily accessible customer base, Giorgi established his café outside of Tbilisi's touristic districts, making his business more reliant on the local market. "We have always focused on the locals, who provide a loyal customer base. That is what really helped us weather the pandemic. When we opened our doors after lockdown, we were immediately full again. This has allowed us to already surpass our 2019 growth and expand to three new locations in the next year."

OVERVIEW OF GEORGIA'S COFFEE MARKET

According to Geostat, coffee imports (beans and instant coffee) have remained relatively static over the last five years. Export quantities have increased more than 900% since 2016; however, this growth has been seen predominantly in the export of instant coffee. The first seven months of 2021 saw a YoY decrease of 3.2% in the quantity of imported coffee. At the same time, the total value of imported coffee increased by almost 6%, representing a marked increase in the price of coffee being imported. This is reflective of a wider trend brought on by climate change-related farming conditions and increased freight costs associated with Covid-19. Following the most devastating frost that Brazil has seen since 1994 earlier this year, the United **Nations food agency's index indicated a** 31% increase in global coffee prices.

And while CoffeeLab is by all measures a success story, Aivazyan acknowledges how hard it is to change a country's coffee culture. While his coffee shop offers a number of filter-based brewing options, including pour over methods like V60 and Syphon, 99% of his wholesale business involves selling espresso beans, given the higher popularity of espresso-based drinks in Georgia. Still, he contends that the business's coffee wholesale, which currently services more than 150 horeca establishments and offices, has served as a useful method of increasing the visibility of specialty coffee in the Georgian market.

Co-owner of small specialty coffee shop chain Erti Kava, Ksenia Parjiani, also emphasizes that there is a ritualistic element of coffee culture that is not easily altered. "Coffee is a kind of habit. People associate the 'best coffee' of their life with their best memories and feelings. It is not always just about taste. In order to reach the Georgian market, you need to change their rituals around coffee."

MAINSTREAM POTENTIAL?

As major actors like Meama continue to expand high-quality coffee offerings at home and in the office, an explosion of coffeeshops in the capital reinforces the thesis that there is a sector of the Georgian market that is looking for a place to sit, work, and socialize while sipping on a cup of great-tasting coffee. And while different actors have approached the market with their own unique perspectives, they all agree on one limiting factor: premium coffee comes at a premium price.

Erti Kava's Parjiani acknowledges that the average income in Georgia has limited the development of the specialty coffee market. "When we opened our first coffee shop in Svaneti [editor's note: mountainous region in northwestern Georgia], we specifically targeted tourists. The same goes for our second café in Tbilisi. Specialty coffee is very expensive for locals."

CoffeeLab's Aivazyan further adds that "as long as the average monthly income of Georgians is around 800 lari and the average coffee price ranges from 5-8 lari, only high-income individuals will be able to afford coffee every day. That is why instant coffee is still consumed in far greater amounts and the industry is not expanding quicker."

Despite a limited consumer market, innovation in quality and consumption methods continues to expand. Much like the country's fine wine scene, which has developed a new level of sophistication and appreciation in recent years, coffee consumption and culture in Georgia is evolving into a promising new industry.

SPONSORED CONTENT

G&T announces first equities trading app in Georgia

GALT & TAGGART
CREATING OPPORTUNITIES

GIVEN HISTORICALLY LIMITED ACCESS TO CAPITAL MARKETS, THE MAIN INVESTMENT VEHICLES IN GEORGIA HAVE TRADITIONALLY BEEN REAL ESTATE AND PHYSICAL ASSETS LIKE GOLD. GALT & TAGGART'S NEW EQUITIES TRADING APP HOPES TO OFFER NEW INVESTMENT OPTIONS TO RESIDENTS OF GEORGIA AND EDUCATE PLATFORM USERS ABOUT THE BENEFITS OF LONG-TERM INVESTING.

Global retail capital markets exploded in 2020 with nearly 15% of today's retail investors having got their start at some point last year.

Up until now, Georgia has not been part of this trend, nor could it have been had it wanted – but the retail investing craze may soon be here, with Bank of Georgia's brokerage arm Galt & Taggart recently announcing the launch of an easy-access equities trading platform on the bank's ever-growing 'super app.'

While several financial and banking services including G&T have offered equities trading in Georgia for several years now, the existing brokerage portals have targeted experienced investors who are often using advanced financial instruments. G&T now plans to bring stocks to the average banking customer.

While Georgians did not have the experience of amassing savings during the pandemic as happened in a number of other, more advanced economies, G&T says the market for equities trading in the country has matured.

"What we are seeing globally and in the region is that retail trading is booming everywhere across the world. And so now we have decided to enlarge our offerings to our customers. We think our customers are ready for more sophisticated investment options, which otherwise have not existed yet in Georgia", Otar Sharikadze, CEO of Galt & Taggart, told Investor.ge.

The platform will be built on Drivewealth technology, a U.S. company and pioneer in fractional equities trading and embedded investing systems. Drivewealth has provided G&T with the back-end architecture of its equities trading platform and is among the top 250 fintech startups, according to CB Insights' 2021 list; its partnership with G&T is its first in the region.

Open to all BoG clients, the app will offer customers the opportunity to invest in stocks on the NYSE and NASDAQ and engage in fractional trading without minimum requirements for investment. Accessibility in the Georgian language means everyday customers will be able to take advantage of the platform's offerings in their native language.

Fees are comparatively low for the region, at just $1 minimum per trade, or 2 cents per share and a monthly maintenance fee of $2.

G&T plans to run an extensive active education campaign to explain the benefits of investing in equities to a population which has otherwise had little exposure to the basic tenets of investing.

Given that customers will not be able to day trade or execute a buy and sell trade within a five day period, G&T will be looking to educate its customers on the benefits of long-term investing.

