

THE WORLD'S MOST VALUABLE BRANDS • THE RICHEST TERROR ORGANIZATIONS IN THE WORLD

ENGLISH ISSUE

# Forbes

GEORGIA

A portrait of Michel Sogny, a middle-aged man with dark hair, wearing a blue suit jacket, a white shirt, and a red patterned tie. He is standing with his arms crossed and a slight smile, looking towards the camera. The background is a plain, light blue wall.

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Cover photo by Georges Dobrev



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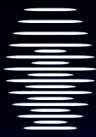
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# LeaderBoard

## THE WORLD'S MOST VALUABLE BRANDS

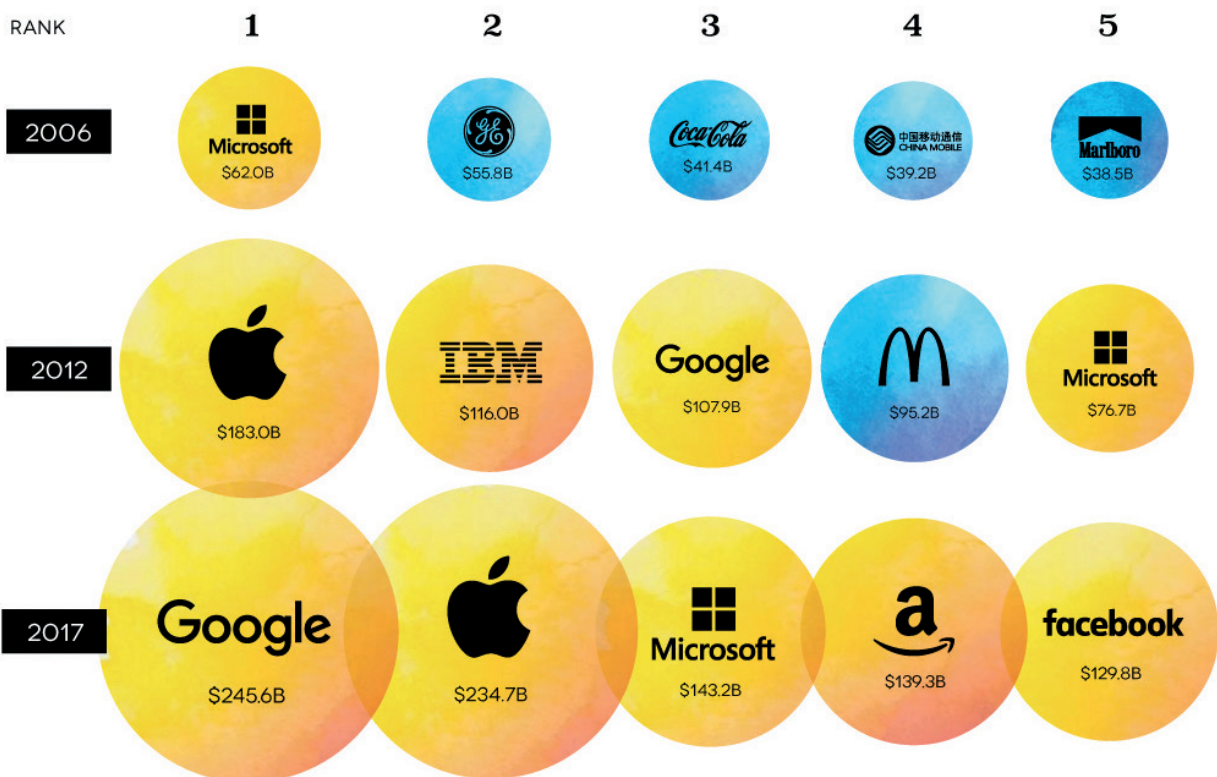
In just the last 10 years or so, tech brands have taken over the list.

A decade ago, the list of the world's top brands was dominated by old guard names like Coca-Cola and Marlboro.

However, the global scale of technology has taken over fast - and today, the top 5 brands by value are all tech-related.

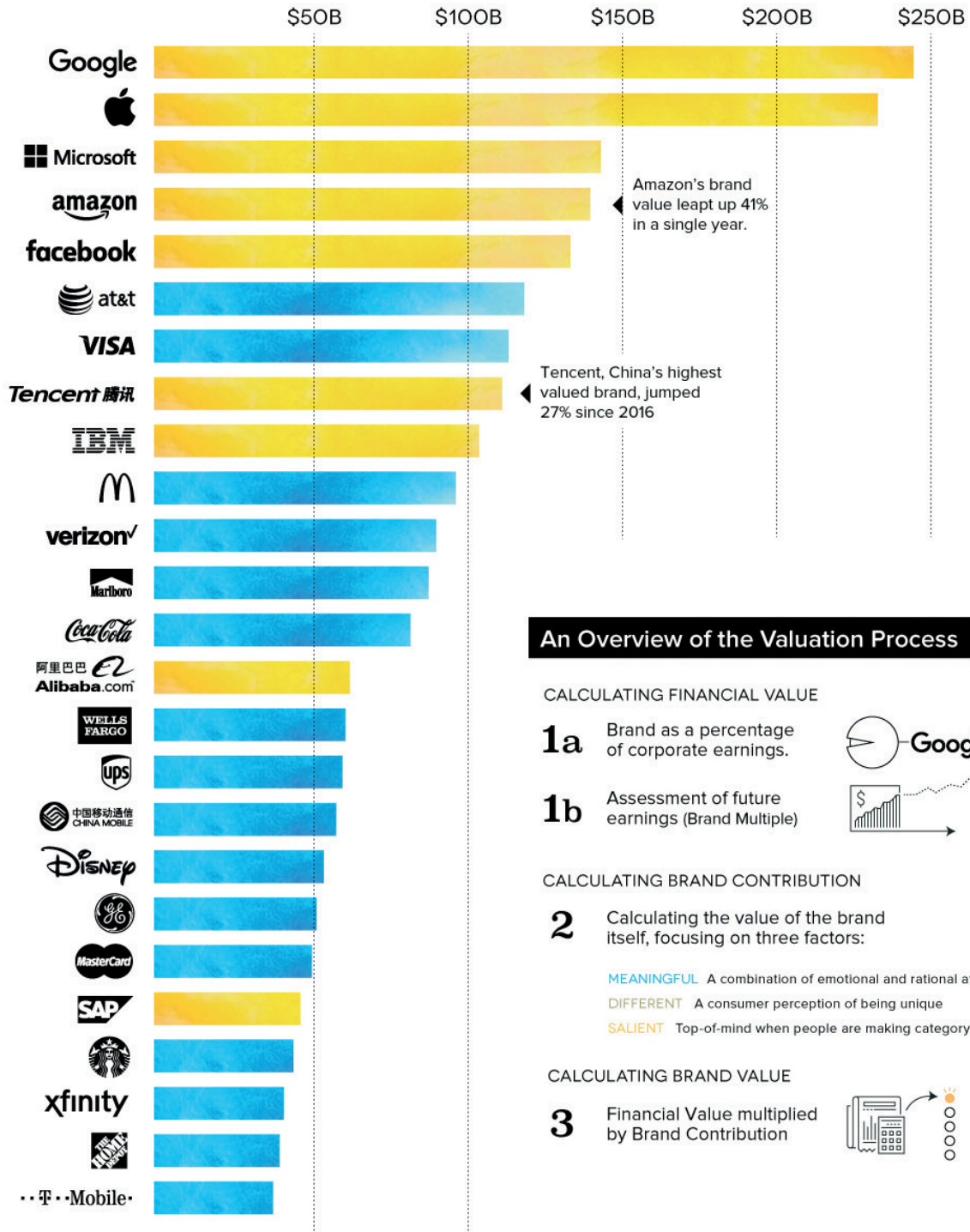


### GLOBAL TOP 5 BRANDS | TECH ASCENDANCY





2017 GLOBAL TOP 25 BRANDS | BY BRAND VALUE



An Overview of the Valuation Process

CALCULATING FINANCIAL VALUE

- 1a Brand as a percentage of corporate earnings.
- 1b Assessment of future earnings (Brand Multiple)

CALCULATING BRAND CONTRIBUTION

- 2 Calculating the value of the brand itself, focusing on three factors:
  - MEANINGFUL A combination of emotional and rational affinity
  - DIFFERENT A consumer perception of being unique
  - SALIENT Top-of-mind when people are making category purchases

CALCULATING BRAND VALUE

- 3 Financial Value multiplied by Brand Contribution

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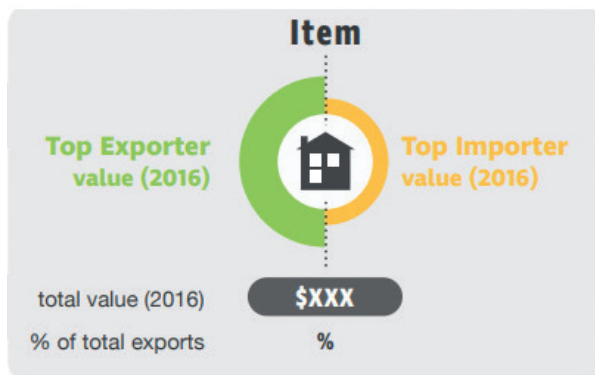
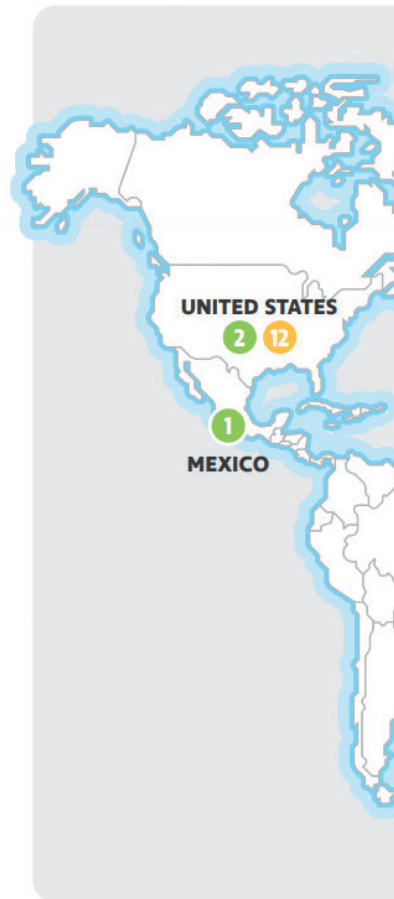
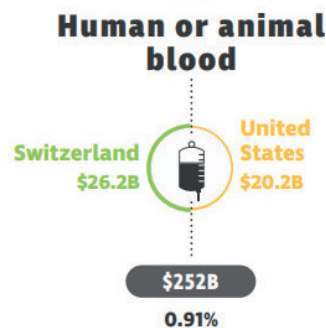
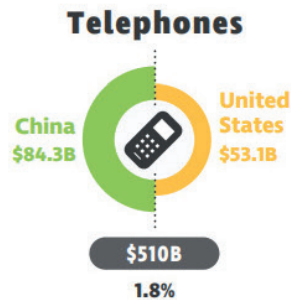
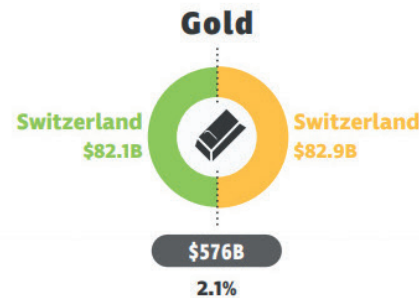
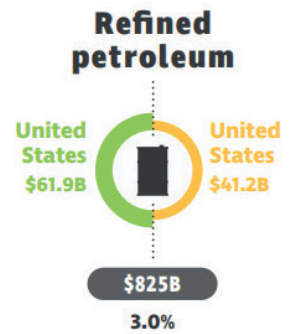
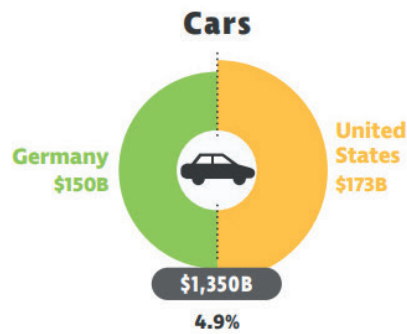
# LeaderBoard

## The Top Importers and Exporters of the World's 18 Most Traded Goods

Every day, massive quantities of goods get traded on the global market.

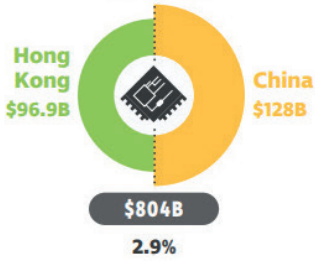
These goods can be entirely customized and unique, but more often they are things like commodities or bulk goods that get moved around on huge container ships from country to country. Included in this latter category would be common exports like crude oil, automobiles, iron ore, pharmaceuticals, and smartphones.

Which goods get traded the most, and what countries play the most important roles in these deals?

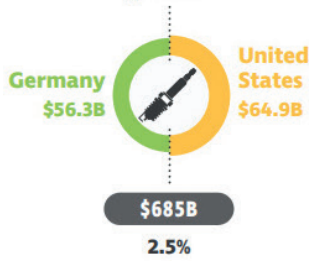




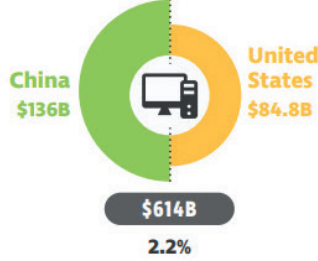
### Integrated circuits



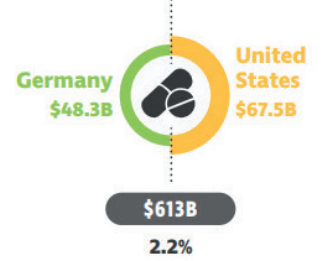
### Vehicle parts



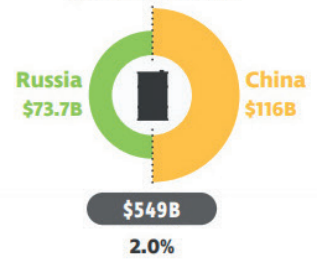
### Computers



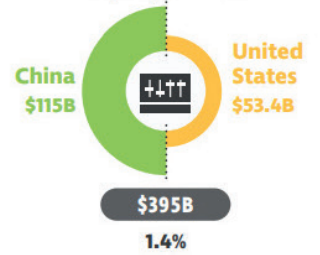
### Pharmaceuticals



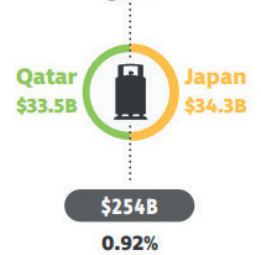
### Crude petroleum



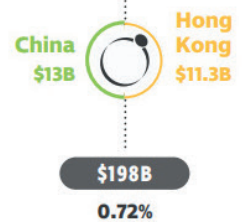
### Broadcasting equipment



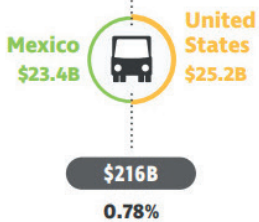
### Petroleum gas



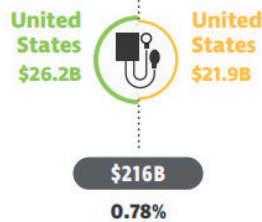
### Jewelry



### Delivery trucks



### Medical instruments



### Insulated wires

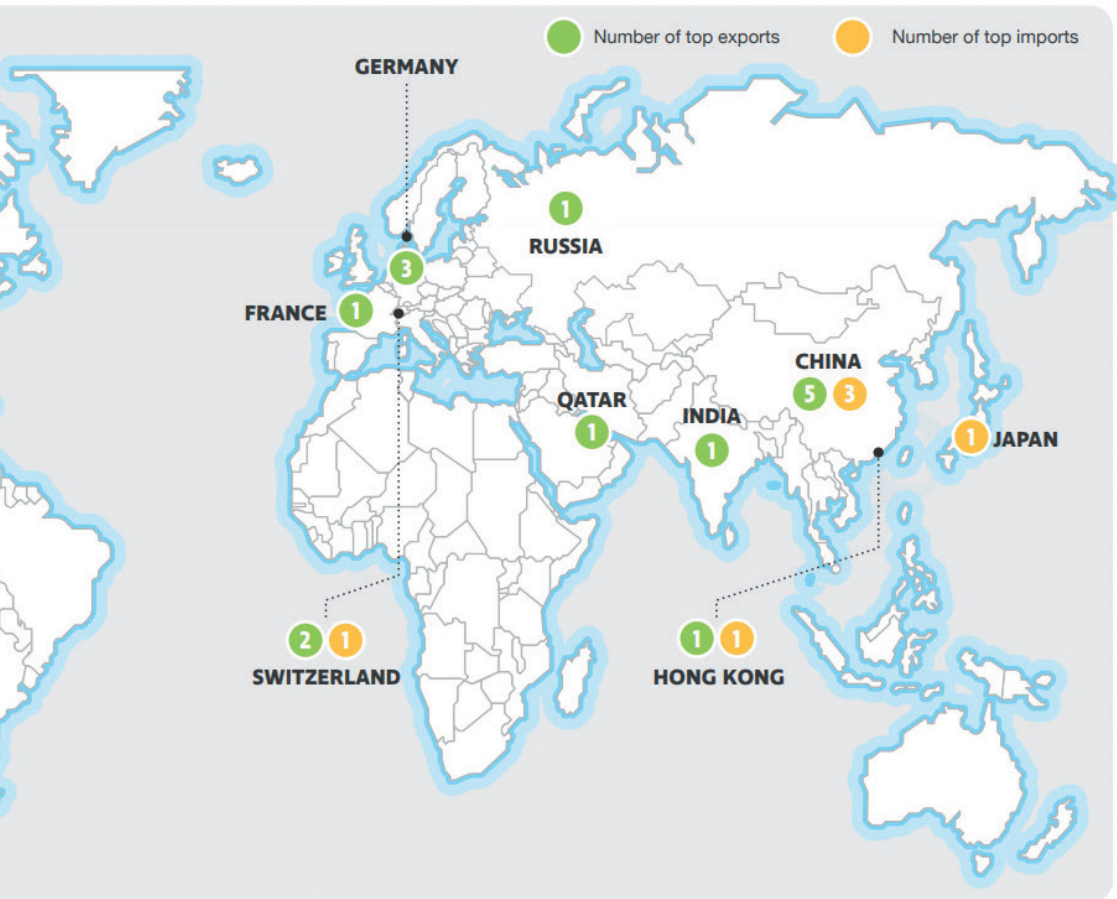
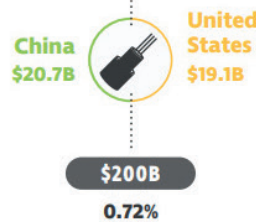


ILLUSTRATION: VISUALCAPITALIST.COM

Sources: atlas.media.mit.edu | wto.org | trademap.org | foreign-trade.com | wikipedia.org



# LeaderBoard

## Economic Freedom in Georgia

BY ZAZA ABASHIDZE

GEORGIA IS RANKED 16th in the 2018 Economic Freedom Index report prepared by the Heritage Foundation. Based on the report, Georgia's rankings slid three positions this year, despite the fact that the country's overall score increased by 0.2 points and Georgia's overall economic freedom score rose to 76.2.

The Economic Freedom Index is measured based on the following parameters: rule of law, size of government, regulatory efficiency and open markets. Georgia's position in the rankings based on the above four criteria is as follows:



### Rule of Law:

#### Property Rights



#### Government Integrity



#### Judicial Effectiveness



### Government Size:

#### Government Spending



#### Tax Burden







## Regulatory Efficiency

### Labor Freedom



### Monetary Freedom



### Business Freedom



## Open Markets

### Investment Freedom



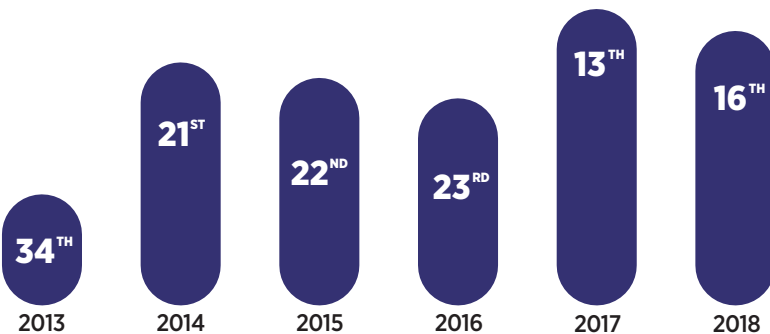
### Financial Freedom



### Trade Freedom



## Georgia's five previous Economic Freedom Index rankings:



## Top twenty countries based on their Economic Freedom Index rankings:

1.		Hong Kong	<b>90.2</b>
2.		Singapore	<b>88.8</b>
3.		New Zealand	<b>84.2</b>
4.		Switzerland	<b>81.7</b>
5.		Australia	<b>80.9</b>
6.		Ireland	<b>80.4</b>
7.		Estonia	<b>78.8</b>
8.		United Kingdom	<b>78</b>
9.		Canada	<b>77.7</b>
10.		United Arab Emirates	<b>77.6</b>
11.		Iceland	<b>77</b>
12.		Denmark	<b>76.6</b>
13.		Taiwan	<b>76.6</b>
14.		Luxembourg	<b>76.4</b>
15.		Sweden	<b>76.3</b>
16.		<b>Georgia</b>	<b>76.2</b>
17.		Netherlands	<b>76.2</b>
18.		United States	<b>75.7</b>
19.		Lithuania	<b>75.3</b>
20.		Chile	<b>75.2</b>



# LeaderBoard

## Hazardous Work

LAST MONTH two more workers died after falling from a building at a construction site in Tbilisi. The recent accidents have once again underscored the critical need for creating a strong and efficient labor inspection regime. The deaths also prompted heated public debate over the subject.