"What we've traditionally seen in Georgia is that the local population only saves money in cash accounts, real estate or physical assets such as gold. While it used to be profitable to hold US dollar CDs, increased dollar liquidity and stability in the Georgian banking system means this is no longer a viable option for real returns. Meanwhile the Georgian GEL has never enjoyed significant trust as an investment vehicle despite the high rates of return, and investing in stocks simply hasn't really been an option for many until now", Sharikadze says, adding that there is a large educational gap to be filled, "so we plan to have plenty of content in the coming months to explain the basics, much like Robinhood has done in the US."

With no capital gains taxes for Georgian citizens, G&T hopes equity investing will prove a popular local option.

"The idea is ultimately to show that compared to saving money in deposits or real estate, which is also very cyclical and risky, investing in stocks is a strong alternative if you're willing to wait. Our main educational message is not 'get rich quick.' It's 'invest in your future.'"

Strong 2021 exports surprise many, lead economic growth higher in Georgia

SALLY WHITE

Against the dire news background of extreme weather, the ongoing pandemic, declining FDI inflows and both domestic and neighbourhood unrest, Georgia's recent export-and-tourism-led rebound in economic activity has been received with international institutional comments ranging from "surprising" (World Bank) to "remarkable" (European Investment Bank) and "impressive" (International Monetary Fund).

The gains have inspired upgraded forecasts of around 8% economic growth this year and 6% for 2022. The question now remains whether the economies of Georgia's main export markets – China, Russia, Azerbaijan, Ukraine, Turkey and the EU – will support further strong growth. Georgia's exports surged by 32% YoY to $411 million in October, while growth compared to pre-pandemic October 2019 was equally impressive at 29%, according to figures from Georgia's statistics office Geostat. In the first 10 months of 2021, the value of the country's exports rose by 24.9% YoY (to $3.39 billion) and by 11% compared to 2019.

In fact, as TBC Group's chief economist Otar Nadaraia points out, "The performance of exports, especially without re-exports which never fell in 2020 in USD terms, is certainly to be noted. The main reason behind this is the fact that Georgia produces very few, if any, capital goods – demand for which has been subdued during the pandemic." So, Georgia's success over the last year has been a mixed blessing.

"Looking at Georgia's export performance, a key question is how to take advantage of global markets and expand exports", says Georgian investment bank Galt & Taggart's head of research Eva Bochorishvili.

Bochorishvili notes that there are three crucial areas of potential development for the country's export market. "First, trade-enhancing reforms to be implemented under the EU DCFTA can be particularly important for producing high quality products and increasing Georgian exports."

It is also vital that Georgia "attract FDIs in export generating sectors," says Bochorishvili, to overcome the "lack of capital and knowledge [needed] to produce and export more sophisticated commodities." She emphasizes that this is only possible if the economy remains competitive and the business environment continues to improve.

Georgia's human capital is another area in need of attention if the country wants to become competitive in the global market, according to Bochorishvili: "Georgia needs to align its education policy with economic strategy in order to supply the economy with necessary skills in the medium to long term."

Detailed data published by Geostat shows that even if the largest elements in the January-October export totals were copper ores and ferro alloys (at $656 million and $378 million respectively), which rose partially on higher prices, other industries, especially food processing and light industries, have been gaining, too. The export of wine and fresh grapes rose by 16% YoY to $189 million, exports of hazelnuts by 32% to $90 million, and exports of t-shirts were up 2% at $54 million.

Commenting on the latest figures, the IMF observes that "with these indicators, Georgia will have one of the highest growth rates in the region of the Middle East and Central Asia." Indeed, the figures for neighbouring countries raise concerns over the strength of their economic drivers to generate a continuing boom next year in Georgia's export growth. Less promising, as the Germany-based Heinrich Boll Stiftung foundation underlined in a report on Georgia for the EU, is the structure of Georgia's exports, which has not changed since its independence. For years now, the major concentration has continued to be in copper ores and concentrates, ferro-alloys, transit trade in used cars, wine, spirits and mineral waters. Thus, only too aware that the bulk of Georgia's exports are raw materials (with no attendant benefits from value-added pricing or job-creation), the Georgian government has been promoting the development of export goods production.

Exploring the challenges faced by Georgia, a recent EIB and EBRD analytical report comments there is "significant space to grow further." However, it is problematic that "Georgia remains one of the economies in the EBRD region that is the least integrated in global production chains, meaning that it provides input for the exports of other countries…"

Reasons for this include "a low level of digital transformation", which "constrains innovative companies", as well as a lack of e-commerce legislation. The EU's Association Agreement and the Deep and Comprehensive Free Trade Agreement "present a significant opportunity that is yet to be fully utilised", but as yet the alignment process is far from completed and costs incurred by businesses to comply with new regulations "is high". Despite the trade agreements, trade with the EU has actually been declining, "reflecting the movements in the lower-value goods such as ore and minerals, fertilisers and manganese."

Nor, comments the report, does Georgia have high skill levels, modern production sites, or established networks in the EU. EU standards and levels of regulation are steep compared to the Georgian experience and tastes different. For agriculture, the major problems are a “lack of scale … certification costs ..finance for greenfield business..and a lack of qualified people”, all of which make it hard to supply “shelf ready” products.

However, this EIB-EBRD report sees room for optimism as “categories of higher value added such as food, water, wine, spirits, wooden and paper products and apparel have significantly increased” and “there are indications that the composition of trade is changing”. Barriers are being tackled, such as lack of e-commerce legislation, as Natia Bantsuri, chief economist at the Business Association of Georgia describes: “Proper legislation is in the process of developing and various trade-related processes are being digitalized step-by-step. So, we hope to see progress in the near future.”

Nor is business standing idly by, she adds: “sometimes business is the one initiating and supporting new regulations (despite the associated costs), as BAG members (and not only our members) prefer to work in terms of a fair competition and regulations compatible with up-to-date international standards.”

ECONOMIC FORECASTS OF GEORGIA’S MAJOR TRADE PARTNERS

In addition to domestic developmental issues that must be addressed to boost Georgia’s competitiveness in the world market, the state of its main trade partners’ economies will make or break its success this year.