In addition, the Human Rights Educating and Monitoring Center (EMC) published a study on the issue and continues to urge the government to take effective measures to tackle this problem. Along with other interesting facts, the report provides statistics reflecting the occupational accidents that have transpired in recent years.

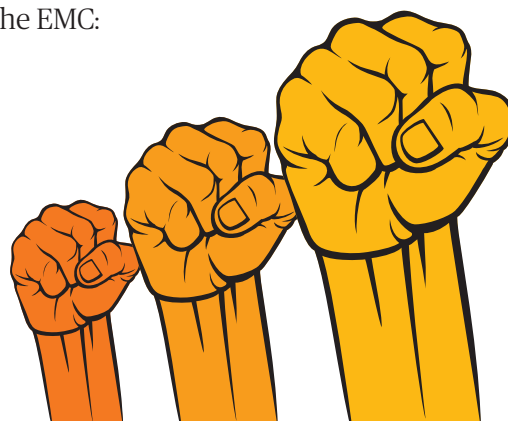
The following are some of the statistics published by the EMC:

### Average duration of worker protests (strikes)

2010–2011: **3 days**

2012–2014: **11 days**

2016: **13 days**



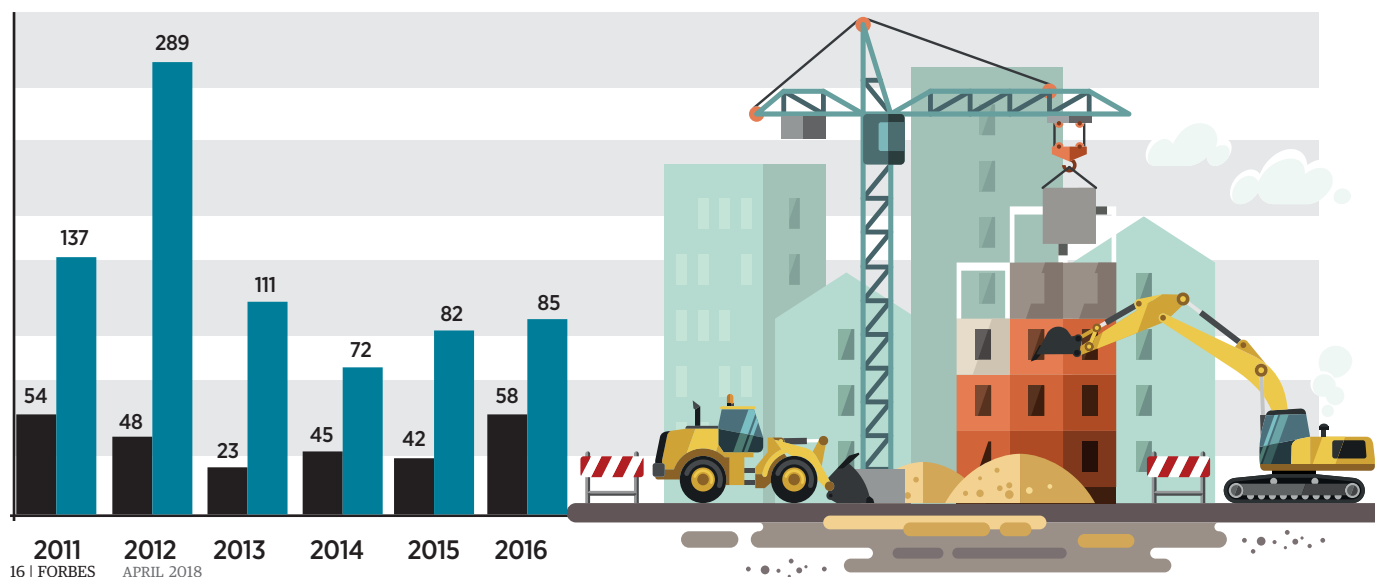
### Statistics for the occupational accidents in Georgia

(2011 - 2016)

There were a total of **1046** occupational accidents during 6 years

● Dead (270)

● Injured (776)





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# LeaderBoard

## Business Leaders Talk About Risks

THE MAIN RISKS in Georgia can be determined based on the 2018 global risk data published by the World Economic Forum. One thing to note is that global risk reports are generally prepared with the participation of business leaders from various countries around the world. As such, representatives of the private sector have identified five global risks that they envision could affect their respective countries in the next ten years. Below are the five main global risks of highest concern for doing business in Georgia with average global indicators noted in parentheses.

		Georgia	Average Global Indicator
1.	Unemployment or underemployment	<b>52.3%</b>	<b>35.9%</b>
2.	Risks associated with the possible failure of the national government <i>(increase in corruption, problems related with the rule of law)</i>	<b>36.4%</b>	<b>28.4%</b>
3.	Interstate conflict	<b>34.1%</b>	<b>16.8%</b>
4.	Problems related to the failure of urban planning	<b>29.5%</b>	<b>14.7%</b>
5.	National currency inflation	<b>27.4%</b>	<b>16.4%</b>

### Other risks:



Man-made environmental catastrophes

**18.2%**



Cyberattacks

**13.6%**



Terrorist attacks

**11.4%**

SOURCE: WORLD ECONOMIC FORUM



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## THOUGHT LEADERS

PAUL RODZIANKO - CURRENT EVENTS

# The Truth About Cement in Georgia and You – the Consumer



**SINCE JANUARY 2017**, the Georgian Cement Association (GCA) has been drawing attention to the problem of counterfeit bagged cements being sold in Georgia and urging all stakeholders and the government to take corrective action.

**“Fake” cement.** Cheating with cement quality is not harmless: it can lead to injuries and fatalities from collapsed construction. Quality cements require a blend of certain materials. Clinker, the most expensive of these, is milled together with gypsum, slag and other additives following specific formulas needed to yield different types of cement.

Counterfeit cement products use much less of these critical components in order to save on manufacturing costs, but the quality of the cement suffers dramatically. Cutting back significantly on clinker can thus increase a manufacturer’s profitability enormously, even after paying unscrupulous distributors - all at the consumer’s expense.

The GCA has been conducting blind testing in the marketplace for one year now. In December 2017, 14 out of 25 cement samples failed, ranging in quality from minus 39% to an astounding minus 90% from the claims on the bag, an abysmal result. Cheap and useless materials were clearly substituted for the critical components needed to make good cement.

**Tell-tale signs.** Since consumers cannot distinguish visually or by touch whether the cement they just bought corresponds to the description on the packaging

or whether it is an inferior product, what can they do? Here are some suggestions:

- Do not purchase bags where neither the name nor the contact information of the producer is printed on the bag.
- Avoid bags labeled as coming from Iran or Armenia, since no cement from these countries was legally imported into Georgia in 2016 or 2017.
- Watch out for green bags that look like Heidelberg bags but with misspellings, other small distinguishing marks or no contact information.
- Be aware that bags priced 10-40% lower than bags of the same quality sold by reputable producers are not likely to be legitimate.
- Avoid dealers who stock obviously fraudulent bags next to legitimate ones.

The only way to guarantee a purchase is high-quality cement is to purchase only from companies endorsed by the GCA.

Risks of counterfeit cement. Purchasers of bagged cement must understand that cement is a commodity, and that significant differences in price must represent significant differences in quality. GCA testing has shown that the difference in quality is generally far greater than the difference in price.

When projects requiring durable cement are built with substandard cement, the construction may have to be repeated every 2-3 years. Thus, any “savings” will actually cost you money.





Then there are those projects that require structural strength: Georgia is an earthquake-prone area. If a house or dwelling built with counterfeit cement collapses, physical injury or death could result.

The unsuspecting purchasers of counterfeit cement thus run two risks: (1) being cheated regarding price and quality and (2) exposing themselves to physical harm by the collapse of structures built with fake cement.

**Economic impact.** All 14 of the sub-standard cements tested in December 2017 were made from imported clinker. These counterfeit cements use much less clinker than necessary in order to reduce manufacturing costs and to create higher profits for the owners of these companies.

In addition to producing inferior cement, these companies are also exporting Georgian jobs by importing clinker when sufficient quantities of domestic clinker are available to meet Georgian construction needs.

Importing clinker and cement also carries its own risks, because external market forces can easily make these imports no

longer economically attractive. Such a situation could result in an interruption of cement supply - which has occurred.

**What GCA does.** The GCA was founded in early 2017 to inform consumers, builders, the government and politicians of the counterfeit cement situation and to encourage all producers to improve quality production. Our approach is to:


- Under contract, the Georgian Chamber of Commerce randomly purchases 25-30 bags of cement on the open market quarterly for testing.
- The Chamber then makes five test samples from each bag and assigns each sample a number.
- These numbered samples - which lack company-specific identification - are then distributed to four accredited laboratories for blind testing.
- The lead laboratory is that of the fully independent Georgian Technical University (GTU).
- When the 28-day results are obtained, all the results are compared to ensure general consistency.
- The GCA then prepares a confidential

table, which lists the results by company and ranks these results.

- The GCA then announces GTU's results as to which companies' cements are consistent with the description on the bags.
- The GCA does not mention the names of the companies whose bagged products are sub-standard and therefore counterfeit.

The GCA encourages all Georgian cement producers to market products that conform to the quality stated on their bags. If such a level playing field is maintained, consumers will not have to worry about being cheated.

Every company producing cement in Georgia is eligible to join the GCA, provided their products pass our blind testing program on a continual basis.

**Conclusion.** Eliminating counterfeit cement products in Georgia will ensure safe and quality construction materials; protect the consumer; and create more jobs. We urge all relevant parties in government, as well as in the construction and the building materials sectors, to demand integrity in the quality and pricing of cement products manufactured in Georgia. 



## THOUGHT LEADERS

JAN-WILLEM HOEK - CURRENT EVENTS

# My Economic Weather Forecast for Georgia



**FOR MANY YEARS,** I have traveled frequently to Georgia. Each time, I am surprised to see another step being made in the development of the country. For example, the appearance of high-rise modern buildings and infrastructure, or the high number of luxurious hotels that are popping up like mushrooms. Also, the increasing number of Georgian fine dining restaurants and bars, with a place for each person. The country even has a very decent annual GDP growth. Georgia seems to be in the summer of its 25-year existence. But could clouds be appearing in that blindingly blue sky? I would like to share with you some of my observations about this beautiful country and the way forward.

Let me start by saying that I consider Georgia to be a gem in the Dutch development bank FMO's portfolio. The country's international orientation, sound leadership, and willingness and capability to embrace new concepts are factors that contribute highly to the success of Georgia—not only in the region, but also beyond its borders.

Coming back to my economic weather forecast, I'd like to focus on three potential clouds in the sky: agrarian reform, tourism and capital market development.

As someone born and raised in the Netherlands, a country that has true agro-DNA and is one of the most developed agro sectors worldwide, I clearly see that Georgia has massive agro potential. The country produces, in no particular order: tea, wine, meat, dairy, fruit and nuts. The fundamentals are certainly there, but why is it

all so small scale? Is the state of the equipment, storage facilities and processing machinery really helping support more efficient and effective production? And what about the quality of the products? Are farming methods sustainable? If you truly want to make Agro an economic development pillar, where do you invest? The government, stakeholders in the sector and individual farmers should all partner to develop a long-term vision and make the necessary investments. The question is: who will step up and lead this reform? In my opinion, a strategic master plan needs to be drafted, but it also comes down to actual implementation. Make choices about which crops you want to grow, make use of the profound knowledge of farmers, invest in innovative equipment and technology and build infrastructure that guarantees excellent product quality from farm to plate. The stakeholder's community should be broadened beyond the usual suspects. The industry must welcome new information technology like drones and blockchain, as well as input from agro universities and sustainable farming NGOs. Can the financial sector play a role here? Yes, it certainly can, and it should. Banks and microfinance institutions have a profound knowledge of practically the whole supply chain, ranging from financing small-scale farmers to exporting agro products worldwide. The financial sector can take the roles of matchmaker, financial facilitator of agro product streams and center of excellence where knowledge meets finance.

A second possible could well be tourism. Last year

JAN-WILLEM HOEK, INVESTMENT OFFICER, FINANCIAL INSTITUTIONS EASTERN EUROPE - CENTRAL ASIA, FMO



Georgia celebrated the milestone of welcoming more than six million visitors, a remarkable achievement. One of them was my fellow countryman Jesper Black, who (as the sixth millionth tourist) got the red-carpet treatment from the Prime Minister himself, who showcased famous Georgian hospitality. The video clip of his visit went viral worldwide. Tourism in the country can really develop into another economic pillar. First of all, I will not focus on the vulnerability of the tourism sector to external shocks. Being a number-one tourist destination might change overnight due to political, financial or geopolitical shocks. Let's take that as a given. The question is: what kind of tourist destination does Georgia want to become in the next five to 10 years?

The answer to this question will largely determine where efforts and investments in infrastructure are needed. Backpackers, for example, have less money to spend and are looking for cheaper accommodation, bars and restaurants. They will most likely travel by public transport. But one can also ask if Tbilisi is ready to absorb the growing number of Airbnbs hosting city visitors? And will smaller hotels in the countryside be able to meet the growing demand for more luxurious facilities without negatively influencing the environment? The point is that someone must step forward to make the tourism sector sustainable. Again, close cooperation is needed between parties to address this theme: how will growing tourism lead to less negative environmental impact? Alliances need to be sought between the government and the tourism sector.

Last, but certainly not least, potential cloud number three on the horizon: capital market development. Being a banker for almost thirty years, I have worked in various countries and have seen many developments, including both sound developments and some that turned out less well. Let me start by saying that I believe that the measures and supervision by the National Bank of Georgia are of a very high standard. Furthermore, the cooperation between the National



Bank, the Georgian government and the financial sector vis-à-vis the much-needed de-dollarization policy has been excellent. The measures were announced in December 2016 and came into effect in January 2017, and I can vividly recall a speech I gave in March 2017, stipulating the importance of the National Bank's continued support of Lari funding for banks and MFOs. Almost one year later I can conclude that, fortunately, exactly that scenario has happened. Good measures were taken and are under way. Banks and MFOs have had the chance to adapt. For FMO, one of the funding partners of the financial sector, the National Bank and Georgian government were very open and willing to accommodate the issue of a Lari bond. The goal of this is to have more Lari-based funding, instead of foreign currency loans. So why is there a cloud on the horizon? The Georgian financial system can be easily divided into three blocks. First of all, the two big banks: TBC Bank and Bank of Georgia. Second, there are approximately eight smaller banks, and third is the MFO-sector, with Crystal ranking in first place. Another division can be made between banks that are premium listed in London or have a

majority foreign ownership. The activities of these banks on the Georgian Stock Exchange are limited, as it focuses mainly on local bonds and small-share transactions. I think the Georgian Stock Exchange could use a revamp—active dual listing, stimulating listing by foreign banks, developing liquidity instruments and the provision of long term funding to important sectors of the economy would all help the exchange. The Georgian Stock Exchange can play a vital role in developing the capital market, where domestic resources are being catalyzed. By implementing rules of transparency from other international stock exchanges, the Georgian Stock Exchange can become the barometer of Georgian business activity. From a developmental point of view: I would embrace the concept of Sustainability Bonds and Green Bonds being issued on the Georgian Stock Exchange.

This brings me to my conclusion. Given the way the country is developing, Georgia certainly has a bright and shiny outlook, as it is full of possibilities. If the right choices are made, the potential clouds will disappear and Georgia can enjoy a prosperous and sustainable future. **F**

# ECRB's Georgian President

For the first time the Energy Community Regulatory Board (ECRB) has a Georgian president: Giorgi Pangani will head the board for two years. Several months after Georgia's accession to the Energy Community in Athens, Pangani was elected President of the ECRB by a majority vote. According to Pangani's plans, in his new position his main goal will be integrating the member states of the Energy Community into the European energy market, as well as harmonizing legislation and promoting accession of new members to the Energy Community. The new President spoke to Forbes about his future plans and GNERC's upcoming activities.

BY ELENE CHOMAKHIDZE  
PHOTOS: NIKA PANIASHVILI

**First of all, I would like to congratulate you on this new position. Tell us what processes took place in Athens and how they chose you as President.**

Well, the fact that I was elected as President is actually a very interesting precedent, because Georgia has recently become a contracted party of the energy community and this was the very first ECRB meeting we attended. So it was really amazing and a very interesting experience to be elected dur-







Giorgi Pangani

ing the very first meeting we were invited to join. Of course this is a big honor and a big responsibility, and I think that all the reforms of the last five years, which were implemented by GNERC, and all this success that we've achieved with them, helped attract this victory. GNERC's team has done a lot in recent years, because we were quite active on the international level, in many international organizations, including the Energy Community: before accession - just as the observers, but still very active ones. You know that the Energy Community Regulatory Board has three different directions: electricity, natural gas and customers divisions. There are many interesting tasks and some of our colleagues from GNERC were and are still task force leaders, carrying out works which will form the basis for many reforms, which now are going to be implemented not only in Eastern, but in Western Europe as well, and were actually prepared by our colleagues from GNERC.

**What were the criteria for this election?**

First, the candidate should be nominated by the national regulatory authority and he or she should be the chairperson or the commissioner. Of course the authority must be a Contracting Party of the Energy Community. There were only two candidates: me and the Commissioner from Moldova. It was quite challenging. Moldova is active in the Energy Community as well, and they became members a couple of years ago, so they had more experience. That's why I mentioned that it was quite interesting to become president during the very first meeting, because as I said: Moldova is very active, they have a very good reputation and in the last two years they had big successes. Moldova has a new energy law based on EU legislation, which was prepared by the Energy Community. The authority is now drafting our new energy law.

**In your opinion, what will change in your new position and generally in GNERC's future activities?**

Well, first of all, I think it will help to harmonize our legislation with EU legislation. Now, why is this so necessary? Energy Community is the one of the main tests which must be passed if you want to be EU member. There is no chance of becoming an EU member until you have fulfilled all the criteria of the

Energy Community; this is something that can't be avoided. The other interesting issue: of course we want to attract as many investors in the energy sector as possible, but we also want to attract investors from the EU specifically - from Western Europe, because of their experience and also because of their knowledge of very high-level development technologies. Believe me that no European investor will look at the country if the legislation is not clear or it's not harmonized with the EU's. That's why direct investment in energy from EU countries is lower than the investment from, for example, China. So I think that after Georgia harmonizes its legislation and after we implement all these new rules - like a third energy package, which is mandatory for EU members as well - I think that many investors, many big players in the energy market from the EU will take a renewed interest in Georgia. Georgia has huge potential as a pass-through for many projects, and as a producer of clean energy, that's very important. I really hope that my work will help this process and somehow we'll make that big step forward together.

**What will be your main goal? For example, you mentioned that you want to increase Contracting Party involvement and integration into the EU energy market.**

Right now, who are the members of Energy Community? On the one side, there is the EU, and on the other side there are nine countries, and all of these countries want to be more integrated not only into the EU market, but also into different energy agencies. This is very hard right now, because these agencies, which unite some regulatory authorities and different ministerial bodies, are very closed organizations - they aren't very welcoming if you are not a member of the EU. I think one of the main goals will be to become more integrated into these organizations. Why? Because right now in these organizations they're working on regulations which are the future of EU energy. Also the Clean Energy Package, which is expected to be adopted this year, and will be the next step for all of Europe, and because of that will be our future, too.

**What do these regulations mean, and what changes do they include? Could you explain in detail?**



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It will increase cross-border trading, which is very important. Also important is the strengthening of national regulatory authorities, new measures for consumer protection and many details and very many aspects. The above mentioned energy agencies have huge amounts of experience; they have been working on regulations for the last 15 years. We can see that the European energy market is now fully liberalized, it's very open and consumers are protected, so the EU market is a very good example for us. Of course we want to be part of this market, we want to be part of these regulations, and because of this our aim and our goal is to become an EU member. For Europeans energy is not only "energy" - for them energy is much more than one economic aspect and they want our market to be fully liberalized, they want our market to be fully open, because if one day we are an EU candidate member, they must be sure that any small entity from a European country that wants to invest and work in the Georgian energy field has its rights protected and participates in a fully liberalized market.

**When will we achieve this liberalization and how long it will take for us to harmonize our legislation with EU standards?**

Maybe you'll be surprised, but actually in the natural gas sector we've already liberalized. This was done in 2007, I think, but needs some improvements. Now, the electricity field is more interesting. We haven't done anything like this and will be done by the end of this year. We will have a new energy law and we are going to change everything. E.g. now we have two distribution companies in Georgia, Telasi and Energo-pro Georgia. What are they doing? They're not only distributing the electricity, a process called transiting electricity, but also buying and then selling electricity to their consumers, and this is what we're going to change. This was just an example. Now we will have new suppliers of electricity. Distribution companies will stay, but they will only distribute the electricity, and other persons will buy and sell it. Currently you cannot choose, you're linked to your distribution company, attached to it, so there is no option and you have to buy electricity from only one entity. This will be changed, and there will be competition within the field. There'll

be suppliers and you can choose which supplier you buy electricity from, because they will offer different prices and different conditions, and there'll be a real, competitive market. Right now we don't have an electricity market in Georgia at all, although on paper maybe it seems that we have one, but we don't. We have only two "direct customers" who aren't buying electricity from distribution companies, but who are buying electricity directly from the producers: power plants. Both of them also have their own power plants. That's why GWP buy electricity from its own power plant and Pero owns its own power plant as well.