***China** – Georgia’s No.1 export market at $520 million in the first ten months of 2021*

Copper and precious metal ores ($462 million in total) make up the largest portion of Georgian exports to China, followed far behind by medical instruments and wine.

China’s economy will grow more slowly than initially expected this year owing to a “stronger-than-anticipated” pullback in public spending, according to the IMF, which has also warned that a weakening property market could bring a further blow. The IMF’s 8% growth forecast in the latest World Economic Outlook report for 2021 is down 0.1% from its July estimate as analysts warn China is facing a painful fallout from real estate weakness and surging coal prices and shortages. However, that figure is still China’s strongest growth rate since 2011, and it is noble that the world’s second-largest economy was the only major one to expand last year.

The IMF has lowered its Chinese growth outlook for next year to 5.6%. Concerns over China have intensified in recent weeks as government curbs on the property market piled pressure on overleveraged developers. Measures by local governments to meet short-term climate targets also led to energy crises. Currently, financial markets are more pessimistic than the IMF, with major U.S. bank JPMorgan saying that it expected

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full-year 2021 growth of 7.8% and 4.7% in 2022.

Russia – No. 2 export market at $482m through October ‘21

The main export products from Georgia to Russia consist of ferro-alloys ($134 million) and wine ($106 million). Importantly for rural Georgian jobs, although the numbers may be small, is the purchase of seasonal fruits, which has totalled $27 million so far this year. Economic growth in Russia is forecast to strengthen, but U.S. sanctions, a poor vaccination rate, and the central bank’s monetary tightening will all weigh on the outlook, the World Bank says. It now expects Russia’s economy to grow by 4.3% in 2021 and 2.8% in 2022. After shrinking by 3% in 2020, its sharpest contraction in 11 years, the Russian economy has recovered to pre-pandemic levels but is expected to lose momentum in the next few years without extra investment from state spending, the WB forecasts. This year, the economy “is supported by an earlier rebound in domestic demand and elevated energy prices,” the WB said in a report on Europe and Central Asia.

Azerbaijan – No. 3 export market at $365 million in the first ten months of 2021

Estimates range from the IMF’s forecast of growth of 3% in 2021 and 2.3% in 2021 to the EBRD’s more recent 4.0% for 2021 and 3.2% for 2022. The recovery has been strengthening more than expected on the back of rising oil and gas prices. GDP growth accelerated to 4.8% YoY in January to September 2021, mainly driven by non-oil sector growth of 6.2%. However, oil production is rising only gradually, in line with Azerbaijan’s commitments to the OPEC+, it notes. Therefore, oil and gas GDP growth remained moderate at 1.4%.

Turkey – No. 4 export market at $260 million

Georgian exports to Turkey this year consisted of $53 million of t-shirts and $42 million of men’s and boys’ clothing, made largely by Turkish companies in Georgia on an outsourced basis. The market was also made up of $42 million in ferro-alloys and $27 million in ferrous waste and scrap.

The economy will grow by 9% this year, says the European Bank for Reconstruction and Development (EBRD), as it is buoyed by a revival in exports and tourism. However, it adds that the central bank’s “confusing” policy approach and high inflation could yet harm the recovery, The EBRD also notes that it expects Turkey’s economy to settle near potential growth of 3.5% next year driven by exports, though it added rising energy prices and premature interest rate cuts pose risks. The IMF currently forecasts growth of 9% in 2021 and 3.3% in 2022.

The EBRD had forecast in June that Turkey’s economy would grow by 5.5% in 2021 but raised its estimate amid strong domestic demand and exports as well as the reopening of the crucial tourism sector. The central bank has slashed its key interest rate despite high inflation, unnerving investors and sending the lira currency to record lows. Annual inflation rose to 19.9% in October, leaving real rates deeply negative.

Ukraine – No. 5 at $192 million

The economic recovery is likely to gain momentum over the remainder of 2021, says the EBRD in its latest forecast, out early in November. The development bank sees the country’s growth increasing to 3.5% YoY in both 2021 and 2022. Growth in 2021 will be fueled by “a rich grain harvest and the continued normalisation of business activities, though slow progress on reform and rollout of the COVID-19 vaccination remain major risks to the forecast,” it told journalists at a press conference.

Armenia – No. 6 at $151 million

The IMF expects recovery to continue, with GDP growth of 5.5% and 5.25% in 2021 and 2022, respectively. While growth could accelerate next year on the back of strong reforms, it states in its recent report, the downside risks are also elevated. These risks include the ongoing fourth wave of COVID-19 infections, geopolitical tensions and a slowdown in external demand.

European Union

While the EU as a bloc is important (22% of exports in 2020, 16% so far this year), Bulgaria is the only single country market of any size. EU concerns about the development of Georgia’s exports lie behind the significant role that it plays in investment and provision of grants, says the Heinrich Boll Foundation.

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AmCham member survey on employee vaccination strategies

The American Chamber of Commerce of Georgia conducted a survey in October on the vaccination rates of its member companies and strategies employed to encourage employee vaccination.

The survey took place on the tail-end of a late summer surge of cases and on the back of decreasing public vaccination rates. In mid-August, the country was hitting a daily vaccination rate of more than 20,000 doses, but by the second week of October, doses being administered were consistently registering lower than 5,000 a day. More recently, vaccination levels have gone up again, thanks to government initiatives like financial inducements for pensioners as well as booster availability, but the survey still holds value in highlighting some of the structural characteristics of corporate vaccinations and attitudes towards them.

Of particular interest to AmCham, the survey showed that even when there is strong effort on the part of employers to help or encourage getting their employees vaccinated, there is still enormous variability in results.

As a result, AmCham members are generally very in-favor of any government programs that can induce people to get vaccinated. On the back of this information, we will be working hard to encourage strong efforts on vaccination in the near future. The survey showed that AmCham members have done fairly well. Even in October, almost 90% of companies had 75% or more of their management vaccinated, and around 60% of AmCham member companies had more than 75% of all their staff vaccinated. Smaller companies do a lot better than larger ones. Over 80% of companies with fewer than 10 members have more than 75% of their staff vaccinated compared to just 31% of companies with more than 500 employees. This might be because smaller AmCham member companies tend to have a higher level of concentration of professionals and because the scale of the problem is simply smaller.