**So it's most important that there'll be competition within the market, and this will increase quality?**

Of course, and all consumers, including household consumers, will have the option to choose the most suitable supplier for them, so this is very interesting. Of course, there will also be a universal supplier, who will be obliged to deliver electricity if a consumer can't manage or is not willing to get a contract with another supplier. In this case, there's the universal supplier, which will deal electricity to consumers, so it's very interesting. Right now in Georgia we still have problems with electricity production. Yes, we are producing about 12 billion kwt hours per year, and this is our consumption as well, so what's the problem? We are not producing enough in the winter.

**So how are you going to change this?**

I think that when we change the legislation and have a market here, then investors will know that everything is very clear, there is a free market and there are no discriminatory practices. I think that this will ensure that more big companies will invest in Georgia's hydro potentials, because we still have about 65% of our hydro power potential untapped. We are now facing construction of the big HPPs, like Nenskra and others, but still this is not enough, because consumption in Georgia every year is rising by 9-10%. If in 2012 it was about 8 billion kwt, now it's about 12 billion kwt, so what's necessary? First, we must have a clear and open market, and legislation as well. In this case, you're ready to attract investors, to bring them here and to explain that it's a very good idea to invest in Georgia, and in energy, because energy is always relevant. <sup>F</sup>





Guram Rukhadze



# Revolutionary SPOT

As the digital currency market continues to prove both its versatility and long-term viability, one of the outstanding players on the Georgian market, Spotcoin, plans to meet the industry's growing demand. The Tbilisi-based company is expected to raise \$30 million with its initial coin offering, or ICO, a popular method of fundraising based on the first sale of a new digital currency. The company has expanded fast, and its founders believe that the ICO will bolster its success. Guram Rukhadze, one of Spotcoin's co-founders, is a digital currency expert. "The new digital economy is nothing short of a digital revolution," he says, and shared with Forbes his insights into his company's accomplishments and where his team sees the future of their business.

BY ELENE CHOMAKHIDZE  
PHOTOS: NIKA PANIASHVILI  
PHOTOS WERE TAKEN AT IOTA HOTEL TBILISI

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## What was the genesis of Spotcoin?

We wanted to make a company that could simplify the buying and selling of digital currency and demonstrate the value of transparency in this arena. We saw the complexities that both people and organizations were confronting in the market. So in November of 2016, we created an over-the-counter marketplace (or OTC) for digital currency. Soon we were handling \$1 million in monthly transactions between digital and fiat currencies. The initial success of our OTC exchange service enabled us to quickly raise \$1 million to expand Spotcoin. We grew from a Georgian LLC of three teammates to a proper staff of 30 employees, and today we have investors from all over the world.

**What attracted you to digital currency?**

I'm an entrepreneur with an extensive background in finance. And, like a lot of people, I'm not just attracted to digital currency: I'm completely fascinated by its potential. There are more than 1,500 such currencies in existence right now, and blockchain technology is proving its capacity to reshape global economic systems, while impacting most every industry that depends on secured data transfers. The new digital economy is nothing short of a digital revolution, and I want to be a part of it. More specifically - and why I'm so passionate about our work at Spotcoin - I want to contribute to harnessing the full potential of digital currency.

*“Spotcoin is already part of the smart economy, having matured as a market leader in the Black Sea Region by conducting over \$10 million in OTC trade volume last year. The success led to \$1 million in seed funding, allowing the company to grow from three to 27 employees.”*

We believe that our platform is uniquely capable of doing this, and that it can do so securely.

**What is Spotcoin's competitive advantage?**

We're the only company in the world with a platform that addresses every aspect of the digital currency ecosystem. Following our much-anticipated ICO this May, within a single system we will piece together what is an otherwise fragmented landscape - bringing together services in currency exchange, payments and mining. Moreover, we're establishing a new academic institution and business accelerator.

Within this system is our new Spotcoin exchange, with a simple, straightforward interface that's easy to use. Anyone from casual currency holders to more sophisticated investors will have easy access to the digital currency market, and the ability to swiftly liquidate assets into euros and U.S. dollars. This offer will eventually include all national currencies of the Black Sea region, as well. We're also launching our innovative payment system, Spotpay, which allows merchants to easily sell

goods and services to users with various combinations of both digital and fiat currencies. This will be a seamlessly smooth process for buyers and sellers, even as it's utilizing a highly complex proprietary algorithm for transactions. And we've expanded our capacity in mining by securing access to an emissions-free, hydroelectric-powered facility to host our digital currency mining hardware. The two most difficult aspects of mining are access to computing equipment and low-cost energy. This new facility guarantees electricity that is both cheap and constant - something that is essential for maintaining a profit in our industry.

**To what extent does Spotcoin aim to establish innovative approaches, and how will those concepts be implemented?**

Our goal is to continue delivering solutions to usher in the new smart economy and advanced blockchain technologies throughout the Black Sea region. We will accomplish this not only with our advances but also through education. Suffice it to say that Spotcoin makes digital currencies work for everyone. We provide reliable liquidity to everyone in the digital currency marketplace: investors, traders, miners, merchants and even casual, everyday users. We make digital currency functional. Spotcoin is already part of the smart economy, having matured as a market leader in the Black Sea Region by conducting over \$10 million in OTC trade volume last year. The success led to \$1 million in seed funding, allowing the company to grow from three to 27 employees. We are tackling the incredibly fractured marketplace of digital currencies, and making it considerably more accessible to more people. Basically, the Spotcoin exchange comes with the promise that any user can easily trade between US dollars, Euros, NEO, Bitcoin, Ethereum and Sibcoin. To make it even more attractive on this side of the world, we plan to offer the possibility of using each Black Sea regional currency. It is all feasible because of Spotcore, our proprietary system of automation and mathematics that maintains a high degree of liquidity to make the Spotcoin exchange capable of completing transactions fast. It's this apparent lack of complication to the user that also makes us so enthusiastic



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about SpotPay, a brilliant payment system that we will launch later this year. On the surface, SpotPay is a convenient method of payment that can be integrated in pretty much any web shop.

Any purchase made through SpotPay can be made with any combination of the currencies I mentioned. Any combination! The buyer will know what their fee is for the service, which is projected to be half the price of the most popular payment processors in the world. And when the merchant receives their payment, they can get paid in whichever combination of those currencies they wish. See what I mean? Spotcoin really does make digital currency work for everyone.

#### **Does Spotcoin have its own token?**

It certainly does. We announced the launch of our own token, SPOT, with our white paper in March. The technical document details our business plan and roadmap to accomplish our expansion, and the ICO will provide the necessary capital to make that happen. Private investors get the first chance to obtain SPOT before it is released to the public on May 1. The ICO will remain open for one month, and we are confident that we'll sell the entirety of our 99 million available tokens. SPOT holders will receive their portion of a weekly 51 percent dividend, which is collected from the trading fees charged by the Spotcoin exchange. A second dividend of 12 percent of net quarterly profits will also be distributed to coin holders. We're extremely excited to share dividends with the Spotcoin community, and to provide a true return on investment for our supporters.

#### **What is the role of blockchain technologies in the economy?**

Blockchain technology offers great opportunity and its impact will be felt across the global economy and in governments around the world. American businesses already know this. That's why they give developers an 18 percent higher salary if they have knowledge of implementing and managing blockchain systems. There is a growing recognition of the positive benefits of blockchain and other distributed ledger technologies, not only in the economy, but in a wide variety of industries.


Maternity care in the Netherlands is being tracked with blockchain. Logistics businesses are using the technology to resolve billing issues. Even the provenance of diamonds is being verified by blockchain. Right now, so few people have a clear understanding of what blockchain actually is. We need to provide as much access to education as possible.

#### **Is Spotcoin working with the government?**

We've been doing all we can to collaborate closely with regional governments, and we value their insights and interest in innovation. The long-term health and security of our industry relies in large part on legal and regulatory partnerships. We need to ensure a stable framework that can minimize risk for everyone involved. We've had informal discussions with officials from various regional government officials. Part of our mission is to cultivate an accurate understanding of digital currency, which is a highly esoteric topic for too many people. Knowledge, just like money, is power.

#### **Where do you go from here?**

We'll always be exploring that question, as this is an industry with a great deal of unspecified potential. It's part of why we are establishing the Black Sea Blockchain Institute, which is dedicated to education, research and innovation in digital public ledger technology. In addition to being a regional hub for the technological advancement of our industry, the institute will also strategically support and invest in promising startups.

Our courses and research programs will help train the next generation of developers, who will create amazing services and products based on blockchain technology. While classes start at the institute later this year, we'll be preparing for Spotcoin's upcoming ICO in the meantime. We'll also host the Black Sea Blockchain Summit in Tbilisi from April 24 to 26, and industry experts from across the region, as well as Georgian government officials, will be in attendance. I'm looking forward to this event and the ideas that will come out of it. There is so much to discover about digital currency and where this revolution is taking us. 

# How AI Transforms The Way We Work

Palatine Analytics is conquering the global world of Human Resources management. And it's founder and CEO Archil Cheishvili has even bigger plans for their technology.

BY INGE SNIP  
PHOTOS: JABA CHITIDZE



Archil Cheishvili



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**H**arvard Dining Hall hummed and buzzed as lunch was served. Seated in the almost 3,000m<sup>2</sup> Ruskinian Gothic auditorium, surrounded by large hammer beam trusses, graduate Archil Cheishvili and his friends shared their experience working for several different companies, including Bridgewater Associates, Goldman Sachs and Google.

The smell of sautéed mushrooms and grilled beef, infused with cage-free cooked eggs, filled the walnut paneled room, while Archil recalled his colleague's sudden dismissal.

"He was very confused," Archil explains me over Skype from the US where he's based, "he was let go, but he had no idea why." During the lunch with his friends, Archil was told the others too had seen similar practices at the company's they were working at. "Everyone could come up with at least one example, and it dawned on me: why does this seem to be a persistent problem, what's lacking?"

That small gathering, only one early afternoon enjoying lunch, good company and the geometric architecture of the dining hall, quickly developed into the friends putting their strengths together to solve this problem. And Palatine Analytics was born.

For the following year, the group worked part-time next to school and their other jobs to build the company that is now rocking the HR world. A company growing to 20 employees in a bit less than a year.

Palatine Analytics is a web-based employee development tool, using easy and quick forms to measure performance, increase productivity, and streamline HR operations. This is how it works: first of all, employees are asked to give each other feedback every week; secondly, employees set and manage their own goals and Key Performance Indicators (KPI).

"You set your goal, or you assign goals, and see how they are aligned with the company's overarching goals," Archil explains me, "it helps employees reach goals faster."

But that's not all.

The feedback and goals are also analyzed by Palatine Analytics smart algorithm. Employees learn from the data how to improve, while managers

understand better how to communicate with their team members - they now know how employees are feeling, their goals, strengths and weaknesses.

And it only takes employees a few minutes each week.

"Our vision is to create super-lightweight solution," Archil says, explaining that no one wants to spend too much time on these kinds of things, "you want to do it quick and fast. And it takes only 20 seconds to give feedback on our platform."

The AI component of the Palatine platform offers businesses two different tools, Archil explains me. On the one hand, it predicts the employees' future performances. "We find similarities about employee X and other employees, which allow data points from other sources to use." After determining the industry, the employee's results and goals, Palatine can predict future performance three months from now. "Our AI gets it right at a 70 to 80% rate, and that is extremely high," Archil adds.

The second aspect of the AI component is its predictive ability to determine whether or not an employee is considering leaving the company. "As manager, if you know an employee might quit, you can more easily mitigate the situation and reduce the chances of them leaving your company," Archil explains.

Its revolutionary approach has made major news headlines on publications such as Fox News and Quartz. With the data of five US and international companies in real estate, technology, and investment, Palatine found through their extensive algorithmic analysis that gender bias in the workplace exists persistently.

"Although men and women were equally as likely to set and meet the same goals—whether selling property or boosting the value of an investment portfolio—male employees were getting 25% more positive evaluations compared to women in the same position doing the same thing," Quartz wrote about the results.

Palatine analyzed employee feedback and surveys, gender and salary information and one-on-one check-ins between managers and employees, with their artificial intelligence algorithm. Ant the results didn't lie.

"Reducing this kind of bias is a very important part of our company," Archil says about the findings



of their study, adding that issues like these are one of the main reasons Palatine was founded: to ensure all employees feel fulfilled and are treated based on their ability to reach goals they set.

For Archil himself, who grew up in Georgia while it was recovering from the fall of the Soviet Union, this also meant following his own passion. Often hailed by Georgian media as the first Georgian guy to graduate from Harvard College, Archil knew from a very young age he wanted to become an entrepreneur, he tells me.

While in school, Archil would play with Pokémon cards with his friends and classmates, as any nine-year-old would at the time. But when the store burnt down where they would use to buy the cards, he decided that it wasn't the end of it.

"So, I knew I had to find a solution, everyone was sad," he says, "That's when I decided to go and find a store in a different neighborhood that would have the cards." And that's what he did. After finding a store scouring through town, he bought several cards, went back and sold them to his friends and classmates. His thirst for entrepreneurship was born that day.

"When I was a kid I saw a lot of problems around

me: poverty, healthcare, basic human needs," he says growing up, "And these problems are what sparked my interest in business, because I knew business was the solution to these problems."

And founding Palatine is exactly what combines his entrepreneurial passion and his wish to create a better world.

The founder's vision is to create AI so smart, it will use its understanding of people's strengths and weaknesses - helping anyone with their day to day life and developing a "grand vision" for anyone individually. Archil explains me that since AI is developing each day, this could allow Palatine to create a better coach than your manager within five years, he predicts. By eliminating 20% of the managers' time spent on coaching, and automating the coaching part, companies will increase the productivity of all of their employees.

But Archil's passion for AI does not stop at Palatine. "My wish is to make a major contribution to AI, and specifically humanoid type brains," he envisions for the future. "The world is far away from it now, it may take a lifetime, but it would be amazing to work on something which could do many things at the same time, making our lives much easier." **F**





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# BUILDING A CRYPTO MINING HUB IN GEORGIA

Beka Vashakidze founded Bitcoin & Fund Group (BF Group) last year with the help of friends and family, a cryptocurrency mining corporation offering hosting options to a global audience.

BY INGE SNIP  
PHOTOS: KHATUNA KHUTSISHVILI







# YouTube

## CryptoCurrency Network

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Beka Vashakidze





**H**e didn't expect it, but when Beka started vlogging on youtube about their new mining farm in Tbilisi last year, he quickly got thousands of followers. Daily people would comment on his videos - and he unintentionally started a large and tight online community around their initiative.

And that's when Beka realized that the next move would be to do a so-called ICO: an Initial Coin Offering and he founded Ambit Mining for this. It's when a company offers a quantity of cryptocurrency to investors in the form of "tokens", in

exchange for other cryptocurrencies - to fundraise for new projects. In the case of BF Group, their ICO funded capital will go toward expanding their hosting services.

Often, companies do an ICO before they even have a product, making it a really risky endeavor for investors. But in the case of Ambit Mining, the infrastructure is already in place. "We are not testing something new, we are not building from scratch," Beka tells me in their office, "As Andreas Antonopoulos [a well-known Greek-British bitcoin advocate, host on the Let's Talk Bitcoin podcast, and a teaching fellow for the M.Sc. Digital Currencies at the University of Nicosia] said, 'build it first, and they will come, rather than funded first, and we build it later.'"

Ambit Mining offers cryptocurrency miners the possibility to use their services to mine cryptocurrencies, including Bitcoin, Ethereum, and several altcoins - emerging cryptocurrencies. A cryptocurrency is a form of digital money designed to be secure and anonymous in most cases. It uses a technique called cryptography - a process used to convert legible information into an almost uncrackable code, to help track purchases and transfers. The most well-known cryptocurrency is Bitcoin.

These cryptocurrencies are digital, they use elements of mathematical theory and computer science and can't be printed, like other currencies. To create them, you need a lot of computer power. You could do it from your own home, but you'd have to invest a lot of money in the right kind of hardware - and continued high costs for insane amounts of electricity to run the hardware - which include GPUs (graphics processing unit) for Ethereum and ASICs (application-specific integrated circuit) for Bitcoin.

That is why some mining farms, such as Ambit Mining, offer people to mine in their mining farm. And Ambit Mining does so at a competitive price. Ambit Mining offers their hosting service including full maintenance, 24/7 Security, CCTV, at a non-beatable \$0.05 electricity price, a customized remote desktop control and a 24/7 Help Desk - saving miners considerable costs on buying hardware and electricity.



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Ambit Mining's mining farm is located in the Tbilisi Industrial Freezone, meaning that besides low electricity costs, they are also exempt from VAT and other taxes.

"We are very transparent," Beka says, "Our blockchain shows how much hash power we have." and it's the hash power which determines how many cryptocurrencies can be mined.

Currently, about 5 MegaWatts (MW) of their mining farm is reserved for hosting only, which is maintained and managed by the BF Group. Beka tells me this is roughly enough for approximately 2000 miners. And in the future they are planning dividends not only for mining, but also for hosting services. In this way, people can generate revenue and dividends from both, diversifying their risks.

first coins, his other wallet was still online.

"I couldn't believe my eyes, the coins I had bought for 3 pounds only, were now worth thousands." Bekas says excitedly. He immediately decided to read up on it and soon after started trading in cryptocurrencies. It was then that he realized a much smarter strategy would be to build his own mining farm.

"I saw it as innovation, a permissionless trustworthy system," he says with a twinkle in his eyes. "It's P2P [peer to peer] sharing without someone else intervening."

It was the Ethereum coin, however, which provided Beka with the opportunity to do business differently, and to fundraise. "You can involve the crowd and make it more decentralized, it's fund-

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***"We are very transparent, Beka says, Our blockchain shows how much hash power we have. and it's the hash power which determines how many cryptocurrencies can be mined."***

Beka explains that they are doing the ICO now to expand their mining farm hosting facility to 20MW. And they have quite a lot of interest in their ICO already.

But how did Beka get into the cryptocurrency world? Studying Business Management at Kingston; Management and Organizational Innovation at the Queen Mary University of London, and Shipping Trade and Finance at City University London, cryptocurrencies weren't necessarily on his radar. But it was then when he decided to buy a few bitcoins, only to completely forget about it a few years later.

"I was back in Georgia working in the oil and gas industry, and I was searching for some data I had used in my MA thesis," Beka tells me how one day he got out his old laptop. It was just a regular day at the office. But when he opened his laptop, he saw the links to his digital wallets. "A friend had just told me a few days before that Bitcoin had gone up in price, so when I saw my own wallets, I decided to take a look." Although one of the websites had shut down in the years after he had purchased his

raising without Venture Capital."

And in September 2017, with seed funding from friends, family and shareholders at Eko Gaz and GAMA - the companies he worked for - they started operating their own mining farm in the Tbilisi Industrial Free zone.

In the past few months, the initial investment that was needed to build the farm has already been earned back through their mining activities. Now, Ambit Mining aims to raise even more to expand their business and become a major global player in the cryptocurrency mining world.

And they have an impressive team, including advisors, consisting of Besides Beka himself, Kay Khemani CEO of Spectre.ai and former executive director of Goldman Sachs, Miguel Palenica CIO of quantum, Nodar Kolmakhidze CIO of Cindicator, Davit Mrelashvili Region lead of ZenCash and several others.

"Our cryptocurrency project has completely taken over my life," Beka says, "There is no sleep, no time, no daily life. I am completely submerged." But he is enjoying every single minute of it. 

TECHNOLOGY

ELECTRIC VEHICLES



Tesla Model S

# THE ERA OF ELECTRIC VEHICLES: THE FUTURE WITHIN AN ARM'S REACH

BY GIORGI ELIZBARASHVILI



**T**here was a time when a chariot without a horse was simply unimaginable. However, Daimler and Benz made it all possible. At one time, only birds were heavier than objects that could fly. That is of course, until the Wright brothers managed to make the imaginary flying objects from centuries-old fairy tales and Da Vinci sketches come to life. Later, steam engines were replaced by diesel and electric locomotives, and today, battery-operated vehicles might become the precursor to self-driving cars.

The share of electric vehicles on the market is growing rapidly both in developed and emerging economies of the world. So, it's no surprise that we come across an increasing number of studies and research on electric vehicles (EV) in various science and economic publications. This sudden growth in interest in electric vehicles is determined by a number of factors:

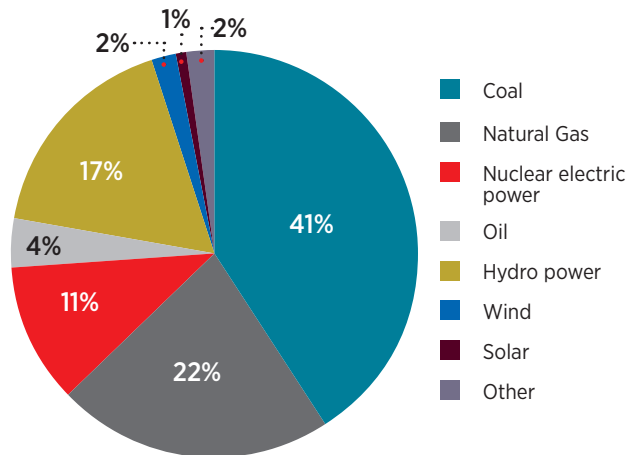
- 1) **The price** for an electric vehicle is gradually reaching the price of a motor vehicle of the same class.
- 2) **The distance** covered after one plug-in charge is increasing.
- 3) **The infrastructure** is improving and there is an increasing number of charging stations and service centers available for EV owners.
- 4) **Governments** in a number of states offer financial incentives, including tax credits, for lowering the up-front costs of electric vehicles.
- 5) **People have** become more concerned about the eco-system and the environment they live in and strive to improve it.

Despite widespread misconceptions, electric cars are not the product of modern technology. They are just as old as motor vehicles with their origin dating back as far as the late 19th century. La Jamais Contente was the first road vehicle to go over 100 kilometres per hour. It was a Belgian electric vehicle with a light alloy, torpedo-shaped body, run on batteries. The vehicle was driven by the Belgian Camille Jenatton who reached the speed of 105.882 kilometres per hour. The share of electric vehicles before World War II was 1/3. Even in the best-case scenario, it would take at least 20 years to reach that global scale. The 'big oil' lobby is just one of the many reasons preventing the proliferation of electric vehicles.

Many oil company lobbyists have routinely scoffed at the growing share of electric cars on the market and have derisively referred to them as 'coal-powered cars'. For many countries, this is not an entirely illogical assessment, since coal still remains the number one source for generating electric power - mostly because it is cheap. The current data indicates that the world's oil reserves will last 40 more years and natural gas 50. However, the coal supply is expected to last at least 100 more years.

However, this supposition is not applicable with regard to Georgia,

## Electricity Generation by Source (2015)



SOURCE: INTERNATIONAL ENERGY AGENCY

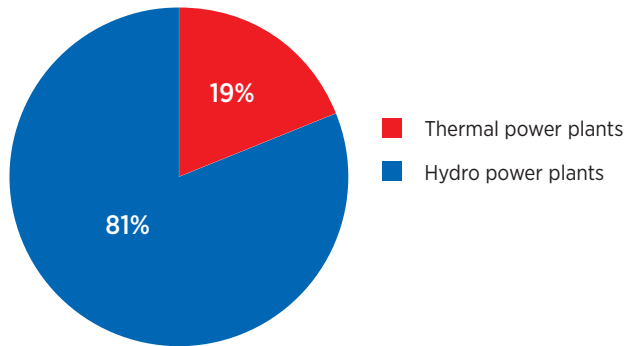
where the share of pure energy exceeds not just 20 percent but even 80 percent.

The share of thermal power plants will start decreasing in the near future, since Georgia is facing the prospect of building new HPPs. Wind turbines have proven to be very successful and Georgia has resources for solar power stations as well. Coal is only a small portion in the 19% share of thermal power stations in the country.

After their virtual absence for the last hundred years, electric vehicles made a comeback at the beginning of the 21st century. Elon Musk might not have been the first, but he definitely provided a boost and direction to many EV manufacturers. The demand for electric cars on the market exceeds supply nowadays. Car manufacturers were forced to seek additional financial resources to start building electric vehicles, or at least announce the launch in the production of EV in the near future.

Musk founded Tesla in the state of Delaware in 2003. In 2010, Tesla Motors launched its IPO on the NASDAQ exchange. The sales were very low at the time. In fact, the iconic Model-S, which was presented two years later, was not even on the market yet. The Model-S remains however, the best model among serial electric vehicles that are similar in scale to the S-class Mercedes (according to the design and comfortable driver and passenger seats). Among other cutting-edge technologies, the gem of the Model-S interior is the 17-inch touch screen, which is angled toward the driver and includes both day and night modes for better visibility without distraction. In addition, it places rich content at your fingertips and provides mobile connectivity so you can easily find your destination, favorite song or new restaurant. Most importantly, this car

## Electricity Generation by Source in Georgia (2016)



SOURCE: ESCO.GE

can cover 550 km with one full charge. The price of the Model-S is in the \$100,000 range— or to be more precise, the price ranges from \$68,000–\$158,000 depending on the various modifications, including battery power and added features. In total, 200,000 models have been sold to date. This figure is not huge, but if we take into account the price, the short history for the brand, as well as electric cars in general, it changes everything. If we look at the sales by country, we will see that 58% of the cars are sold in the US. Norway holds the second position at 7.7%, which can be explained by the country's high purchasing power and generous government incentives. The United States and Norway are followed by China, the Netherlands, Canada, Germany, Great Britain, Switzerland and Denmark.

In 2015, Tesla introduced the Model-X Crossover. This vehicle also falls into the luxury car class. The price for this model ranges from \$88,000 to \$160,000. It offers ample seating of up to seven adults (including the driver). The Model-X also has wing doors that open vertically. Even though it cannot compete with the Hummer or other SUVs in its class, it can still go off-road and offers maximum comfort. One charge enables you to drive from up to 540 kilometers with a maximum speed is 210 km/hr.

Sales of this model have reached 60,000 and 2017 quarterly sales are already coming close to the sales of the Model-S.

Due to its relatively low price, there was a lot of excitement and anticipation for the Tesla Model-3. The number of pre-orders for this model has already exceeded 400,000, which is more than all other electric cars ever sold by Tesla. The price for the Model 3 ranges from \$35,000–\$44,000 and the distance covered after one charge ranges from 350 to 500 km. The difference between the Model-S and the Model-3 in design, comfort and distance is far less than the difference in price between the two models. That is why customers

were willing to pay an extra thousand dollars to reserve their cars.

Nevertheless, the expectations that everyone had for this car were not quite met. No one has complained about the quality so far, but the supply has been delayed. A total of 367 Tesla Model-3s have been sold in the US through October of this year, which is significantly less than the anticipated figure. The Tesla Model-3 took only the ninth place by selling a mere 145 units in October. The company planned to manufacture 1,500 cars in Q3, but all they could manage was 260 units, which is 17.3% of the planned figure.

Consequently, the company lost \$671 million in the third quarter of 2017. In addition, the stock price fell by 7% and Elon Musk lost \$800 million in just one night. Despite this trend, the manufacturer's credibility remains intact. Anticipation among the general public remains high, as does the strong support of the government for this manufacturer. Notwithstanding his withdrawal from the Paris Climate Accord, US President Donald Trump did not revoke the incentives and various benefits that the US government offers the company. The reason behind Trump's reluctance to cancel incentives is his wish to shift to eco-friendly transport, and of course the charismatic leader of the company. Musk's ideas go way beyond conquering the electric vehicle market. In fact, Musk plans to colonize Mars and build a subsonic train Hyperloop.

Tesla is neither the first, nor the only company producing electric vehicles. However, it is entirely different from other manufacturers. The first thing that comes to mind when talking about electric cars is Tesla.

So, what makes Tesla so different from the others?

With other big market players like Nissan, Renault, BMW, Hyundai and Chevrolet, building and manufacturing electric cars is an additional line for them, while gas and diesel-operated vehicles are their main sources of income. The majority of car manufacturers have at least 50 years of history under their belts, and some have over 100 years. Compare this to Tesla, which is only 14 years-old.

In Tesla's case, it was one of the first to begin manufacturing the serial production of longest distance electric cars. The company manufactures car batteries themselves, which is very costly. While Elon Musk is certainly not the Henry Ford of the 21st century, he may become just that in the future.

When talking about electric vehicles, we cannot avoid mentioning the Nissan Leaf, which was unveiled by the company in 2010. By 2014, the sales of this model enjoyed a 45% share on the EV market (a total of 275 models had been sold by 2016). This car remains the sale leader but with fewer shares. Various modifications of this model cover from 120 to 200 km. The price for the leaf is in the range of \$30,000. However, the price for pre-owned cars is far less, starting from \$11,500 on [www.myauto.ge](http://www.myauto.ge).

There are approximately 1 billion cars in the world and out of





Tesla Model X

this 1 billion only 2 million are electric cars. Indeed 0.2% is a small figure. However, just five years ago the number of electric cars didn't even exceed 200,000. There would be more electric cars by now if the price for oil had not been falling so sharply since 2014. Just some five-years ago, most people in China had no idea about electric vehicles. Nowadays, China is leading by the total number of electric cars owned by the country. In addition to the fact that the ecological situation in China is deplorable, and that it remains a major environmental polluter, China does not produce oil. As such, by increasing the number of electric vehicles, it can decrease its energy dependency.

As the influence map gradually changes, Russia and the Arab states will be forced to give up their positions.

In terms of percentage, Norway is the indisputable leader. The other four countries in the top-five chart are also from Europe.

It is no coincidence that neither Germany, France and Great Britain were in the top five. These countries mostly buy cars from national manufacturers, while the most popular electric cars are Tesla and Nissan Leaf.

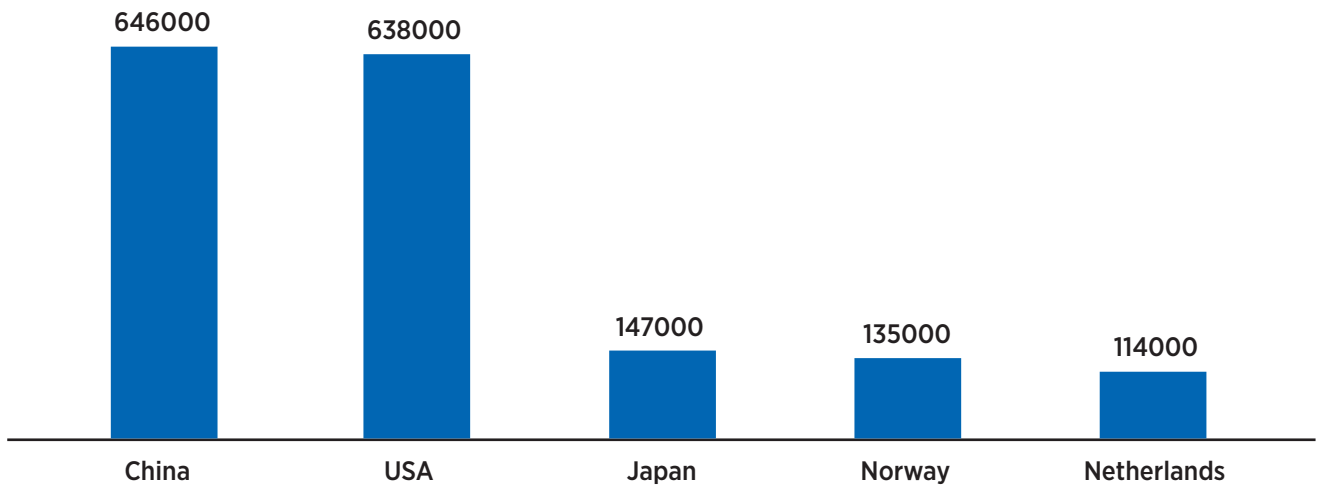
The state policy, as well as the price of excise and incentive taxes, has a major impact on the behavior of the potential buyer. Ireland is ahead of Norway in terms of per capita income, but it still did not get into the top-five countries. The number one oil-producing country in Europe holds the first position in terms of eco-friendly transportation, which can be explained by the state policy. The

share of electric vehicles in Georgia is very small. That being said, Georgia has a very positive trend underway. According to information provided by the Ministry of Interior Affairs of Georgia, a total of 328 electric vehicles have been imported into the country from January through August 16 of 2017. This figure exceeds the total number of electric cars owned by the country before that date.

The customs tax for imported cars has increased significantly as of 1 January of 2017. However, there is no tax imposed on importing electric vehicles. Georgia also provides free charging stations. The country is also home to a growing number of imported hybrid vehicles. A total of 11,652 hybrid vehicles have been imported into the country in the first nine months of this year. The state has introduced a 60% discount on the customs tax associated with these imports. The share of hybrids in the total import of cars into the country has reached 25%, as opposed to the 5% in 2016. There is no need for a study in order to see the prevalence of Toyota Prius models in Tbilisi. In addition to the fact that the import tax for these cars has been greatly reduced, this car only consumes between 4-5 liters of gas to cover 100 km in the city, which is very economical.

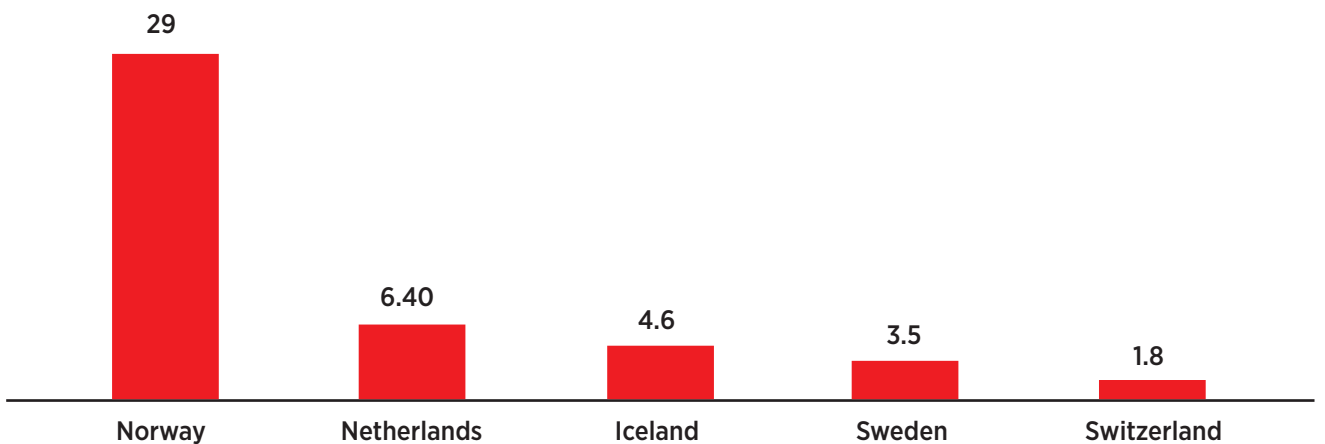
Consumption of electric power by EVs depends on a number of factors, including the weight of the car, its aerodynamics, speed and the use of air-conditioning. On average, electric vehicles consume 15-20 kW h. The cost for electricity in Georgia on over 300 kW is 21.476 tetris (Telasi) and 21.45 tetris (Energo Pro). So the cost for 100 km is €3.2-4.3, which is ideal for the city. Even the most fuel-

### The Total Number of Electric Vehicles by 31.12.2016



SOURCE: INTERNATIONAL ENERGY AGENCY

### Share of Electric Vehicles in 2016 Sales



SOURCE: INTERNATIONAL ENERGY AGENCY

efficient cars consume at least 7 liters in the type of traffic jams the city is becoming infamous for. The price for the cheapest fuels in Georgia is 2.2 laris and the cost for 100 km is at least €15.4. The cost for electric vehicles when driving in the city is at least five times less, and four times less outside the city. The difference is price can only be compensated after covering at least 20-25,000km, because after that, medium-sized electric vehicles can cover 100 km only at the rate of the price for 1.5 liters of premium-type fuel. For small sized electric vehicles, this would be less. In the case of electric scooters, the cost is 60 tetris per 100 km.

A number of countries are already developing future strategies. By 2030, the majority of European states will ban the production and import of ICE (Internal Combustion Engine) vehicles and by 2040, driving ICE vehicles in these countries will be banned. Some countries have gone even further and moved the deadlines closer.

For instance, Norway plans to impose a ban on ICE vehicles no later than 2025. This is the most radical statement so far, which will be hard to implement in view of the country's population and the size of the economy. However, this plan is realistic. The Netherlands also plans to ban the sale of ICE vehicles by 2025. France and





Mercedes-Maybach 6 Cabriolet

Britain have agreed to move the date to 2030. Germany has not decided yet, but it hopes that by 2020 there will be 1 million electric vehicles in the country. Germany has offered an incentive in the amount of €4,000 euros to everyone who buys an electric car. At the same time, Asia is not planning to stand aside. Toyota plans to start producing electric cars in 2020 that will be charged in just five minutes. China is announcing the sale of 7 million cars by 2025 and has already imposed compulsory quotas on the car manufacturers. India plans to sell 10 million electric vehicles by 2030.

Like in many other countries, there is a difference of opinion on this issue in Georgia.

Below are the arguments of the opponents:

- **Electric cars are bought** by the wealthy and why should they be financed by the poor population that use public transportation.

- **The price for electric cars** is coming down as it is, so the state subsidies are just a waste of money.

- **If we have agreed that** subsidizing grapes, citrus and concert tickets is not acceptable, why should electric vehicles be subsidized?

The supporters of EVs argue that:

- **Air pollution is a reality** that is affecting the health of the population;

- **Treatment of sick people** will cost the government more than subsidizing electric vehicles;

- **Money spent on medical** treatment will affect other sectors of economy;

- **We will have less import** and energy dependency on other

countries;

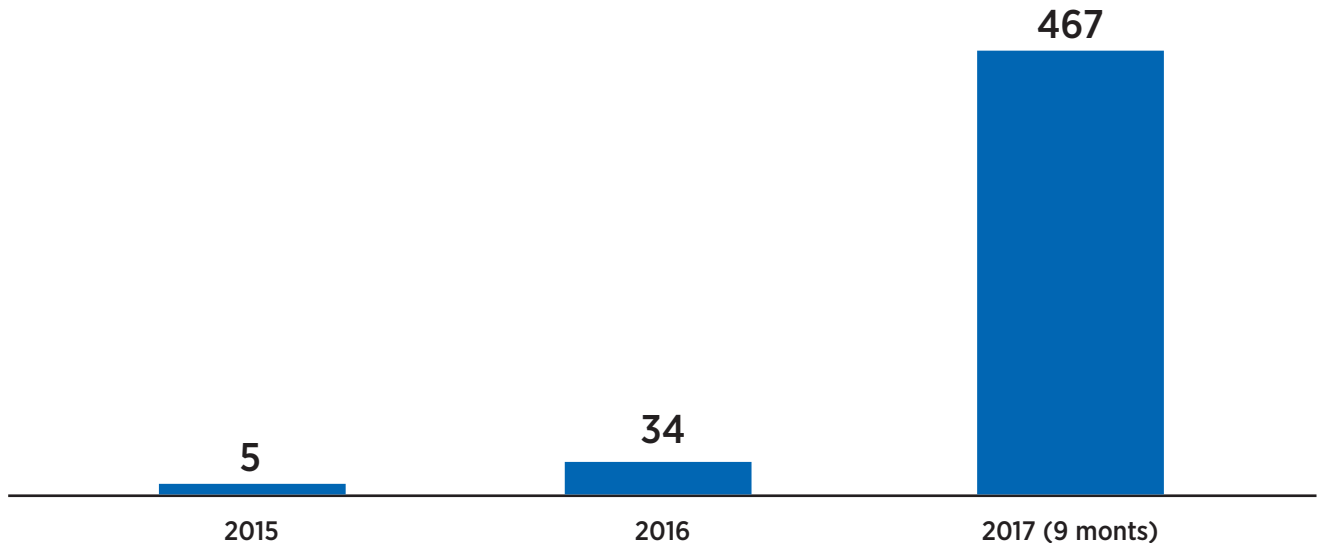
- 91% of the car pool in the country is old and these cars were manufactured more than 10 years ago, so why not renew the country's transportation with eco-friendly vehicles.

Eco-friendly vehicles undoubtedly must enjoy certain incentives. However, a direct subsidy is not justifiable. We cannot compete with the Netherlands and Norway. Import tax is free, but registration of the car costs €180, which can easily be cancelled. Electric vehicles must be allowed to move freely on the so-called bus lines. We should accelerate the process of installing fast-charge stations throughout Georgia. The electric power that is consumed must be exempt from VAT, which will make travel even cheaper. The electricity rate must be decreased from 21.47 to 18.2 tetris.

The fuel import in Georgia in 2016 was 1.2 million tons and 1.6 billion liters. The bulk of this fuel is for vehicles. One liter of fuel equals 2 - 2.1 kW, which is at maximum 3.36 billion kWh. Georgia produced 11,574 kw/h electric power in 2016. Since then, then country has completed the construction of the Darial and Shuakhev HPPs. The construction of a number of other HPPs (Khudon, Namakhvan, Oni, Tskhenistkali and dozens of other smaller HPPs) is ongoing. 3.36 billion Kwh at the rate of 6 cents equals \$200 million. The price for imported oil last year was \$620 million, and the retail price was even higher. And no matter whether we look at this from the point of view of individual consumption, security of the country or the environment, electric vehicles are absolutely justifiable in Georgia.

The main obstacle remains the low income of the population.

## The Import of Electric Cars in Georgia



SOURCE: MINISTRY OF INTERNAL AFFAIRS OF GEORGIA

46% of the vehicles in the country were manufactured over 20 years ago. The price of these old vehicles ranges between \$1,100 and \$1,700, which is significantly less compared to the price for pre-owned hybrids and electric vehicles (minimum \$4,500). But that is not the only problem. Unfortunately, many believe that driving a new black Prado or Mercedes is far more prestigious than driving around in a Tesla Model-S or Model-X.

The state can encourage the population by serving as an example itself and gradually replacing the state car pool and public buses with electric vehicles and electric buses. There are negotiations regarding the possibility to start manufacturing Chinese electric buses in Georgia, which is a very positive decision. Theoretically, there is a chance that Elon Musk may select Georgia for a Tesla Giga-factory 2, but this remains highly unlikely.