Over 75% of companies have made some effort to get staff vaccinated. Strategies ranged from telling staff to get vaccinated (46%), giving employees time off to get vaccinated (34%), holding discussions with staff on the importance of vaccination (46%), bringing in experts to convince staff (24%), and offering bonuses to staff who vaccinate (10%). Other strategies included education campaigns, requiring mandatory PCR tests from unvaccinated staff, competitions and prizes, and bonuses or extra holidays.

Companies in Georgia are generally very much in favor of vaccine mandates, with over 70% saying that there should be vaccine mandates and only 7% saying that there should not. Though opinions differed regarding who should be vaccinated.

Teachers and medical workers were at the forefront of such expectations with nearly 10 times as many members supporting than opposing mandatory vaccination for these sectors. Almost 90% of those surveyed voiced the view that instructors should be vaccinated; support for healthcare workers being vaccinated followed close behind. Just over 25% of those surveyed indicated that all government employees should have the vaccine. There was also a strong sense amongst the membership that companies should be able to require their staff to be vaccinated, with 57% saying they are in favor of the idea and only 20% against it. This has been verified in follow up discussions, particularly with the tourism sector.

While a number of companies have met with indisputable success in obtaining high internal vaccination rates, others have been struggling to convince employees to get inoculated, despite efforts to the contrary.

The data suggests that larger companies with lower paid employees face bigger challenges. AmCham commends all of its members that are working hard to keep their employees safe and congratulates those that have already achieved high vaccination rates.

This article was prepared with the support of the USAID Economic Security Program.

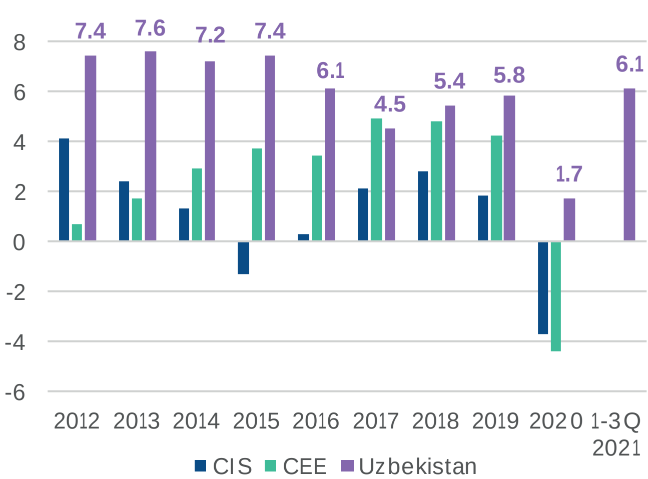
TBC Capital: Uzbekistan proving to be a resilient, emerging market

Uzbekistan embarked on an ambitious reform path in 2017 that liberalized the economy and signaled to the world that the country was open for business. TBC Capital's recent report titled Uzbekistan: The Three Pillars explores three noteworthy macroeconomic phenomena that are distinguishing the country from other emerging markets.

DIVERSIFICATION OF EXPORTS

TBC Capital's analysis shows a resilient emerging market that has weathered the worldwide COVID-19 economic crisis and boasts a strong outlook for the coming years. Uzbekistan's economy sustained positive growth of 1.7% in 2020 while other countries saw GDP growth rates plummet below zero. The increase of just half a percentage point in its budget deficit to GDP ratio in 2020 is a feat enviable by developed and emerging markets alike.

Real GDP growth
(YoY, %)

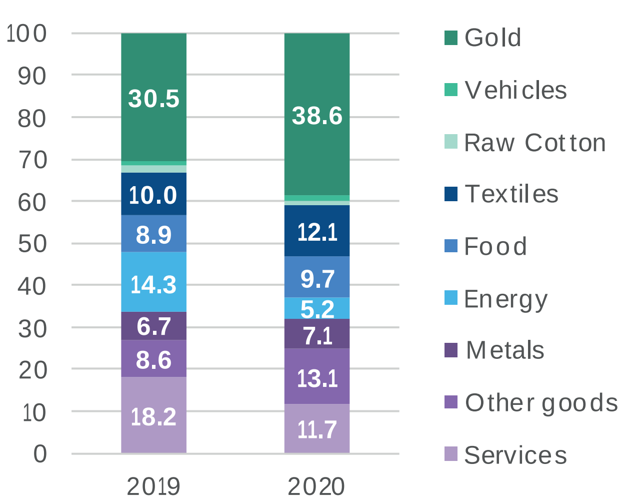


Source: World Bank, TBC Capital

Uzbekistan's export market is dominated by gold, industrial metals, natural gas, cotton, textiles, and fruits and vegetables. TBC Group's Chief Economist Otar Nadaraia notes that the country's diverse range of exports has made it particularly resilient during global economic downturns. "It is not surprising for those familiar with Uzbekistan's economy that it registered positive growth during the pandemic. While on one hand the minimal exposure of HORECA industries resulted in less revenue loss during the pandemic, this resilience can be largely attributed to the country's diversification of exports."

Although still heavily reliant on commodities, Uzbekistan benefits from the fact that the prices of its exports are not correlated with each other. "This is why the country did well during COVID-19. When the pandemic hit and the price of some metals and gas dropped, the price of gold, which made up 38.6% of the country's exports, increased. As the world started to recover and gold prices fell, the price of metals and gas began to grow, leading to broadly balanced net revenues," says Nadaraia.

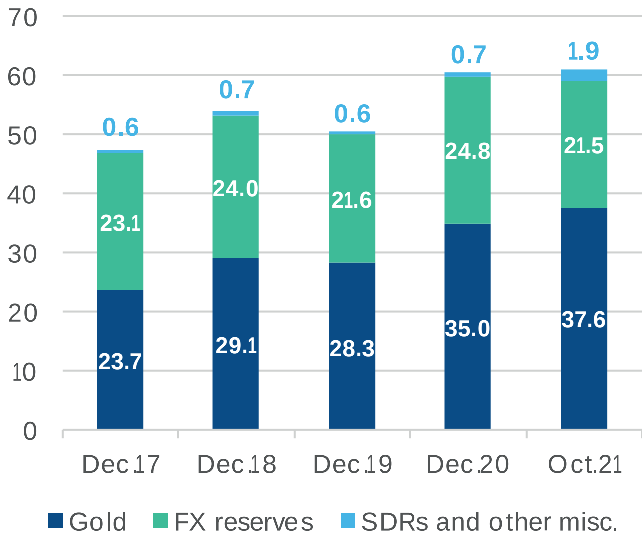
Uzbekistan export structure
(%)



Source: The state committee of the republic of Uzbekistan on statistics, BACI

While this diversification has created a resilient market, TBC's analysis warns that the Uzbek economy is still vulnerable to certain global scenarios. In a period of strong USD, such as the appreciation of the dollar seen from 2014 to 2016 and the subsequent price decrease in both pro-cyclical commodities and gold, the country's economy could potentially suffer. In order to combat this vulnerability, TBC analysts recommend that Uzbekistan consider maintaining high levels of national reserves in USD rather than gold and consider borrowing more in EUR. They also note that the country's major trade partners practice monetary policies with considerably lower interest rates, making the use of a multicurrency portfolio a risk mitigation policy worth considering.

Official reserves of Uzbekistan
(% of GDP)



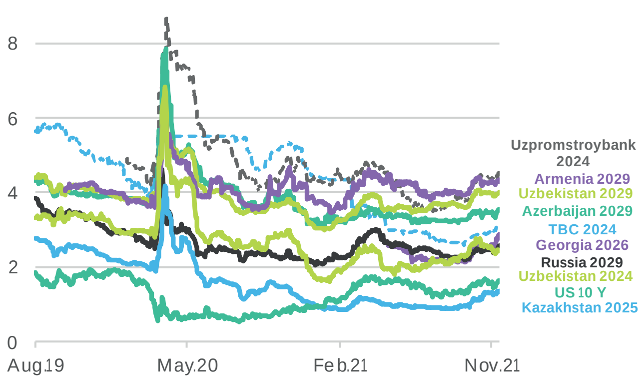
Source: Central bank of Uzbekistan

LIBERAL REFORMS AND FOREIGN SAVINGS

Uzbekistan's liberalization in recent years has extended to all parts of the economy, including privatization, a digitalized tax code, trade liberalization, and central bank reform. These reforms, while still in their early phases, are paying off, having increased the country's rank in The World Bank's Ease of Doing Business index from 141 in 2015 to 69 in 2020. TBC's Nadaraia views these efforts as genuine, noting that he sees "a real desire from the government to position itself as a hub for foreign investors. The current reforms indicate that the government of Uzbekistan cares about its reputation with the international financial community."

In addition to reforms, the country recently debuted in the international markets and has seen reasonable yields. The expanding presence of IFIs and a public debt to GDP ratio below 40% both indicate that the government is increasingly focusing on external savings to fund its record high investment to GDP ratio.

International Bond Yields
(%)



Source: Central bank of Uzbekistan

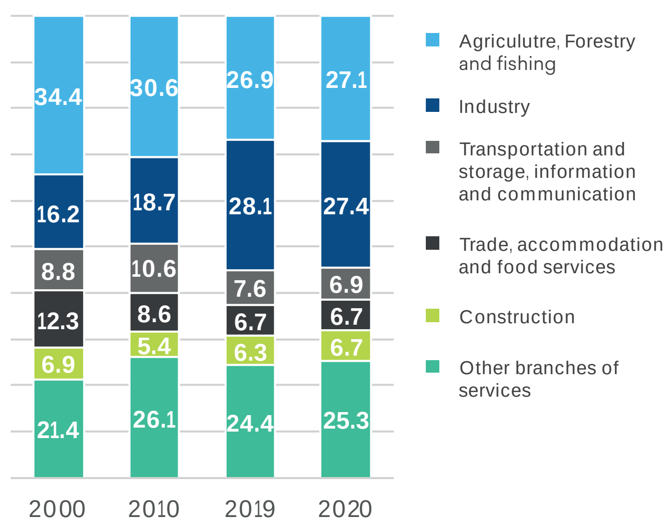
INDUSTRIAL POLICY

Reforms have paved the way for the private sector to have an increasing role in driving innovation and growth in Uzbekistan; however, TBC Capital's analysis emphasizes the essential part that the government must play in addressing market failures and funding the discovery of new viable industries.

Acknowledging the debate among economists over the effectiveness of industrial policy, Nadaraia offers a positive review of Uzbek practices: "While we have seen the failure of many governments that intervene in certain sectors of the economy without long-term plans for sustainability, the government of Uzbekistan has done well in this regard and built a strong track record of developing new industries."

Commodities like cotton previously dominated the country's export market, but recent years have witnessed the development of new higher value-added industries like textiles, cars, and fertilizers. The tourism sector, which was previously underdeveloped due to the insular nature of the country before 2017, also represents a significant potential market.

Uzbekistan GDP structure by sectors
(%)



Source: The state committee of the republic of Uzbekistan on statistics

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A year in the making – *winds of change on Georgian financial markets*

About a year ago, we published an article introducing the Law on Investment Funds (adopted in 2020) to interested audiences. Back then, we expressed cautious hope that the law would breathe new life into stagnant financial markets in Georgia. Although our caution was understandable, rooted as it was in previous failed attempts to revitalize the country's financial markets in the past, we are now prepared to gladly admit that our initial restraint was off beam.