More information regarding this issue is needed and it seems that the most competent person to provide this information is President of the Georgian Automobile Federation Shalva Obgaidze, a fervent supporter of electric vehicles and an MP of the newly assembled city council. Three of the cabs I stopped refused to take me from Akhmeteli metro station to Avchala, because they don't know the route and there is no GPS in their cars. I am smiling at this, but definitely not from happiness. I found out that with the active involvement of Mr. Obgaidze, the government of Japan presented Georgia with five electric vehicles four years ago. Shalva Obgaidze himself owns a small Mitsubishi. His car used to cover 120-125 km, now he can only cover 105-110. The battery lifespan is decreasing

just like the battery of a laptop or mobile phone battery. However, this is still more than enough for driving in the city. He has saved €20,000 over the last four years by saving on fuel and car parts. The consumption of electric power is in the region of €2. However, this cost increases when you drive uphill, increase speed or use air-conditioning. He remembers with a smile the surprised reaction of people to a noiseless car with zero emissions. I asked him about the future of the batteries and he told me that they are improving day-by-day. The size and price for the batteries is getting smaller, while the distance is becoming longer. Spain is experimenting with batteries produced with Nano-technology that are 50 times thinner than a printing paper. In addition to the eco-friendliness, Obgaidze believes that one of the major achievements of electric cars is that they led to the change of the general mindset. There is no sound when you turn the keys of an electric car, you don't have to change the oil and filters. All of these taken together increase the security parameters of the vehicle. Parking is already free for electric vehicles in Tbilisi. Mr. Obgaidze completely shares my opinion to allow EVs to drive on bus lines. As a representative of the ruling party, Obgaidze promises that the government will replace the old buses with new eco-friendly buses, and quite possibly electric buses.

In addition to economy-class and business-class electric vehicles, some of the major car manufacturers around the world have started building luxury electric cars as well.

The Maybach Cabriolet is designed as an electric car. The drive system has an output of 550 kW (750 PS). The shallow under-floor





Tesla Roadster

battery allows a range of over 500 kilometers. And even if the battery is low, in just five minutes, enough power can be charged to achieve an additional range of around 100 kilometers. The car's maximum speed is 250 km/h and even that is electronically restricted. In the case that you have an extra €500,000 in your bank account, you can search for additional information on the Mercedes-Maybach 6 Cabriolet.

The forecasts are varying. The International Energy Agency believes that the total number of cars will double by 2040, while the number of electric vehicles will correspondingly increase 140 times. This is a very impressive forecast. However, the share of EVs will still be only 14%. This figure can change if the European states fulfill their commitments and China pursues the policy it has embarked on. At the same time, it is important to increase generation of power from natural sources. Even though the total share of electricity generated from wind and solar power is less than 3 percent, in 2001-2016 the total volume of electricity generated from wind turbines has increased by 20.3 times (from 24 to 487 gigawatts). The generation of electricity from solar power has increased 158 times (from 1.6 to 253). The technology of transforming solar power into electricity is certainly not a novelty. In fact, this technology is one year older than Edison's light bulb (139 years-old).

When the world started to actively discuss global warming and environmental pollution, the share of carbon dioxide in the atmosphere was less than 350 parts, while 400 parts per million were regarded as an unsettling milestone. In July of 2017, this figure exceeded 407 ppm. This will definitely encourage the green movement to increase its pressure on governments. The 2020s will prove to be crucial for the new industry. Elon Musk has already announced the comeback of his first electric vehicle by that date. The new Roadster would climb from 0 to 100 mph in 4.2 seconds (25% faster than Bugatti Chiron). Musk states that the Roadster will have a 200kWh battery pack and a 620-mile range per charge, or over 1,000 kilometers (but naturally not at this speed). The price for the new Roadster will range between \$200,000 - \$250,000, 12 times less than the price of the same Bugatti. Musk also promises that his 40 ton truck will be able to cover the range of 800 km. He is also making an effort to convince everyone that the maximum resource will be 1.6 million km. The price for the new electric truck is \$150,000 - \$180,000.

Walmart - the largest corporation in the world (with annual revenues exceeding \$485 billion) and a major employer (2.3 million employees) has reserved 15 electric trucks from Tesla.

All Volvo cars are to be electric or hybrid starting in 2019 -a



Tesla Semi

landmark move as the first large manufacturer says it will stop making vehicles solely powered by internal combustion engine. BMW plans to replace the i3 with i5. At first glance, Mercedes-Benz seems to stand as an outlier with its few low-budget models, but that is not entirely true. This German car manufacturer has joined other car makers and will offer electric versions of every single car it makes by 2022. The Serial E-Class and Crossover will be entirely redesigned as electric vehicles.

Every new model of the Nissan Leaf is growing in size and range capabilities. The Hyundai Ioniq looks like a regular sedan, but it is an electric vehicle with a range of 250 km. The price of this car is \$30,000. Faraday plans to compete with Tesla on the US market. The company plans to launch production in 2019-2020. Jaguar and Porsche have also presented electric vehicles to their loyal customers. There are no restrictions whatsoever in design, speed, acceleration, and comfort of the interior. Even Rolls Royce, which was so reluctant to replace its panel with electric touch screen sensors, has succumbed to the new trend. For over 70 years the Soviet Union tried to catch up with the US in terms of per capita production, but it failed. However, electric vehicles have already gained on and will

soon overtake all parameters of internal combustion engines. The major car maker Toyota has gone even further by building the new Toyota Mirai, which features hydrogen fuel cell technology. Just five minutes of charging time allows the driver to cover the distance of 650 km. However, this is a rather expensive car and even after the subsidies, the net cost remains as high as \$62,000. Besides, hydrogen fuel stations are far less compared to electric power charging stations.

In addition to light passenger cars, the market is seeing a growing number of electric buses, trucks and other special construction machinery. Luxemburg purchased two Tesla electric cars for the police. One could easily notice the presence of unmanned vehicles in the framework of the Formula E Championship that launched in Beijing in September of 2014.

At the end of the day, the industry is changing, even though there might be some car makers out there who still believe that the roaring of the engine is what attracts drivers most. These are the ones that remain convinced that gasoline has no alternative. It's important to note that it was not long ago that KODAK believed that people cared more about the film than the picture itself. <sup>F</sup>





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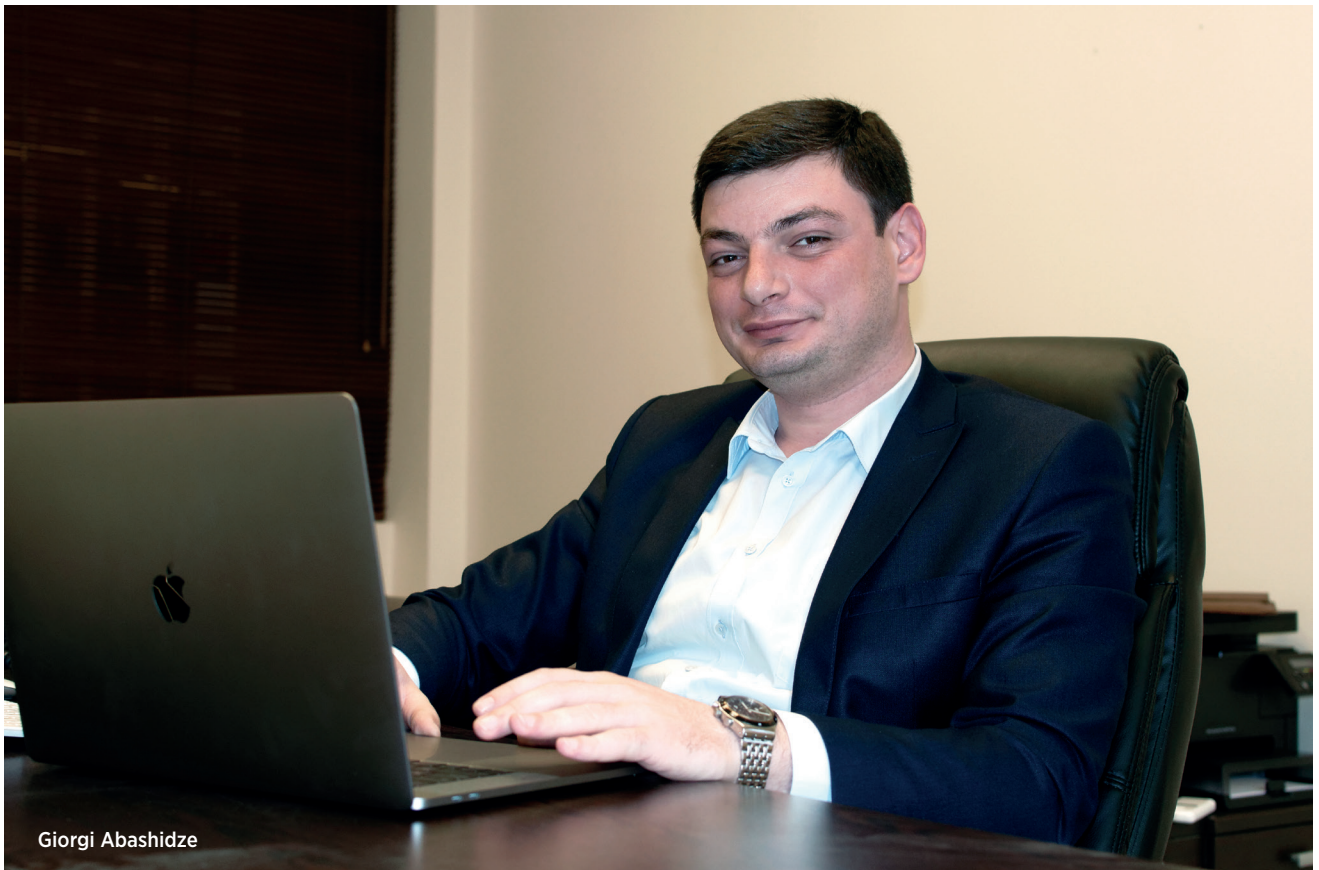
# RESIDENTIAL COMPLEX THAT OUTRUNS THE TIME





Tourinvest is celebrating its 10th anniversary, and the volume of its investments has surpassed the \$200 million mark, with the BelleVue Residence Batumi project alone worth \$130 million. The company has 600 employees and is headed by the 28-year-old Giorgi Abashidze.

BY KHATUNA KHVEDELIDZE



Giorgi Abashidze

**T**he company Tourinvest is celebrating its 10th anniversary, but 10 years were not necessary to become one of the largest investors in the country. During this period, the company implemented numerous important projects for Georgia as a whole, and Batumi in particular, adding value to the city's tourism industry.

One of the most remarkable projects of the company is a high-end multifunctional complex in Batumi unifying BelleVue Residence Batumi and a 5\* hotel Hilton. The project of both buildings (BelleVue Residence Batumi and Hilton) was designed in London, United Kingdom, by the British company RTKL. Construction process involved British, Swedish and German specialists. Each detail was planned and prepared in advance, with the project authors also overseeing its execution until the quality control and evaluation process was finalised by the UK-based Mace International.

The construction of BelleVue Residence Batumi - the first complex of its kind in the city - began in 2009 and was completed in 2015. The complex was built in full compliance with international standards, and three years ago satisfied all obligations that became part of Georgian law only this year. For example, the building includes a fire safety system with fixed water pump devices, outer wall endurance and high-quality staircase exits. The exclusive

aspect of the complex is its residents' access to the five-star Hilton Hotel's infrastructure.

"With this project, we were aiming at raising the existing standards on the real estate market and create a residential complex of the highest quality," said CEO Giorgi Abashidze.

Tourinvest has 600 employees, an annual turnover of more than GEL 25 million and is managed by the 28-year-old economist Giorgi Abashidze. He first joined the company in 2010, quickly rising through the ranks of the financial department. Within two years of his hiring, he was handling the financial director portfolio. Six years ago, he was appointed as the company's general director and he has held this position since then.

"For us, it was important to give our clients more than just an apartment. Emotions, feelings and comfort play an important role for us. Therefore, all our apartments are bright, warm, and designed to create only positive emotions," said Abashidze, who offered Forbes Georgia an inside look at the BelleVue Residence Batumi.

Imagine watching the sunset from a small, colourful balcony, or having breakfast in a bright kitchen that overlooks the sea - here, every apartment offers these opportunities. The windows stretch from floor to ceiling, and the apartments have been designed to take advantage of gorgeous views on the Black sea and Nuriğeli



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Lake, located in Batumi Central Park.

The 20-storey building occupies a 21,000 square meter area on the seaside, and it includes 114 apartments, a two-level underground parking garage and other amenities.

The firm foundation was the company's priority from the very beginning. Therefore, the German specialists from Bauer spent 2 years on building it. In total 380 piles were used the longest one going 42 meters deep into the ground. This has resulted in an exceptionally firm building able to withstand a magnitude 7 earthquake. It is important to note as well that €14 million was spent solely on the foundation.

Parking your car is easy here. The solid foundation has given an opportunity to build the first and so far the only two-storey underground parking in Batumi. Moreover, the parking garage has passenger elevators that take residents straight to their apartments. Designed by the Finnish company Kone, the two passenger lifts and the fire elevator guarantee comfortable and safe movement throughout the residential complex.

Coming out of the elevator, visitors immediately notice that one of the project's main advantages is relatively small amount of

system is directly connected to the Hilton Hotel, and is inspected on a weekly basis.

The apartment block is equipped with an energy-efficient Mitsubishi VRV central air conditioning controller. Each apartment also has its own, independently controlled system. Its flexible design enables easy control and regulation of temperature in various sections of the apartment.

Data from Colliers reveals that Batumi is undergoing a construction boom. However, the quality standards at BelleVue are among the highest not only in Batumi, but in the country as a whole.

"As we prioritise customer comfort and convenience, we offer our apartments in three different conditions: black box, white frame and finished [furnished] apartments. Furthermore, we employ tailored approach, and we can adapt to the customer's wishes. Even in the case of finished apartments, we can take the client's requirements into account," said Abashidze.

The complex already has residents, some of whom are renting out their apartments for substantial sums (approximately \$2,000 per month). In addition, the number of people wishing to lease these apartments long-term is growing each day.

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## ***The complex was built in full compliance with international standards, and three years ago satisfied all obligations that became part of Georgian law only this year***


apartments per floor varying from 6 to 15 thus guaranteeing cosy and comfortable ambience.

"The BelleVue apartments are mainly designed for people who value quality, comfort and a different lifestyle," explained Abashidze. Apart from living space, BelleVue offers customers safety, security and peace of mind.

The ventilated façade is able to successfully combat Batumi's humid climate, as specially designed air vents allow the air to circulate at all time. The façade is decorated with Marestone tiles, which have thermal insulation and fire-resistant membrane. Fire safety is one of the main priorities of the designers, and the complex fulfils all international and Hilton standards in this regard. Each floor is equipped with smoke detectors, a fire hydrant and fire extinguishers.

All apartment entrance doors are fireproof for approximately 45 minutes. In case of fire, various sections of the building can be automatically isolated from each other using the fireproof doors, which prevents the fire from spreading. The apartment block is equipped with a fire elevator and two fire escape points. The fire

Despite the fact that "BelleVue Residence Batumi" is the project that outruns the time, the company management constantly strives for perfection: "We are working on creating added value for our customers: improving the existing services, creating and delivering various new services, and supporting the modern development trends and rhythm," said Abashidze. He also revealed that the company plans to start the first educational and interactive museum in the Argo Entertainment Center, another project managed by Tourinvest.

"We will be utilising our real estate resources one stage at a time," said Abashidze, noting that Tourinvest began investing in Georgia in 2009 and has already surpassed the \$200 million mark. BelleVue Residence Batumi alone is worth \$130 million. Prior to this, the company's name was associated with bringing the Hilton brand to the city and building five-star hotel. Tourinvest also created one of Batumi's main tourist attractions: Argo Entertainment Center which unifies a cableway and a Georgian restaurant offering tourists stunning views of the city. 



Alliance Privilege.  
Batumi, Georgia



# ALLIANCE GROUP DEVELOPS RCI GOLD CROWN RESORTS

BY JEFF FOSTER

**G**eorgia now has a place on the global vacation exchange map. The leading Georgian construction-developer Alliance Group recently announced its partnership with the world's largest vacation exchange company, RCI. "We are talking about 4 million RCI member families, which means 10 million new potential foreign tourists to our country," says Akaki Songulia, general director and co-founder of Alliance Group. As a way to offer an unprecedented opportunity to the owners of properties developed by Alliance Group, Songulia founded Alliance Vacation Club last year. From now on, apartments' owners will have the opportunity to exchange vacation ownership at more than 4,000 premium resorts in over 100 countries around the world. Alliance Group properties enjoy Gold Crown Resort status, meaning access to an additional 200 elite holiday locations.

At present, the RCI network includes the Alliance Palace multifunctional complex in Batumi, which includes more than

1,000 apartments. Once completed, the Alliance Highline multifunctional complex in Tbilisi, with its 700 apartments, and the Alliance Privilege, with another 1,000 apartments, will also be joining the network. Apartments' owners will be free to choose to either reside in their properties, or rent them out through an international management company, or hand them over to RCI for a certain period of time—for example, one week—and choose any location from the global network in return.

The most recent RCI Gold Crown resort property Alliance Group is developing is the Alliance Privilege multifunctional complex in Batumi. This 54-story, state of the art multifunctional complex will house the first five-star Marriott hotel on its first 12 floors, and the upper floors will contain exclusive apartments. Alliance Group signed the second franchise agreement with Marriott International on February 8, 2018 in Zurich, Switzerland; the first agreement involved the Alliance Palace project where a four-star Courtyard by Marriott hotel takes up the first six floors. "Cutting edge architecture is what we're developing with the Alli-



Alliance Group and RCI held an official presentation of the Alliance Vacation Club. Tbilisi, Georgia

ance Privilege multifunctional complex, and this is what we've been doing all the time in all our ultramodern projects," says Akaki Songulia. Exclusive architecture, a characteristic of Alliance Group, is obvious in the first franchise project, an arched 41-story multifunctional complex. According to Songulia, this \$45 million complex has been a huge success already, as only 5% of the premium apartments are left for sale. Construction of the Alliance Palace will be completed this year. The Courtyard by Marriott hotel will open in the complex later in 2019. In a year, the Alliance Privilege will also be ready, and the 160-room Marriott hotel will receive its guests a year later, in 2021. This luxury multi-functional complex is being built with ecologically safe and energy-efficient materials. The Alliance Privilege develops infrastructure in accordance with the five-star standards of Marriott International: 2 floors of underground parking, a swimming pool with sea water, a spa and fitness

center, a lounge and restaurants, casino and many other facilities. The complex will be operated by McInerney Hospitality International, an international management company affiliated with Marriott International. Alliance Group is investing \$80 million in this innovative project. The general director of the company says Alliance Privilege will benefit the country by contributing tourism income, as will also benefit property owners and the company itself. "It's an investment in business," says Songulia. As he explains, the minimum price for buying a premium apartment at the Alliance Privilege starts at \$1,200 per square meter, which is predicted to reach \$2,600 in three years when the complex construction is completed. "Not that you get investment return, you also get the property with increased value," says Songulia. As he explains, with an investment as small as \$50,000, one can become the owner of an Alliance Privilege apartment, then let the company rent the property





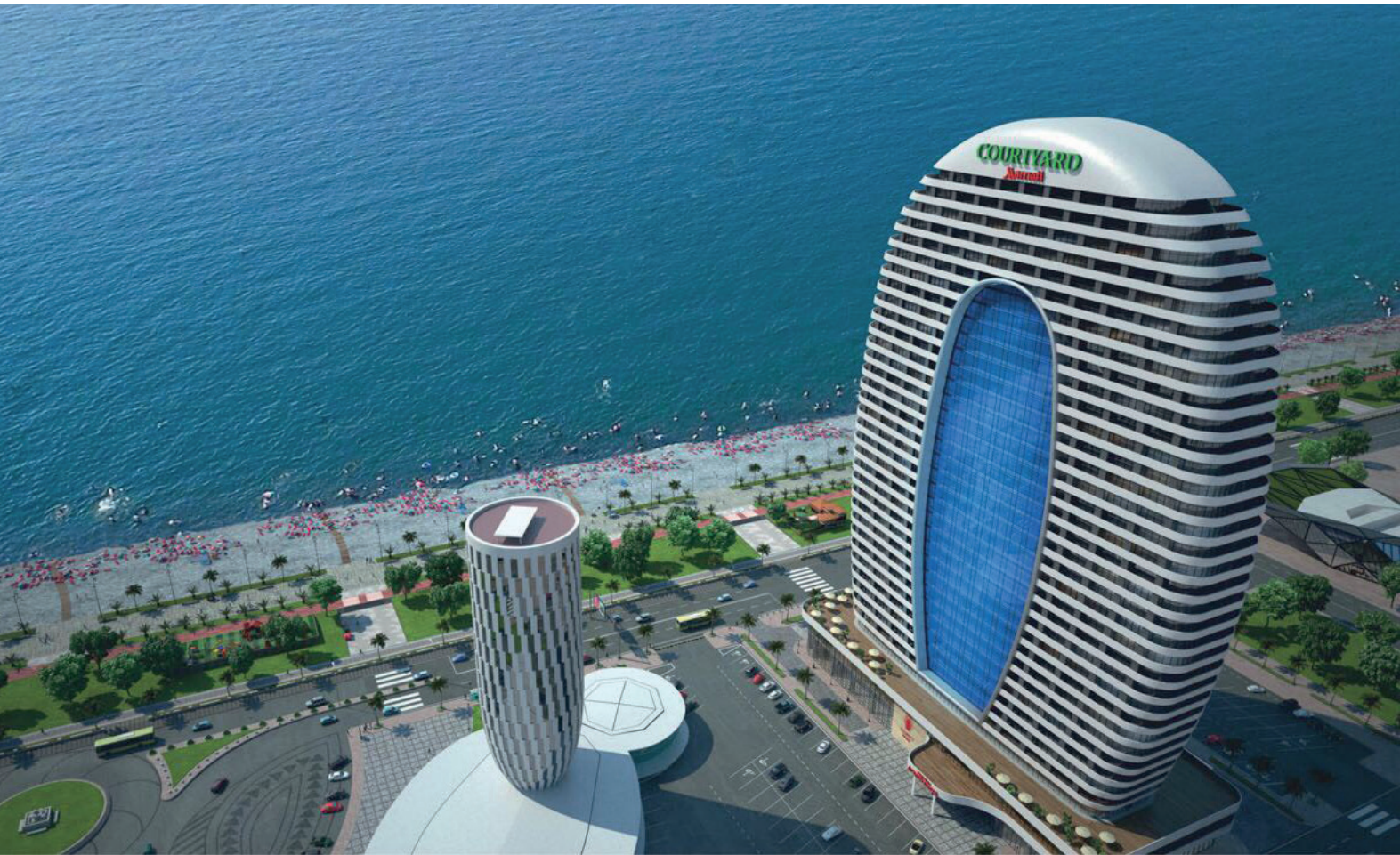
and have the investment returned within 4-5 years. "Affordable prices and flexible purchasing conditions make the complex even more attractive for both local and international buyers," added Songulia. Making a 30% or 15% down payment is the first step to becoming a property owner. The remaining costs can be covered gradually, using the company's interest-free loan. One can also use the services of Alliance Group's partner banks, and receive mortgage loans in one day, without income verification. Alternatively, the buyer can purchase an apartment by providing a lump sum payment and receive a discount in the process. The Georgian construction-developer is offering an international bank guarantee for the purchase of its apartments. According to Songulia, 80% of the apartment

buyers are foreign citizens. "While investing in the properties developed by Alliance Group, as an investor, you are offered the best business environment," notes the co-founder of the company. He adds that safety is one of the most important signals for investors, and Georgia is one of the top safest countries in Europe. Ownership registration takes only 15 minutes, no property tax is paid and a residence permit is provided.

Foreign investors, according to Songulia, are a top priority for a small country like Georgia. This strong belief led Alliance Group to bring the aparthotel concept to Georgia in 2008, and the same belief motivated the company to build a multifunctional complex combining apartments and a hotel in partnership with the international-

Alliance Group signed contract with Marriott International, Zurich, Switzerland





Alliance Palace.  
Batumi, Georgia

ly-acclaimed Courtyard by Marriott in 2015. Later, Alliance Group incorporated Ramada—another international hospitality giant—into its Alliance Resort project. In 2017, the developer added a residential aspect to the sophisticated business concept of the aparthotel, along with a global hotel brand at its Alliance Highline project, a development featuring Wyndham Garden hotel and apartments. The most recent is the RCI deal.

“It’s not quite about the number of foreign visitors, it’s about quality as well. RCI members have already paid for accommodation, so they have more money to spend in the country,” says Dimitris Manikis, RCI’s vice president for business development in Europe, the Middle East and Africa. According to the Georgian National Tourism Agency (GNTA), from January to December of

2017, the number of international arrivals in Georgia amounted to 7,554,936, an increase of 18.8% compared to the same period during the previous year. The majority of foreign travelers were Azeri (-0.6%), Armenian (+24%), Turkish (+24%), Russian (+19.2%) and Iranian (+110.5%). Manikis says that RCI will add new countries to the top listing: “Georgia will attract foreign visitors from new markets. We cover the world.”

The RCI vice president says that in business it’s important to make the client happy. “When I first met Akaki, he told me that his primary goal was to build something that is in the best interests of the buyers. I knew I was talking to my partner. We think likewise.”

Alliance Group is currently working on the four construction projects involving some of the





world's largest hotel networks: the Alliance Palace in Batumi, which will include the Courtyard by Marriott Hotel; the Alliance Privilege in Batumi, which will present the Marriott Hotel; the Alliance Resort in Goderdzi, which will house the Ramada Hotel; and the Alliance Highline in Tbilisi, which will incorporate the Wyndham Garden Hotel. The latter is part of Wyndham Worldwide, one of the world's leading hotel networks, which also includes the leading vacation exchange company RCI. It consists of three divisions: Wyndham Destination Network, Wyndham Vacation Ownership and Wyndham Hotel Group. It is the world's largest hotel company, with more than 8,100 hotels and 708,500 rooms in 78 countries. The company encompasses 20 hotel brands, including Ramada, the fastest growing hotel brand in Europe. Wynd-

ham Worldwide generates \$5.5 billion in revenue. As for Marriott International, it reports revenues of more than \$17 billion, and is the leading global lodging company, with more than 6,000 properties in 122 countries and territories.

Over the last 13 years, Alliance Group has already invested \$200 million in the premium-class real estate market. The company's investment activities in Georgia's construction projects started in 2005, when Alliance Group built the very first modern residential building in Batumi. "Now that Alliance Group is partnering with the most powerful international hospitality companies, we're more ready than ever to reach new heights," says Akaki Songulia. The leading Georgian construction-development company is investing \$210 million into the four ongoing projects. <sup>F</sup>

Alliance Highline.  
Tbilisi, Georgia





Zaza Okuashvili



# Business and Politics

*Since his time at university, even back in the Shevardnadze period he has been in business; and, since then, sometimes in politics. He is clear that the two worlds are different. The Omega group that he founded has contributed to the country's budget more than 1.5 billion GEL. Zaza Okuashvili now discusses his future plans - and how he evaluates business environment risks - with Forbes Georgia.*

BY ANITA MUSKARIA  
PHOTOS: KHATUNA KHUTSISHVILI

**C**ars, factories, a printing house and a TV station - these are the businesses of Omega Group - one of the most integrated business groups in Georgia. Its founder chooses carefully the times when he talks to the media. Forbes Georgia is pleased to talk to such a man of few words as Zaza Okuashvili.

His cautiousness has its grounds. As he says, he speaks out only when he is demonized: „They tried to portray me as a monster on several occasions - so I say, if I am a monster then I will make an appearance and you can evaluate me yourselves”.

Zaza Okuashvili graduated as an anaesthesiologist-reanimatologist by trade. He was still a student when he started his first business, a small bakery in Tbilisi. In 1991, at the age of 27, he founded the company “Omega”, which is now one of the largest

business groups in Georgia. The two tobacco distribution companies - “Omega” and “Eliza” - were the most prominent part of Georgia’s business history in the 90s.

After the “Rose Revolution”, Special Forces units invaded and occupied several of Omega’s companies, including “Omega Tobacco” (OGT) and “Iberia”, after which they deprived “Iberia” of its broadcasting license and the television stopped broadcasting.

Today, Iberia TV is again broadcasting and all rights have been returned to Omega Group and to its founder. But Iberia TV still refers to pressure from the government - this time not by force, but through use of business levers. The Omega Group now claims that the government is allowing favorable terms to its main competitors, multinational foreign companies in the tobacco industry, and enables them to operate using dumping prices,



which reduces the revenue used for the functioning of the television. The evidence for this is contained in a report by the international auditors, Grant Thornton, confirming the extent of dumping and predatory pricing.

Recently, the name of the Omega Group founder was included in the "Panama Papers", prepared by the International Consortium of Investigative Journalists. The document mentions businessmen and politicians who have firms registered offshore. According to these papers, Zaza Okuashvili holds shares in three such companies - Finley Trading, DAGMAR FINANCE GROUP INC and Velsan Trading

Corp. According to the same papers, the capital of the founder of the Omega Group amounts to 250 million US dollars. Okuashvili says that, due to financial and legal inadequacy and lack of protection in Georgia at that time, he decided to place Omega's ownership offshore. Before Georgian Dream came to power, Zaza Okuashvili took up residence in London. He has been granted British citizenship. He is also the honorary Chairperson of the British-Georgian Chamber of Commerce.

Omega Group has as its slogan: Global vision, Local strength. By global vision, Zaza Okuashvili means cooperation with those overseas brands that Omega Group has brought to Georgia - including BMW, MINI, IVECO, Chevrolet, GM, Bentley, Maserati. His printing house, 'Omega Tegi' is a partner of Heidelberg. The showrooms of BMW and MINI are located not only in Tbilisi but also in Batumi. Local strength, for the founder of Omega Group, means well-organized production. According to him, investments are tangible for the country's economy when seen in a long-term perspective. They include not only the tax effect or the direct investment but also the component of production and creation of jobs.

Omega Group is one of the largest taxpayers today. This group contributed to the budget more than one and half billion GEL. OGT's contribution alone amounts to more than 850 million laris. Added to this are the investments of hundreds of millions GEL and employment of 2000 people. There is also the development of infrastructure. Recently, the territory of the Omega Motors and Bentley offices has been transformed into a modern street. Zaza Okuashvili emphasizes the forward-looking nature of this decision of Omega management because he considers that well-organized infrastructure raises the value of land nearby and also serves as a stimulus for new businesses.

The Group has already decided to invest in construction and have mobilized investment from Britain. Architectural drawings, in accordance with modern European standards, have been prepared in the UK, providing for five thousand families to live in Omega Home in Tbilisi. The construction of social housing is also envisaged. The City Architecture Service has already received the drawings and, subject to approval, Omega Group plans to create tens of thousands of jobs.





**Is it easier to do business today in this country than it was before?**

I think the main problem that we inherited from former times is a Soviet culture and mind-set. It's obvious in terms of obstacles to business and unnecessary bureaucracy. Today we have a lot of work to do in this direction.

**What is the situation in terms of the rule of law - are assets and investments protected in this country nowadays?**

My position is the following: the laws can always be improved and should be realistic. But above all, they should be fulfilled. Today there are problems regarding this. Unfortunately, it's the case.

**Are reforms going wrong way?**

I will tell you what I understand well. For example, Parliament considered the law, according to which the packaging of cigarettes should be made uniform. This is required by the EU/Georgia Association Agreement. But the law was changed after 3 months and postponed for 5 years. This is a delay of 3 years longer than required by the Association Agreement. When there's such an unpredictable environment, we cannot measure the effects, for example, of the reform of profit tax, as we cannot know what we have achieved with this reform and what we have lost.

**Which business is the most difficult to manage?**

When it comes to large business, it is always difficult to manage it.

Pursuing high reward is good, but very risky at the same time.

**Being in politics, is it a protection mechanism?**

No. Business and politics should be separate. But a politician will be better if he or she understands the world of business. If you understand business logic, being a politician is much easier - global practice shows this.

**What do you mean?**

Look, today the president of the most powerful state is a businessman. He had great experience in business and he will share this experience not only with America but also with the world.

**And the Fox News will play a role in that. Can media be also considered as business in today's Georgia?**

Unfortunately, I cannot call it a business. Many factors are at work - some direct, and some indirect. For example, in the case of Iberia, a major damaging factor is dumping price policy. We should know the cost of freedom of speech, so that any wrongdoings, flawed decisions and disregard of law is never overlooked.

**For example?**

The Constitution of Georgia limits the sale of products at a price lower than cost. This is an important principle which should be preserved. The theory that large firms can somehow produce less than cost price should be gone with socialism. This is not the case.



Everything has its price. Local production needs to be promoted by being allowed to compete fairly; and the law should work equally for everyone.

**What do you mean by promoting local production - Do you like "Produced in Georgia"?**

It is really a good slogan. I welcome it. But then we should pose a question - what and how should we produce? And under what conditions? Of course, business must be proactive and raise the issues that concern it. Above all it is necessary that the law be the same for everyone.

**Do you say that foreign investments are more protected in this country than the local ones?**

I do not see a lot of foreign investments. How many factories were built? What has been created? I brought investments of about 100 million laris from the UK. We can see where it was spent. Where are other foreign investments spent; what are the benefits? Can anyone point this out specifically?

**What about those employed and the amounts contributed to the state budget?**

Most foreign investments have not been long term. Their business comes from selling product. The economic strength of the country cannot simply rely on "buy and sell". Anyone who brings product into the country has a natural interest to make a minimal contribution to the country's economy. If the law is not focused on equality, large multinational companies will continually suppress smaller players on the domestic market, who do not have hundreds of millions of dollars but invest what they have in the future. If we go to Europe, protection of the principle of fair competition should not be an exception.

**You mentioned Europe - Russia or diversified markets?**

We have to open markets in all directions. Diversification is always profitable. Politics should learn this from business. Europe; America, first of all; even the Russia itself - we should be able to trade in all directions. The main thing is to remember your goal. We have to get rid of the socialist mentality and not let it return. We should create a civilized business environment with Europe, America and the world.

**How is that possible when Russia is our largest partner and at the same time the biggest enemy?**

We have the support of the West. We must be more active. Our strength relies on transparency, efficient diplomacy, closeness with the civilized world and correct management of the country. If all of these exclude big dark gaps then the country will be successful. <sup>F</sup>











Michel Sogny



# Innovative Approaches to Musical Education

BY MIKHEIL KALANDARISHVILI

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**M**ichel Sogny is a French composer who made a name for himself by developing a new approach to teaching piano. His innovative method has received worldwide recognition, and has enabled students of all ages and walks of life to learn the piano. In 1995, Sogny established a music institute in Austria called ‘Villa Schindler’ and later created the SOS Talents Foundation. Through the efforts of famous Georgian pianist and UNESCO artist Eliso Bolkvadze, this foundation has served as a springboard for many Georgians’ international music careers. In 2017, the President of Georgia awarded Mr. Sogny with the Order of Honor for his special contribution to the development of the field of music in Georgia.

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**You have an entirely different method of teaching the piano. How did you come up with the idea and what was the process of developing this innovative teaching technique?**

As I worked on my Ph.D. with the renowned professor and philosopher Vladimir Jankélévitch at Sorbonne University, we often discussed the art of conveying music.

Vladimir Jankélévitch was convinced that the Golden Age of music occurred during the period of ancient Greece, when music played a very important role in the development of one's personality. Music reflected the sophistication of the soul and was an integral part of everyone's daily life. Pythagoras always taught his disciples to play the harp before going to sleep. All of this was done to purify the soul or as we call it today - reduce stress and anxiety. It was achievable at the time because music was much simpler, instruments were used as mediators and the voice allowed people to express their feelings. There is no analogue to this metaphysical process, since it allows you to understand your feelings through your fingertips.

Over time, the language of music became more complicated, which consequently led to the modification of musical instruments. It gradually became harder to master these instruments. This has become the obstacle that helps discourage people from entering the world of music.

**You have devised a system of playing the piano that enables people to overcome this obstacle. Could you tell us what your teaching method is all about?**

When I was working on the development of the new system of piano playing, my ambition was to discover the spirit of music that has been missing for so long and to help people experience the pleasure of expressing their feelings the moment they start mastering the instrument. In order to form this philosophy, I was forced to disregard the existing methods and create my own teaching approaches that would focus

mainly on two directions. I wrote approximately four-hundred prolegomena to piano cycles (Pro-légomènes à une eidétique), which facilitate the perception of sounds through simplified musical structures.

The second part of the teaching methodology includes approximately 300 progressive etudes for the piano. The main technical complexities have been reduced to a minimum, while the musical aesthetics remain intact, which make it possible to achieve one's own interpretation and develop individualism.

Musical cycles have progressive complexity and allow students to master the instrument in a short period of time.

**Don't you think that the teaching methods practiced by most musical schools are rather outdated and for that reason, learning music is regarded as an unpleasant experience?**

Indeed, the teaching methods at the conservatoires have not been subject to any major evolution and they still employ the 19th century teaching technique. The world has changed its attitude towards time. Conservatoires still use some musical pieces that were not meant for teaching. For instance, Chopin, Mozart and Beethoven would have never thought their pieces would be used for those purposes. It is the same as if we used excerpts from Shakespeare to teach English ...of course it's possible, but that would make the whole process extremely difficult. That might be the reason why so many students quit learning music. These complications put them under pressure. The piano is a very hard instrument as it is and it would be impossible to master it without staying motivated all the time. This requires gradual progress and that is the kind of experience that the followers of my method experience.

**Does your teaching process incorporate the development of creative skills that would enable pianists to make their own musical pieces?**

First of all, this method allows one to master



the grammar of piano playing and solfeggio. Being able to read piano notes and sheet music is a crucial factor. However, composing your own music is a different dimension and requires special training. My teaching method incorporates the first steps of initiating the process of composing music, but the next process depends on the skills and musical tendencies of the student.

### **Can talent be achieved through hard work and practice?**

Needless to say, there is an innate talent, which is really a skill that allows you to create a special bond with the instrument. However, talent requires persistent and proper development; and energy has to be managed proportionately, so that a person does not become a victim of their own talent. There are plenty of examples when less talented kids achieve phenomenal re-

piano playing accessible for everyone, even if you are eighty years-old ...

I am very pleased that since 1975, I have been able to pass on my passion for music to more than 20,000 people. The results of my method have exceeded all expectations. French language teacher Michelle Paris set the first unique precedent in the history of the art of piano when she began learning to play the piano at the age of 27. By 1980 she had already held her first solo concert at the Théâtre des Champs-Élysées, where she played some of Franz Liszt's most challenging pieces.

This story is described in one of my recent books titled *l'Adulte Prodige* that will soon be adopted for the screen.

**The SOS Talents Foundation supports many young pianists that learn piano playing**

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***I am very pleased that over years, I have been able to pass on my passion for music to more than 20,000 people. The results of my method have exceeded all expectations.***

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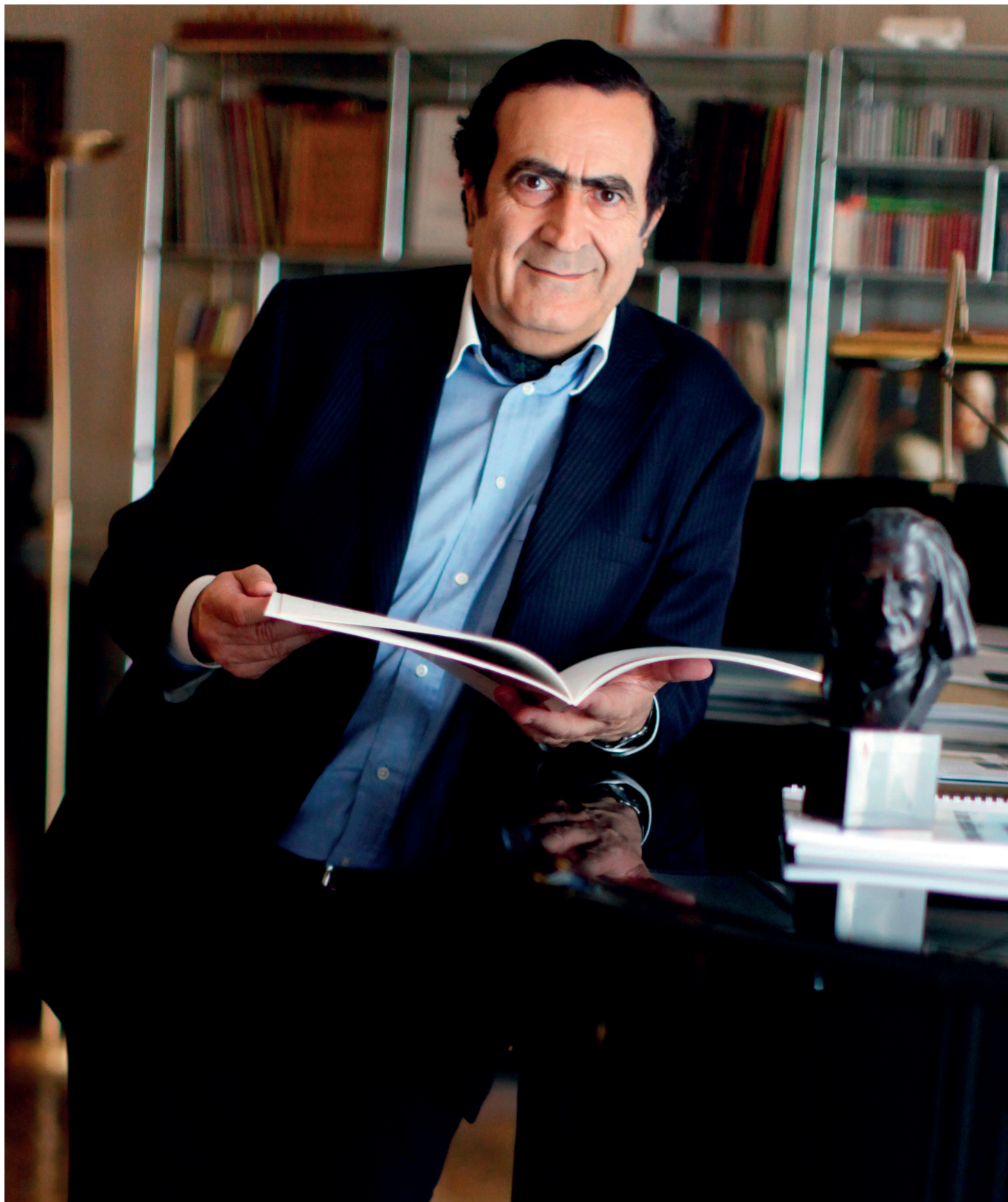
sults through proper development and learning.