Looking back 16 months later from the publication of the new law, we are glad to observe that the market's reaction has been very positive. The best indicator of this is the emergence of a number of new actors in this sector. By the end of 2021, there are already two new investment funds and three asset management companies registered by the National Bank of Georgia (NBG), and two other investment funds are in the pipeline. Notably, these statistics are based primarily on projects in which BLC has acted as an advisor. Surely, this points to a larger interest on the market.

We believe that the Georgian market has greater potential. Countries of a similar size (for example, Estonia) have achieved much more in this sector. This was largely due to early waves of reforms in financial regulations and a focus on technological development. Although the recent trend in Georgia can definitely be considered a positive sign, we would like to once again review the range of economic actors who can benefit from this reform, with the hope of reaching a larger audience who may not be yet aware of the variety of opportunities the new regulations offer.

Large corporations

It is often rather erroneously believed that the development of capital markets will predominantly create additional funding opportunities for SMEs and start-up companies. This view is incomplete and fails to view the picture in its whole. Despite the fact that Georgia has an extremely developed banking sector and large corporations have excess financial resources, banking products are limited in nature. For example, commercial banks only provide loans, the terms of which are extremely regulated and leave less room for flexibility. Moreover, the availability of equity and quasi-equity instruments remains scarce and rather limited on the market.

Development of the capital market will create additional funding sources for large companies also and enable them to have access to more equity instruments, as well as mezzanine financing, debt with larger grace periods, etc. Such diverse instruments can be further tailored with specific business strategies and development outlooks in mind.

High-risk investees (SME sector, start-ups)

It is rather natural and in line with international experience that we see especially high interest in the establishment of private equity funds (alternative financing vehicles concentrated on providing private debt/equity, often with performance-based income participation components and/or equity products with pre-planned performance-based buy-back terms instruments) and venture capital funds (a form equity financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential).

By definition, the primary target investees for similar institutions are non-bankable entities (which do not have adequate levels of fixed assets to satisfy the collateralization ratios of commercial banks or who have unconventional/unstable cash flows and are considered to be risky investments). Such investment vehicles tend to provide high risk, high yield products by leveraging the potentially explosive growth of small companies to provide attractive returns.

Investors

The global trend of overliquidity has resulted in a gradual decline of interest rates on foreign currency denominated deposits. This is a trend in Georgia also, where the interest rates on foreign currency deposits have fallen below 1% and it is projected that this trend will not change in the short to medium term. This trend has likely picked up steam following certain measures enacted by the NBG to decrease reliance on foreign currency. Therefore, the availability of units (shares) in various investment funds also creates additional investment opportunities for both retail and sophisticated investors.

High risk investment with high returns similar to venture capital funds and private equity funds can be attractive investment opportunity for risk-loving qualified investors who have the financial means to bear the risks associated with investment activities. At the same time, retail funds (which are more regulated and tend to have less risky investment policies) can be a suitable investment opportunity for risk averse qualified investors, as well as retail investors (general population).

We can already observe on the market that there is an interest in creating real estate investment funds. This is largely because historically real estate was and still remains one of the most popular investment assets. Pooling money together and investing through an investment fund will make expensive commercial real estate available to retail investors, which was not accessible to the majority of them until now. The same logic can be extended to other investment assets (stocks, bonds, other financial instruments), which will inevitably become an attractive investment opportunity as the financial literacy of the general population grows.

New opportunities for international players

Now is the time for Georgia to be in the focus of large institutional investors and asset management companies with international experience. This is because the new legislative framework, which is based on international best practices, creates understandable and familiar rules for international players. Since the market is at its inception stage, it will be much easier to obtain a larger market share now given that alternative financing sources are also at an early stage of development and buy-side market players as well as sell-side clients are hungry for new opportunities. On the other hand, the entry of new institutional investors will increase overall market liquidity, create more exit opportunities for existing players and overall shape a healthier market.

As an additional bonus for international asset managers, although the deposit rates are plummeting, the cost of funds remain relatively high compared to other European jurisdictions. This creates beneficial investment opportunities for international investors.

Global economic trends, as well as clear interest among private players and the very cooperative approach of the NBG have created a unique opportunity for the sector to grow. What Georgia currently needs the most is the involvement of qualified and experienced professionals in this sector and success stories to enhance market credibility.

This article is a modest attempt to remind interested audiences of the variety of opportunities the new law has created. Those who will be the first to grasp the opportunity will grow faster. Here at BLC, we remain keen to be your trusted guide in navigating these new and exciting markets.

Tamta Ivanishvili
Partner | Corporate and Finance

Please apply for the professional advice prior to relying on the information given in this article. BLC and its team shall be ready and pleased to provide any information, legal advice and specific recommendations regarding the issues covered herein.

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AmCham member hotels on summer bumper season, express cautious optimism for 2022

Georgia's struggling tourism industry received a much-needed lift this summer when relatively low Covid-19 numbers in June and July along with restored flights combined to make the summer tourist season an unexpected success.

While there are still difficult times ahead as the global community struggles to contain and dampen the spread of Covid-19, AmCham member hotels are cautiously optimistic about the gradual recovery of tourism in Georgia and the road of return to pre-2019 heights.

SUMMER SURGE

AmCham member hotels unanimously agree that the summer surge in tourism was unexpected.

The Adjara region had a particularly stellar run this summer, Batumi Hilton GM Torsten Weller told Investor.ge, noting that numbers exceeded all expectations and even broke several important historic records.

"Despite the critical pandemic situation in Georgia, we had a high number of international travelers coming mainly from Israel, Saudi Arabia & the UAE. The Israeli market has been one of our main markets for many years, and it was never as strong as it was this year. It was also great to see such a significant booking impact from Saudi and UAE travelers, which was not what we predicted."

Chateau Mosmieri Hotel and Winery noted that in their case, the return of travelers was marked less by their classic clientele of larger groups and more by lone travelers. The Biltmore in Tbilisi agreed: while tourism numbers are coming back up, businesses reliant on group travel may have to wait a while longer before faith will be restored that traveling in large groups will not pose a significant threat to health.