### **Does innate talent play a crucial role in your teaching method and is it ever too late to start mastering the instrument?**

My method of teaching is not based on innate talent and age. It provides people of all ages and innate talents an opportunity to enter the world of music and experience happiness from their own interpretation of music without forcing them to ask themselves the question: "Am I talented enough to do this?" This method makes

**based on your method. This foundation helps students from all over the world, including Georgia, take part in various international contests. Could you tell us how you founded SOS Talents?**

In 1995 I went to Tyrol, Austria at the invitation of Lord Yehudi Menuhin and Annemaries Schindler, where I founded a musical institute called Villa Schindler. We were inspired by the Villa Medici. Villa Schindler was mainly designated for pianists. The invited pianists had a chance to work based on my method and improve their





capabilities.

The first pianist that received our scholarship was Eliso Bolkvadze. She invited me to Georgia in 1997, a period in which your country was undergoing a very difficult time. At her request, I listened to some young Georgian pianists. Eliso Bolkvadze wanted them to have a chance to study piano playing based on my method. So, I invited Khatia and Gvantsa Buniatishvili to Villa Schindler. The working process at Villa Schindler was so impressive that in 2000, I decided to establish the SOS Talents Foundation to help young pianists.

The first inaugural concert was held in 2001 at the Marcel Dassault Hotel in Paris. Serge and Nicole Dassault became donors. Today they organize exclusive annual gala concerts for SOS Talents at their Champs-Élysées Palace in Paris.

In subsequent years, I invited many other young pianists from Georgia, including Tamar and Natia Beraia, Ana Kipiani, Shalva Gvenetadze, Barbare Tataradze, Iliia Lomtadze and Barbare Chkhaidze.

### **How does your organization operate and is it difficult to raise money in this sphere?**

SOS Talents is privately funded. Obviously, it is harder to raise money for a musical foundation than it is for a medical fund. Fortunately, there are still people who believe that art and music in particular, represent the highest values of our society.

It is hard to have a successful career in music. Succeeding in contests is a very important factor when you want to draw attention. However, the biggest challenge by far is grabbing the attention of high-level, professional managers in this field.

The SOS Talents Foundation serves as a springboard for many young talents and gives them the opportunity to demonstrate their talent in front of a wider audience. The foundation organizes prestigious concerts with the participation of our laureates. These concerts are often broadcast in over forty countries with the help of the Mezzo TV Company. All of this provides artists an interesting start to their careers and can be a decisive factor in their future professional life. Our foundation also helps young pianists establish the necessary

contacts and find individual sponsors.

Obviously, luck plays a very important role.

### **What role can business play in the world of art?**

The role of business in art is enormous. Great musicians have historically sought sponsors, including Mozart, Bach, Haydn, Wagner and other geniuses.

The current approaches to this issue are rather specific. Producers are attracted to famed names. Unfortunately however, these celebrities do not always represent the real value. The SOS Talents foundation, on the other hand, is a springboard for new names and talents.

### **How hard is it to gain recognition in the sphere of music and what is the road that leads to that point?**

Recognition of a musician is a very subjective matter. A pianist must never cease to develop and always strive to move to a higher level. This is something that you do throughout your entire life.

The life of a pianist is lonely and often cut off from reality. It is the people who surround the pianist and their values that matter most. An artist must be able to accept criticism, which is essential in their development. The ability to doubt yourself and accept advice is one of the most important factors for success.

### **You have visited Georgia on a number of occasions. How do you assess the situation in terms of music?**

On my first visit to Georgia, I was amazed to see how big of a role art played in the lives of people here. Georgians have a good perception of music and I was very impressed by the Georgian folk music and dances.

In view of the current globalization process, culture and identity play an important role - especially in small countries - and Georgia has a very good position in this regard. Without a doubt, Georgians have a great passion for life and a strong sense of aesthetics, which has always served as an inspiration to artists. 



# NEXIA TA: GEORGIA'S COMPANY OF THE YEAR

NEXIA TA was recognized as 'Company of the Year' at the annual Nexia International Summit in 2007, where over 650 other offices belonging to the company's network were also presented. Expressed in 2017 numbers, the company's achievements read like a world-class curriculum vitae: 100 employees, over 300 clients and 170% revenue growth (from ₾853,000 to over ₾2.3 million). This four-year-old company is one of the top ten highest revenue-producing companies on the Georgian audit market. The founders of NEXIA TA Georgia aim to be in the top five in some five years' time.

BY TELARA GELANTIA  
PHOTOS: KHATUNA KHUTSISHVILI



**“A FRIENDSHIP FOUNDED ON BUSINESS IS BETTER THAN A BUSINESS FOUNDED ON FRIENDSHIP”**...these are the famous words made by the world's first billionaire John Rockefeller that stuck in my mind as I was getting ready to interview the partners of Nexia TA - Gela Mghebrishvili, David Lomidze and Boris Megrelishvili.

“We do not agree with Rockefeller on this, because our friendship made joint business more comfortable,” they tell me with a smile. And as any real businessmen would, they trio then offered me numbers to illustrate the validity of their words.

For instance, in 2016, they told me that Nexia TA's revenue from its professional activities was 853,000, but by 2017, the firm's revenue exceeded 2.3 million, placing the four-year-old company managed in the top ten highest-earning auditing companies in Georgia.

Nexia TA also won the “Firm of the year 2017” award at the annual Nexia International Summit held in San Francisco. Nexia TA was among 650 firms from more than 115 countries that attended the summit. The criteria for selecting Nexia TA as the company of the year was its exceptionally fast and effective growth rate, meeting the quality control requirements, supporting the development of business in Georgia and their active cooperation with other companies of the Nexia network.

The title of the ‘Company of the Year’ is annually awarded to only one company of this big network and in 2017, the choice was made to select Nexia TA, which is not only significant for the company, but is also very important for the image of the country, since Nexia TA from Georgia was nominated as the best company of the world in the auditing sphere.

The partners of Nexia TA recall a time in 2014 when Nexia TA became Nexia International's official representative in Georgia and they travelled to attend their first summit in Barcelona, where Germany's office was presented with the best company of the year award. At that very summit, the partners of Nexia TA set a goal for themselves to bring this award to Georgia in the shortest period of time. However, even they did not expect this to happen so soon.

**What additional opportunities does this kind of recognition offer to Nexia TA and why do you think the management of Nexia International chose your company for this award?**

**Davit Lomidze:** Quality and fast growth - probably these two factors were the most decisive. The successful results of the quality control conducted by the London head office in 2017 are also indicative of the fact that the goals set by the management have been achieved and Nexia TA represents a Georgian company that can offer its customers the best quality service. The next factor is the company's growth rate. According to the 2016-2017 data, we were one of the fastest growing companies of the Nexia International network. Furthermore, we already hold the second position among the world's top companies operating in the accounting sphere in Georgia. We have very productive cooperation with other companies within the network and are actively involved in the international activities of Nexia.

**Gela Mghebrishvili:** The most important criteria for Nexia International is whether or not the local representatives have managed to increase the popularity of Nexia on the domestic market. Gen-

erally, the goal of this network is to be represented in every country on the highest possible level - at least in the top ten. It is simple math: if Nexia operates successfully everywhere, Nexia International is successful as a consequence. In 2017, we won in the competition for partner audit companies called by the Georgian associations of infrastructure builders and business developers. Other contenders were also represented among the world's top ten best auditing companies. This means that the members of these associations are fully aware that Nexia TA is a reliable partner and they opt for us. The following numbers are a clear demonstration of this. For example, in 2016, our number of clients was under 100, but by the end of 2017, the number of our partner companies exceeded 300.

**Boris Megrelishvili:** Nexia's common practice is that when new companies come aboard, they are first granted a relatively low B category, and after passing the quality control and meeting the required criteria, they are upgraded to a higher A category. In the case of Nexia's office in Georgia, we were granted the A category from the very beginning in 2014, despite the fact that international brands are usually reluctant to enter developing

markets, since maintaining the quality is always a major challenge here. I think that it was more of a gamble on the part of the Nexia's management. They placed a bet on a young, highly-motivated and experienced team. In other words, the bet was made on the future and not the turnover of the company at the time. Frankly speaking, since the NexiaInternational annual summit was held in the US, we expected that the award for the best company of the year would go to one of the network's firms operating in the US. Moreover, 50% of Nexia's revenues are earned by the firms operating in the Americas, but we were wrong (they are smiling). In fact, this award is a sort of recognition and an evaluation of our four-year performance on the Georgian market. The title of the best company among 650 other offices of the network is the biggest motivation for the team of Nexia TA. This recognition inspires us to set new, large-scale goals.

**Davit Lomidze:** We have to do something that no other company within NexiaInternational has managed to do yet. All three partners of the company are highly motivated to bring this award to Georgia again in 2018. Today we have even more responsibility to our head office, as well as our clients.

**Before discussing the future plans, let's go back to the beginning in 2014. How did you arrive at the decision to start a business with your friends and why were you confident that you could pull it off? This niche is quite saturated in Georgia isn't it?**

**Davit Lomidze:** Initially, I worked in various capacities at the Audit Department of the Revenue Service. My last position was Senior Auditor. I gained a lot of experience by working there, which helped me achieve success in business. However, I was always attracted to the private sector, where the risk was higher, but the opportunities were greater. I started my career in the private sector by working as an accountant, later on I was a senior accountant, then head of the audit service, financial director and deputy director - these are the positions that I held at several large companies operating in almost all the economic spheres (finance, commerce, enterprise, service and so on).

This phase of my career lasted 100 years. After

I gained a lot of experience, I decided to start a professional business, since I felt ready for the next stage. One ordinary evening, we came up with a business idea over whiskey at Boris' place - "Let's consolidate our contacts and experience, focus them on a concrete project and turn it into a company". It did not take us long to bring the idea to life. In 2013 we started with a small company, but in 2014 we already became official representatives of Nexia International.

**Boris Megrelishvili:** In that small office we laid the foundation for great things. By the way, we have changed our offices four times since then and this is also indicative of the expansion rate of Nexia TA (he says with a smile). Public service also played an important role in my career path and I have very positive memories of the years spent in public service. However, unlike the private sector, you have to work within certain frameworks in the public sector and cannot always make the kind of managerial decisions that you would like to. These are the factors that prompted me to start a business. Besides, having your own company gives you a lot more opportunities to contribute to your country and become an employer.

**Gela Mghebrishvili:** I don't want this to sound like we are belittling the public service sphere, quite the contrary, as I worked at the Revenue Service for three and a half years. I was a senior auditor in the Audit Department and the experience that I gained there was invaluable. But there comes a time when you have to make a choice between a more or less stable job and a business, where you have to constantly move around, focus on innovations and swim against the current. I made a choice in favor of business. I still have very good business relations with my old colleagues. The Revenue Service has a team that publishes situational manuals. These manuals are prepared with the participation of private experts, including me. This is what I call constructive partnerships between the public and the private sectors. In general, our sphere would be unimaginable without the cooperation of the public service sector. To make a long story short, after leaving the Revenue Service, I founded my own company with a partner and in 2017 I joined the Nexia TA team. It was a simple decision for me - I knew Boris and Davit both



Davit Lomidze







**Kevin Arnolds,**  
CEO of the Nexia  
International

“  
As ever, it has been a challenging decision, as the calibre of Nexia firms continues to exceed expectations. However, this year’s winner is a firm whose commitment to, and participation in Nexia’s activities is quite simply outstanding.”

in friendship and in business and like them, I was attracted by the challenges.

**Today Nexia TA is among the top ten audit companies with the highest income, or to be more specific, Nexia TA is part of the so-called ‘Big Four’. What is your competitive advantage on the market? What kind of services do you offer your clients?**

**Davit Lomidze:** Quality is our common international language. In 2016-2017 more than 50 tax inspections were carried out in the companies that we provide with accounting services and all of them passed the inspection with success. Our clients often don’t even notice that they are being inspected by the revenue service. We have a very unique service

in the accounting sphere - in order to ensure the full satisfaction of our clients, our handpicked employees are assigned to the companies of our clients on a full-time basis. We also ensure the professional development of our employees. It is also noteworthy that the accounting activities in our company are supervised by the internal revenue department. Moreover, in case of an error, which has not happened yet, though no one is immune from making mistakes, Nexia TA has increased its liability insurance to up to €20 million in order to make sure that its clients are fully protected. We have a leading position on the market in this regard. Reliable and reinsured service is the kind of safeguard that empowers the accounting sphere. In 2017, our company’s revenue from the accounting sector increased by over €1 million and exceeded the previous year’s revenue.

**Boris Megrelishvili:** Our goal is to build-up the other spheres the same way, as the accounting sphere is our strong point at the moment. When we first started the company, we could only provide accounting and tax services - our financial audit field was not developed properly. However, after receiving international status, the head office assisted us in the introduction of the relevant methodology and development of the financial audit department. Since then, Nexia TA has remained committed to maintaining our high quality standards and we constantly share innovations with our head office. As a result of this, in 2017 our company successfully passed the quality control conducted by the internal regulator and now we can offer our financial audit services to any company.

**Gela Mghebrishvili:** Nexia TA is a company that is focused on innovations and the introduction of new services, therefore in addition to standard financial services, we constantly strive to fill the untapped niche markets and develop new spheres - transfer pricing being one of them. Since the transfer pricing service is a novelty for businesses, as well as the revenue service in Georgia, most of the companies in the top ten do not provide this kind of service. On September 20-21 of last year, Nexia TA hosted a large-scale conference dedicated to transfer pricing. The goal is to increase the popularity of this new product. So, we organized a training course on



Gela Mghebrishvili



the topic of transfer pricing. It is very important to raise awareness about transfer pricing, since many companies in Georgia are not even aware that this issue concerns them too. Last year, Nexia TA also published the first so-called BEPS information brochures in Georgian that provide detailed information regarding base erosion and profit shifting.

**Boris Megrelishvili:** I would like to add that our company gives away these brochures pro bono and plans to continue doing so in order to ensure that taxpayers are properly informed and updated regarding the planned amendments in the international taxation regulations.

**Gela Mghebrishvili:** In short, the accounting, auditing and tax spheres are already stable and surefooted, that is why we need to focus more on strengthening the sphere of legal services. We also see a lot of potential in the sphere of consulting services. I believe that the status of the 'Company of the Year' will come in useful. In 2018, we also plan to focus on one more area, which is the Nexia Academy. This academy was founded in 2016 and many people have already received comprehensive knowledge in the sphere of finance. The demand for educational training is rather high and we plan to expand our services further in this sphere.

#### **And still what is Nexia TA's trump card on the Georgian auditing market?**

**Davit Lomidze:** Closer to you - is Nexia International's slogan, which we relate to very much. In addition to the wide array of products that we have already discussed, we offer our clients partnership service, which means that we are not just hired to provide a specific service, but we can be their friends and always offer them advice as to what would be best for their business. We also offer clients our international contacts and so on. We have an individual approach to all our clients.

**Boris Megrelishvili:** Our clients know that we are available 24/7 and Nexia TA's highly competent employees will provide them with consultations and other services at any time.

**Gela Mghebrishvili:** I would like to emphasize the fact that human resources represent the main capital in the auditing business. The guarantee of our strength lies in our team. It is very important

to invest in the staff of the company. We are very selective when hiring our employees. We try not to make mistakes when hiring people. Our company is committed to ensuring the professional development of the staff and therefore, we always offer our employees various training programs.

**Davit Lomidze:** Quality, a strong team and a clock management system - this is what Nexia TA rests upon.

#### **How does your regular morning start?**

**Gela Mghebrishvili:** My morning starts with writing 'Good Morning!' in our group chat ... we always compete with one another as to who is going to write first (laughing), then we all gather in the office and start planning the day. We exchange information. We spend most of our time in dealing with current and potential clients.


**Davit Lomidze:** We receive detailed information on all the cases of our clients from the management, which includes banks, construction and insurance companies, medical and educational institutions and so on. Based on this information we make the appropriate decisions regarding the cases of our clients and come up with solutions to their problems.

**Boris Megrelishvili:** At the end of the day we summarize everything; we discuss the meetings we had during the course of the day and how those meetings went - both with current and potential clients. Then we move to the managerial issues and plan the next working day. We also hold weekly meeting with our partners and sectoral managers to set plans for the coming week.

#### **Since you mentioned planning, where do you see Nexia TA in five years?**

**Boris Megrelishvili:** In five years we must absolutely hold a leading position in the auditing market of Georgia.

**Gela Mghebrishvili:** We plan to move up several positions this year. Besides, we aim to become the leaders of the market in specific areas, such as transfer pricing, consulting and so on.

**Davit Lomidze:** Five years from now we must be in the top-five and we will do our best to make that happen. 



Boris Megrelishvili



# A CITY WITHIN A CITY

The Azerbaijani company AS Group Investment has been positioned both on the local and the international markets for 15 years. Through a combination of proper management and ambitious planning, the company has managed to expand its field of activity from the production of building materials into construction, and then into development. Its progressive vision and financial growth has led AS Group Investment's leadership to consider geographic expansion, and by now, the company has carried out up to 40 successful projects outside of Azerbaijan worth \$700 million. Many of these investments (worth a total of \$200 million) were made in Georgia, where the company has undertaken an ambitious plan to build a micro-city within a city in the shape of "Dirsi."

BY ELENE CHOMAKHIDZE  
PHOTOS: NIKA PANIASHVILI

The construction and subsequent development of the Dirsi residential complex in Tbilisi was conducted under the guidance of AS Georgia. The company entered the Georgian market with ambitious plans, and the project authors never thought about taking the easy route. The location was chosen not based of its prestige, but based on its practicality and modern trends. The first stage of construction of the micro-city began in 2011. Located in the historic part of the capital, in-between the airport and the tourist center, the project's inspiration came from an innovative concept. The implementation of the initial concept, as well as the construction of recreational and educational zones, the boulevard and 11 residential blocks, cost a total of \$150 million and took almost two years to complete, providing employment for 5,000 people in the process. An

area of 210,000 m<sup>2</sup> was developed into a multi-functional complex that fulfills people's everyday needs. International quality standards, flexible and comfortable service - all of this is brought together in the same space.

In order to implement the construction process more effectively and in a shorter period of time, the company immediately established a building material production plant on the premises of the complex, investing up to \$40 million in its construction.

*"The plant produces concrete, carcasses, blocks and reinforcing cages, which are used for the ongoing construction projects. Setting up a local plant, which is equipped with modern technology and machinery, has enabled for the smooth implementation of the construction process, full quality control and the optimization of costs. The plant employs a total of 250 people. Prior to the commencement of the second*



Shaheen Movsumov, Founder of AS Group Investment





*stage of construction, we were only selling the building materials produced here to various partner companies that we are successfully cooperating with,"* explains AS Georgia's General Director, Beso Jikurauli.

There are no plans to halt the production process over the next few years. In fact, there are still several other projects for AS Georgia to implement as part of the Dirsi development process. Three ad-

ditional stages of construction and development lie ahead. Similar to the first stage, the second stage will focus on the construction of residential blocks. The construction process will start in late 2019, and will see high-quality apartment blocks erected on an area of 8 hectares - the same as during the first stage. The company director also reveals that the transitional period between the first and second stages will include the start of





construction of two skyscrapers with helipads on their rooftops. As mentioned previously, AS Group Investment's subsidiary company in Georgia has ambitious plans and high standards of execution, and the planned skyscrapers are an example of this. At a time when the construction of apartment blocks leads to a decrease in oxygen levels across the city, the establishment of a forest park in Dirsi is both an interesting and a necessary step. Moreover, in addition to the forest park, the third stage involves the construction of an amusement park, which will offer various activities and rides that can attract visitors from all over the city. The aforemen-

tioned development plans for an area of 8 hectares have already been approved, up to 600 saplings have been planted, and the company will only need another six months to decide on the final concept for the forest park.

As for the fourth stage of the project, it also involves constructing residential blocks, though these will be smaller in size compared to the first and second stages, and will fall into the luxury category.

*"We did not plan to invest money into a project, achieve a profit within approximately five years, and then return to Azerbaijan. Quite simply, this is the largest development project in Tbilisi. It is so massive*





*that it will take at least 10-15 years before its completion allowing us to benefit from it financially,”* Beso Jikurauli explained, while using a miniature model of the residential complex to show where, when and how Dirsi will be developed over the coming years.

Development, construction, service, fit-out and building materials – all these elements are now united under a single brand and company name. According to the company, the expansion of its services took place in accordance with the needs of existing and potential residents. Creating maximum comfort for the residents and ensuring that they live in a healthy, safe environment is a principle that is followed by the company’s 250 employees on a daily basis. Since its inception, the company has actively promoted a healthy lifestyle, which manifests itself in busy sports fields, children’s playgrounds and green spaces. Soon the complex will boast a 12 km long circular cycling path, which will be periodically used to host various marathons.

Will a rapidly growing company such as AS Georgia limit itself to remaining in the development industry, or is there a field that interests the company

from the point-of-view of future development? Logically, this question persistently came to my mind during the interview with the Director General. Clearly, the company is oriented towards progress and growth, and it is not planning to slow down.

*“From a business development point-of-view, the only other sector that is of interest to us, and where we see great potential, is agriculture. We are thinking about developing the greenhouse industry. To this end, we will be working with both our Azerbaijani owners and Chinese partners,”* Mr. Jikurauli reveals.