As for what caused the surge, it's hard to pinpoint exactly, but Sheraton Metechi General Manager Iva Trifonov says the increase in flight frequency from the Middle East was partly behind the rise, offsetting a temporarily closed Israel and the slowed traditional neighboring markets of Armenia and Azerbaijan.

"Not only did this period coincide with holidays in the Middle East, but it was catalyzed by the easing of Covid-19 restrictions in UAE and other Middle Eastern countries which were still not allowed to travel to their previous favorite destinations in Western Europe", Trifonov told Investor.ge.

The combination of accessibility, reasonable flight fares, limitations to travel elsewhere together with a welcoming and affordable environment in Georgia contributed significantly to the increase in international incoming travel. The Meridien Batumi notes that the reopening of casinos played a big part in the return of tourists from traditional target markets such as Israel, Turkey, Azerbaijan, Kazakhstan and others.

EXPECTATIONS FOR THE FUTURE

There is little doubt that Georgia will continue to attract tourists as it did at its peak in 2019, but when exactly that will take place is as of yet anyone's guess.

Biltmore management is guessing that the second quarter of 2022 will show a pick-up in business: "it is difficult to predict what to expect from the upcoming year, but we already have a positive dynamic, and gradual recovery looks like it will occur as early as the second quarter of 2022", the Biltmore predicts.

Erdogan Sahin of the Mercure Tbilisi is less sure, noting that "the post-pandemic period is unpredictable", though concedes that with the success of the summer and fall of 2021, one can already talk of a 'rebirth' of the tourism industry.

The Batumi Hilton's Torsten Weller says that going into next year, it will be important for hotels to bear in mind the lessons of this past summer and to recognize that more borders will be open, especially those of Batumi's direct competitors such as Cyprus, Greece, Bulgaria, and Romania, which will certainly have an effect on tourism numbers.

"That's why the Georgian Tourism Administration needs to be active now to be present in old and new markets to keep up the momentum. I do believe that the Saudi & the UAE travelers mentioned did enjoy their experience of Georgia and that a certain percentage will come back. I see a big chance to win new markets here in the long run", Weller told Investor.ge. Placing a date on a full recovery is tough, Marriott GM Cameron McNeillie says, but expresses cautious optimism for early-mid 2022, especially given recent Georgian government initiatives.

"I was very pleased to see the announcement of the green passport status system to access public areas. I think that's a very positive message. It will give people a sense of assurance that they're going to as safe a place as possible. This has been a very important issue for a number of our customers. Nothing will ever be 100%, but it will afford a little bit more peace of mind for some people and ultimately stimulate travel."

McNeillie also notes that given the recent dynamics of recent country openings and closures, Georgia has made itself known on a number of strategic new markets, which may be promising in the near future: "There is huge potential from India and Iran – it'll be interesting to see how recent and future flight openings will play out, for which much credit is due to the Ministry of Economy, whose deputy head has done tremendous work in stimulating the return of a number of flights."

The Sheraton Metechi's Trifonov says the hotel is operating on the assumption that around Q1 2022 restrictions will be eased thanks to higher vaccination rates and pressure to revive stagnant tourism.

"Business travel will slowly come back but will still not reach 2019 levels quite yet. MICE is expected to recover in frequency but with a fewer average number of attendees. Social gatherings and celebrations once allowed will return in full scale as there is quite some pent up demand. We expect a strong summer with the return of Middle East travelers in bigger numbers but also more demand from Caucasian and neighboring countries. Europe will be the last to recover as all other destinations will be available to them."

Overall, Trifonov states, current forecasts estimate that 2022 will still fall a bit short of 2019 levels, with a higher volume at a lower average rate due to insecurity in the market place and the new players that will open up with diluted penetration rates.

"Judging by the pace of new investments", she says, "in the hospitality sector it seems that everyone is positive about the recovery. There are quite a few new hotel openings in the pipeline in Tbilisi and in the regions. Travelers will, for some time, choose smaller properties and rely on brands to guarantee safety and hygiene standards and for a while be reluctant to select unrecognized private B&B offers. Small resorts, villas and more privacy will be the choice for vacations. We are expecting to see more senior executives on the road in an attempt to re-establish relations."

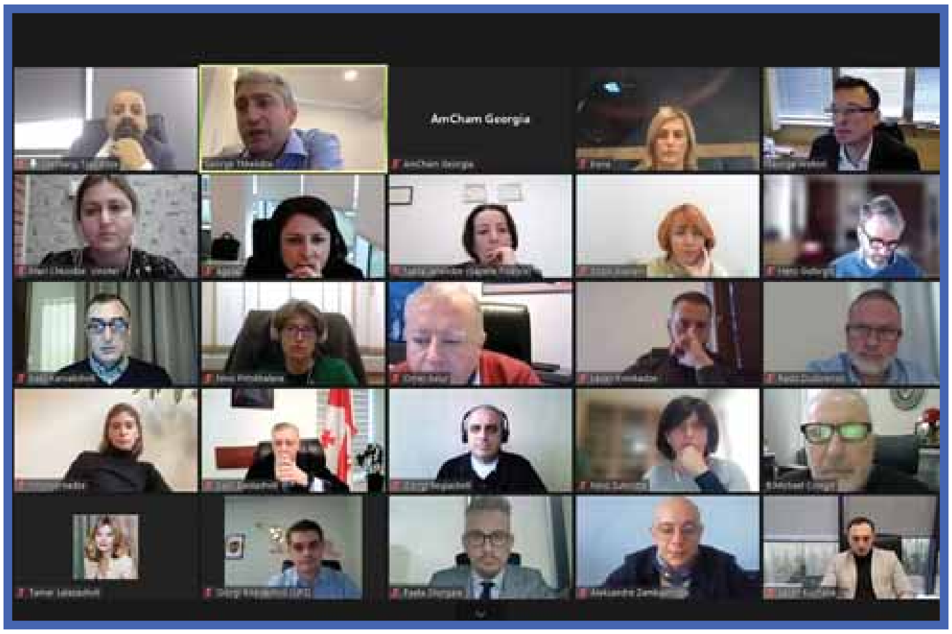
"Once confidence in airlines and no border restrictions is back, leisure travel will re-bounce to satiate the crave for travel which will be stronger than the fear of another pandemic. Travelers will take their revenge on restrictions as during the past two years they became acutely aware just how important travel is to their lives", she says.

The Radisson Blu's GM Jordi Kuijt is similarly positive, but notes that there has been a trend of 'two steps forward and one step back' when it comes to the recovery, with demand varying widely, business travel lagging behind and global developments in the COVID-19 pandemic quickly reflecting on the tourism sector the world over.

Staying the course will be important for the recovery of the sector, Kuijt says: "A calm and balanced approach to the entry of tourists per the current vaccine and PCR testing regime has worked well. We should not frighten off tourists with ever-changing regulations."

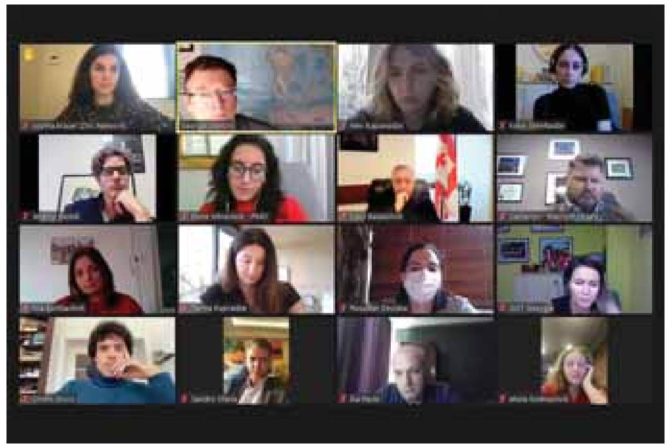
When tourism will fully snap back is anyone's guess, but Kuijt notes that "…travel and exploration is in most people's social DNA. Over the years, more and more of the world's population will have increased disposable incomes and free time, and there is no better way to spend it than traveling…for example in Georgia!"

CONTENT



46 AmCham holds 2021 General Assembly

VIRTUAL MEMBER MEETING



AmCham Georgia organized a virtual member meeting on October 15 where Executive Director George Welton presented findings on the recent AmCham Georgia survey on members' staff Covid vaccinations.

This involved a discussion between members about the way in which they are trying to persuade their employees to become vaccinated and our attitudes to vaccination mandates.

AMCHAM MEETING WITH UK AMBASSADOR TO GEORGIA

AmCham Georgia hosted the UK Ambassador to Georgia at an online meeting with members on November 5. Ambassador Mark Clayton presented about the COP26 Conference, international responses to climate change and its impact on Georgia. The presentation was followed by a dynamic Q+A.

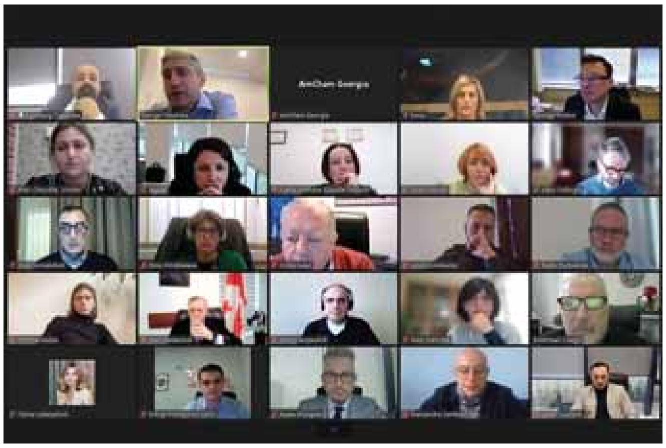
CLT COMMITTEE MEETING

AmCham held a meeting of its CLT Committee on November 9, where members had the opportunity to reconnect and discuss hot topics concerning the sector. Members of the committee also set a plan for the next meeting.

TOURISM COMMITTEE MEETING

AmCham Georgia held a Tourism Committee meeting on November 16. Committee chair Cameron McNeillie hosted the Deputy Head of Georgian Tourism Administration Tamuna Koriauli who presented on green passports, the recovery of the aviation sector and gave general sectoral updates. Following Tamuna's presentation Otar Sharikadze from Galt & Taggart presented on how tourism has taken shape this year, and the outlook for 2022. Presentations were followed by the Q&A.

AMCHAM HOLDS 2021 GENERAL ASSEMBLY



The American Chamber of Commerce in Georgia held its annual General Assembly on November 17. AmCham President Sarah Williamson gave a review of the Chamber's activities over the last year. AmCham Treasurer Michael Cowgill presented a summary of AmCham's financials, and the 2020 audit was approved by members.

Grant Thornton Georgia was also approved as auditors for AmCham for 2021-2023.

AMCHAM BUSINESS ROUNDTABLE

AmCham Georgia hosted a Business Roundtable at the Sheraton Grand Tbilisi Metechi Palace on November 29 with the US Ambassador to Georgia H.E. Kelly C. Degnan. The ambassador discussed US-Georgia relations as well as current issues in Georgia, the United States and the wider region.

The presentation was followed by a lively Q+A, which covered a wide range of issues. It was the first AmCham hybrid event, which participants had the chance of attending either in person or online.

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www.wfcapital.ge

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CENN
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Global Compact Network Georgia (GCNG)
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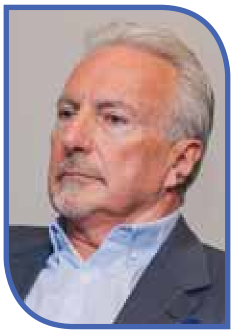

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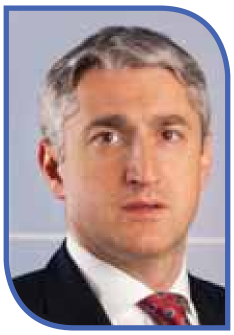

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