A total of 46 ha of land is already in use. Some of it has been developed and is visible, while other parts of it are still only presented in the layout and are waiting to be materialized. When asked about the Dirsi project’s main competitive advantage, Jikurauli does not have to think long:

*“This is more than just a commercial location. This is the best example of spatial development, and of a micro-city that is already ahead of its time, deals with all modern-day challenges, and will continue to do so until we have developed the whole 46 hectare area, which, as you will agree, is a massive space.”* <sup>F</sup>

# Contracts, Contracts, Contracts

In May of this year, Tbilisi will host the Georgia-UK trade mission. Preparations for the event have already begun. Special Trade Envoy of the UK to Georgia Marc Pritchard has already engaged in talks with government of Georgia to identify the topics and sectors that are of interest to investors.

BY ELENE KVANCHILASHVILI  
PHOTOS: JABA CHITIDZE





**B**y the end of 2021 Brexit will be in full swing. The United Kingdom will have finished a transit implementation period and the legislation will be fully separated. After leaving the European Union, Georgia and the UK will have to work on bilateral agreements if they want to maintain their trade and investment ties.

Thus far, it appears that both countries want to carry on with trade and investment relations. In September of last year, PM of Great Britain Teresa May appointed a special trade and investment envoy to Georgia. The first envoy ever to hold to this post is Member of British Parliament Marc Pritchard.

Marc Pritchard has been in Parliament for over twelve years. At different times throughout his career, he was a member of the Council of Europe and UK delegate to NATO Parliamentary Assembly. He has also visited both Iraq and Afghanistan during this time.

In addition to Mr. Pritchard, the UK has 29 trade envoys in 50 countries, including envoys in Georgia's neighboring countries - Azerbaijan, Turkey and Armenia. It is up to Pritchard to strengthen UK trade and investment ties with Armenia as well.

All 50 countries share several common criteria: they are all developing and the UK has identified significant trade and investment potential within each one. The main goal of Prime Minister May's special representatives is to intensify investment relations with these countries and maximize bilateral trade.

It has been just a year and Mr. Pritchard is already preparing for the trade mission scheduled for this May. We caught up with him on a recent two-day visit to Tbilisi, which was jam-packed full of meetings with the Ministers of Economy, Infrastructure and Finance, the President of the Central Bank and the Mayors of Batumi and Kutaisi. The private sector was not left out either. The two-day visit embraced meetings with large local businesses and representatives of the banking sector.

This exclusive interview with Forbes Georgia was also included on the agenda.

**Welcome to Georgia Mr. Pritchard. Thank you for your time. Let us start from the very beginning: what are some of the trade opportunities that you see between Georgia and UK?**

Certainly, financial services and banking are one. Potentially, the UK will help Georgia with capital markets development as well. Of course, the London Stock Exchange is also huge international experience to help countries develop their own capital markets.

**What is the significance of the stock exchange and developing Georgia's capital market?**

Banks are very successful on London Stock Exchange. However, if Georgia wants to continue to grow, attract more investment into the country and make sure that all parts of the economy grow, then smaller companies should have the opportunity to raise money on capital markets and grow. In addition, it is an opportunity for the ongoing pension reform in Georgia to see people having the oppor-

tunity to invest in the country. Georgia will benefit from raising money from existing companies, new companies and pensions in the future.

**Glad that you mentioned pension reform, as it is one of the more contentious topics around here these days. I am curious however, why you support this kind of reform in a country where institutions are still not that strong. The funds allocated may not be safe - isn't there risk involved in this?**

You mention risk and my view is that something needs to be done in Georgia with pension reform - the greater risk is not doing anything. Inaction is a greater risk than action. It is important that the government of Georgia get the right advice from the right people. The city of London, with its pension expertise, can be a good place to start. London being the pension capital of the world and Europe, definitely - is the best place to reach out for advice. As a trade envoy, this is something that

I want to facilitate. We hope this will be a part of the trade mission in Georgia this May.

**Can you elaborate a little bit more on that?**

The trade mission will look at four sectors in particular, but it is not restricted to those four sectors. Financial services, banking and pension reform will be a key part of the trade mission.

My meetings are not meetings for photographs - they are to get results. We are getting closer to achieving those results... getting into more details. Nevertheless, this is a step-by-step process and it is important to take those steps to build understanding and identify the key sectors. We are in the stage of doing this and I hope this will be a great success. There are already many British companies interested - some returning, but most for the first time. This is good news for Georgia and good news for the UK.

**Let's continue with identifying key sectors right now.**

The second important part will be center around vocational training and education - particularly in the tourism sector. It is important that Georgia continues to see more and more tourists and that these numbers are sustained over the long term. I think having the right service targets throughout the tourism sector is important - not only in Tbilisi, but in small and large cities like Batumi, Kutaisi and Sighnaghi. Increasing standards will encourage people to visit Georgia not just once, but return to visit again later.

I think the other sector we are looking at potentially is the retail sector, but that is still up for discussion. We launched Bentley recently and Bentley is selling really well in Georgia. We also have Burberry here, Wedgwood, and Monsoon is opening really soon... many retailers are interested in Georgia and those who are here, are very successful. Therefore, we are looking at opportunities in that sector as well.

Infrastructure is also a big one. British companies could be interested in getting involved in very important infrastructure developments that are ongoing throughout Georgia - and not only

engineering firms, but also consultancy firms, architects of planning firms and environmental consultants...infrastructure will definitely be a key part of the mission.

**Are there any specific projects that you are looking at?**

There are. And they range from roads to hydropower. That being said, the details are obviously something for future discussion.

**Let's talk about Brexit as well. How should Georgia view Brexit - as an opportunity or a challenge?**

Personally, I voted to remain in the EU, but the British people decided to leave. We are a democracy and so we respect the will of the British people. I think there will be opportunities - particularly around bilateral trade agreements - for example, the UK and Georgia. That is something that I am involved with and the British Embassy is involved in deep discussions. This will be dependent on the existing deep and comprehensive free trade agreement that Georgia has with the EU. We remain a member of the EU technically until 2019. There's likely to be a transitional implementation period, which takes us up to March 2021. We will still be a very active member of the EU, even after Brexit. But as trade and investments are concerned, there's no reason why the UK can't do things now in Georgia and continue to do things in Georgia during the implementation transition period when we will be exiting the EU, and when we finally exit to continue to improve and increase trade and investment as well.

**Have you already found a model of relations the UK will have with the EU? We know that Reformatics, a consultancy company owned by our former PM Nika Gilauri, is advising the British Parliament on the Association Agreement details that the EU has with Georgia...**

I think the bilateral agreement or the Association Agreement will look pretty much the



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same, but it will have additional benefits for both Georgia and the UK. After Brexit, the UK will have more freedom to negotiate wider areas of the agreement that the DCFTA currently affords for Georgia. Georgia's trade with the UK after Brexit will be enhanced not diminished. Remember, the UK is leaving the EU, but it is not leaving Europe.

**What about Georgia's recognition in the UK - do investors cognizant of the opportunities that this country can offer them?**

Georgia has an excellent Embassy in London. It is a very active embassy team and I think it is important that in such a competitive region that Georgia continues to send its ministers to the UK and receive UK ministers. In fact, I have also been very warmly received as the trade envoy. I think secondly, Georgia needs to continue to be an open and transparent place in which to do business. UK companies need to be confident if they are to invest here that their investment and assets are safe and if there are any disputes there are places of redress such as commercial courts, in order to deal with them, but also to deal with them quickly rather than these issues dragging on for many years. I think it is important that outstanding disputes, such as over the issue of some companies within the Omega group, be dealt with fairly and quickly. This is important in order to send the right signal: that these types of issues are indeed rare, and when they do arise, they are dealt with in a fair and proportionate way. I think that it is great that Georgia is one of the top-ranked places in ease of doing business and of course one of the lower tax economies in Europe as well.

**So would you say that rule of law is the main challenge to the competitiveness of Georgia?**

Look, I'm not going to be involved in domestic politics. I am a trade envoy to Georgia. Georgia needs to continue its reforms in every area, so both individuals and investors feel confident about their investment, whether that be in the capital markets that coming through or manufacturing and a whole range of areas.


**Should Georgia become a member of EU?**

That is a matter for the government of Georgia to decide, but I think it would be good for the people of Georgia and there will be huge benefits. I am glad that Georgians can now travel visa-free - something that I supported when I was the member of the Council of Europe. On a personal level, as well as a member of the governing body of the UK, I will also support Georgia becoming a full member of the EU. I think Georgia will bring added value to the European family.

**In the interview with Forbes Georgia in October you mentioned that "We should not end up with presentations and simple conversations, we rather need very tangible results". It is 2018; do you see these tangible results coming?**

Certainly. And we have more interest in Georgia from the British companies than probably ever before. What the government of Georgia has to do and what the British government needs to do - through the British Embassy and through my position - is get those presentations and conversations into contracts and turn them into tangible results. One of the keys is the decision to award the tender for master planning Anaklia city to a UK company. That is good news. That is also just one example. There are many examples where British companies are doing business in Georgia. This [number] is going to expand and there are a lot more opportunities over the next few months and coming years. However, the key thing is that Georgia continues to be open and transparent and sends the right messages. The country also needs to do the right things as far as legislation is concerned in making sure that it is seen by British investors as not only good place to do business, but also a place where there can be a mutual benefit for the people of Georgia and the people of the UK.

**How should we measure the success of the mission?**

As a former businessman and now a politician, I would say contracts, contracts and contracts. 



ECONOMICS

ELENE CHOMAKHIDZE - INTERVIEW

## An interview with Ms. Katarina Mathernova

The European Union launched a new External Investment Plan (EIP) in Tbilisi. Ms. Katarina Mathernova, Deputy Director-General of the Directorate General for Neighborhood Policy and Enlargement Negotiation is sure that the EIP will boost investment and support more inclusive and sustainable development in Georgia. The EU External Investment Plan is another sign of the strong commitment from the European Union to encourage economic growth through private and public investment in Georgia, says Ms. Mathernova. In her interview with Forbes Georgia, she openly speaks about alternative methods of business development in the country and provides details of other EU financial assistance.

### **What is your overall assessment of the economic development in Georgia?**

Overall our assessment is very positive. Georgia has taken on a lot of important reforms on quite a sustained basis and it seems that we are over the hump with regard to the negative impact of the developments in the region, as well as and the slump in trade with Russia. In following the developments in the region over the last several years, I think we are out of that period and also out of the period of developments in the European Union negatively affecting trade with its neighbors. Georgia grew significantly last year and the projections for this year are somewhere between 4.6 and 4.8 percent growth, which is excellent news. The other good thing is that the foreign direct investment has gone up.

### **What is the European Union's assessment of the recent increase in FDI in Georgia?**

Well, I think that it means that the reforms are paying off. It also means that Europe is doing better economically as well, with an increase of 16.7 percent, as it was last year. What I am happy about is that over half of it comes from the EU. This, in turn, means that the Deep and Comprehensive Free Trade Agreement (DCFTA) and the closer trade relations that we've established are now starting to pay dividends.



### **What are your recommendations for improving business development in Georgia?**

We certainly have recommendations, but we also offer concrete support. We are actually launching a major program on economic and business development this year that amounts to close to €40 billion in grants, which we hope will mobilize a lot more investment from our partner international financial institutions. The main recommendation really will be to invest institutionally and in terms of regulatory improvements for the small and medium-size enterprises (SMEs) because they are the backbone of any developed



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economy and we think that both the regulatory aspects, as well as the need to improve access to finance by SMEs is really an area of focus that needs to be paid attention to. We are able and ready to provide various types of assistance, but one of the things that we very much want to work on is improving access to non-bank financing, because one of the structural problems of the Georgian economy is that banks are too dominant. There are very few sources of financing and this why we want to work to improve this, e.g. leasing, factoring, insurance, collateral and invention financing.

### **How will the European Investment Plan contribute and what does it mean for Georgia?**

The External Investment Plan is a plan that the EU launched for the Neighborhood countries and for the African countries last fall. It is intended for two things: one is that it brings a new tool into our assistance toolbox by creating an instrument, a comprehensive guarantee paid from the EU budget. It is designed to bring the private sector into development, because there are a lot of projects that could be financed if the private sector came in, but the private sector is shy. Now we are talking about cultivating a local private sector, as well as bringing European private sector companies on a more massive scale, so it's creating this guarantee and there are going to be five different windows under which this guarantee can be used. One is energy efficiency, others include SMEs, sustainable agriculture, smart cities and the digital economy.

### **How will Georgian companies be able to profit from the EIP?**

Georgia will be able to profit by having businesses linked with our partners through which we will launch the External Investment Plan. These are the international financial institutions and the national promotional banks, like KfW and the IFD of France. They will be setting up instruments either for SMEs or equity funds or banks for financing, or in energy efficiency, by creating schemes that would be able to finance energy efficiency improvements. The same thing applies to the digital economy and others. Georgian businesses will be able to profit by using the guarantee to help them make the investments. I also want to return to your previous question. The financing issue is one element of the EIP. Equally important is the policy dialogue, policy improvements and the technical assistance we are providing under the EIP, and this is where I want to go back to the issue of - for example - creating the institutions and rules to expand the financing options away from only banks. Banks are, of course, always important and there needs to be a broader set of options, especially for SMEs to receive financing from. They need to be developed. Any healthy economy needs to have a variety of funding sources. You can have models like the US for example where it is the capital markets that have much more dominance than in Europe. Georgia is too small for any really deep capital markets. There are going to be some, but it's important to create what I call a financial

infrastructure, the 'plumbing' of the financial sector - collateral registry for removable assets, inventory financing and so on.

### **Let's talk about energy efficiency and its importance? As I know you have special opinion towards this issue?**

I call myself an 'energy efficiency evangelist' because it's rare to find a public policy that addresses so many issues as energy efficiency. Improving energy efficiency standards, especially in buildings, ticks so many boxes. People who live in energy efficient apartments or houses pay much lower bills. For example, in m2 apartments which we visited, the bill, on average, is 37 percent lower than in other buildings. The second benefit is that your comfort level is much higher but equally important is to create energy efficient buildings because the materials don't need to be imported from Russia, Germany or Italy, the way it is now. Now the windows are from Germany, the heating machine is from Italy and the material insulating the facades is from Russia. Why? When you can produce it locally. As long as there is a demand, it will push the local market to develop. So you will create businesses, you will create jobs and you will create whole new professions, for example, energy auditors. When I bought a new house in Belgium, I got an energy efficiency certificate. Somebody needs to be giving these certificates. The profession that doesn't exist now but will exist once there is a market. Last but not least, it's also important from an energy security prospective, because your country imports a lot of energy from abroad, and the cheapest energy is the kind that you don't use and therefore, you decrease your energy dependence. So, energy efficiency is actually something that can create a virtuous circle that can act as a very important transformation for your economy.

### **Are there any further plans slated on behalf of the EU that aim to improve and build on Georgia's economic development?**

Well, I mentioned that we're rolling out almost €50 million in grant support for economic and business development this year, where we're looking at issues of commercial justice. In addition, we are looking at the financial sector deepening and of course, we are also looking at the non-banking financial sector. We are also looking into creating value chains in a number of areas, for example, in agriculture, construction and tourism. Also, we would like to incorporate these items into the European value chains. We are also working with our international financial institution partners in rolling out support schemes. For example, my favorite one is providing microcredit and SME lending in local currency, so both KfW and the EBRD with the support of the EU can provide lending in Lari, which, I think, is very important, especially because of the plan to de-dollarize the economy. We are also implementing the second phase of something called the DCFTA facility, which is a credit line support of local SMEs to invest in areas that will help comply with the requirements, the technical and phytosanitary norms that go hand-in-hand with trading with the EU. 



ECONOMICS

JANNA FORTMANN - CURRENT EVENTS

# Small and Medium Enterprise – The Backbone of Georgia's Future in Europe

SMEs drive innovative growth across the globe and serve as the backbone of innovation, social integration and employment - the key factors that fuel economic growth. Even though large enterprises are still the bigger contributor to employment in Georgia, the small and medium enterprise sector is gaining in importance.

The results achieved by the EU4Business-EBRD Credit Line in preparing Georgian SMEs for business with Europe, as presented during a recent conference in Tbilisi, highlight a highly active business community that is keen to promote its products and services in Europe.



Bruno Balvanera

**THE EU4BUSINESS-EBRD CREDIT LINE** was developed by the European Bank for Reconstruction and Development (EBRD) and the EU4Business initiative with the clear mandate of supporting Georgian SMEs with loans and grants to harness opportunities afforded by the Deep and Comprehensive Trade Agreement (DCFTA) under which the European Union and Georgia have effectively removed all import duties in Georgian products and services. Having access to a market with 500 million consumers is a great opportunity for SMEs that abide by the rules of that market. However, navigating the jungle of regulations is not an easy feat for a small company. Therefore the EU4Business-EBRD Credit Line also offers technical assistance, free-of-charge to Georgian SMEs, helping companies to focus their efforts on meeting the European Directives relevant to their specific business.

Georgian SMEs are quick to understand these advantages. According to the data presented by Massimo Bianchi, the Project Manager installed by Rina Consulting S.P.A., which is tasked with the technical support provided under the EU4Business-EBRD Credit Line, 121 projects with a combined net value of just over €62 million were financed by SMEs in just 18 months. Leading are companies active in wine, beer and food production, aiming to bolster their export capability. Georgian fashion, medical herb and hazelnut suppliers are





Danilo Bosia, Massimo Bianchi and Bruno Balvanera

also well represented through companies like Fashion House Materia, Geo-Flowers and SRT.

**As Bruno Balvanera, EBRD Director for the Caucasus, Moldova and Belarus, summarized:** *"We are delighted to see the first real results of our financing supporting Georgian companies. From hazelnut processing to road construction, from promoting local produce to succeeding in foreign markets - companies financed by the programme have decided to invest in the European standards and we are happy to be part of their success,"*

Improving export capabilities is only one side of the coin. Food products utilizing Georgia's abundance in agriculture are well placed to become a hit in Europe. But improving products and services offered in the domestic market are possibly of even greater importance to the Georgian economy, as they reduce the need for imported goods and services. A greater level of import substitution will sustain economic growth as much as increased export potential promises. Medical service companies have used the EU4Business-EBRD Credit Line to invest in equipment of the highest technical standards. Printing companies invested to offer higher quality services to domestic clients. And with an investment supported by the EU4Business-EBRD Credit Line loan and grant, Georgia is now home to an asphalt plant that can compete with the cleanest and environmentally most sound plants in Europe.

The impact on even regional economy and employment is evidenced by the example of Indico, a regional road construction company. Indico invested in sand and gravel processors, wheel excavators, trucks, and other portable equipment. Through these investments,

the company has been able to boost its productivity, replacing old technology with environmentally friendly updates and enhancing quality, as well as improving employees' health and safety, in line with the recommendations of project consultants. Indico has raised standards in road engineering, by investing in environmental responsibility and contributing to the overall alignment of Georgian transport infrastructure with EU standards.

**Danilo Bosia, Resource Efficiency & Management Head of RINA Consulting S.p.A. highlighted:** *'Rina Consulting is the project consultant for credit lines of this nature in many countries. However, Georgian SMEs demonstrate a level of agility that surpasses what we see in other countries and this will augment their position as the mainstay of Georgia's economy for years to come. By embracing the opportunities available, these SMEs are boosting the quality of domestic production and services to the benefit of consumers, who have access to goods produced to European Standards, contributing to overall economic performance.'*

A single SME may only create limited employment opportunities compared to large corporations. However, it helps establish job security in a community and therefore promotes more spending and investment, facilitating a thriving local economy.

With the EU4Business-EBRD Credit Line, the ground for strengthening the SME sector has been laid, ensuring growth across a wide variety of sectors, increasing the competitiveness of Georgian SMEs in Europe as well as at home through compliance with the regulations of the Deep and Comprehensive Free Trade Agreement. <sup>F</sup>



ECONOMICS

IRAKLI DANELIA - CURRENT EVENTS

# Could China Bring New Life to Poti Free Industrial Zone?



When talking about Free Industrial Zones (FIZ), it is important to note that such economic zones are a common practice around the world. There are approximately 4,500 FIZs in 140 countries employing over 70 million people. China operates 45% of all the FIZs. The main attractions of the Free Industrial Zones are special conditions and tax concessions, which act as a strong incentive for drawing investments. The main goal of the FIZ is to increase the revenues of the country by means of promoting export, to generate more employment, to ensure the flow of knowledge and technology by attracting Foreign Direct Investment (FDI) and developing capital and laborintensive industries.

Consequently, Free Industrial Zones have a positive impact on the economy of a country. Nevertheless, in order to achieve this positive impact, it is important to ensure the proper strategic development of these zones, because there are quite a lot of factors that are often disregarded. Within the international arena, the majority of successful FIZs are operating in China (Hong Kong, Shanghai, and Shenzhen), the UAE (Dubai, Jebel Ali) and Turkey (Rize, Trabzon and Samsun). There are also a few examples of failed FIZs.

A Free Industrial Zone is a type of free economic zone envisaged by Georgian legislation that offers additional conditions and tax concessions. The FIZ is

part of Georgian territory with its own defined borders and special status granted under the law. If we look at international practices, it would be easy to explain the criteria used for selecting Poti as the first city with a FIZ in the region.

The strategic function of Poti is of the utmost importance for the country, and is important on an inter-regional (Azerbaijan and Armenia) and outer regional level (Kazakhstan, Turkmenistan and Tajikistan), and is now also key within the framework of the Belt and Road initiative launched by Chinese President Xi Jinping in 2013. For these reasons, Poti has a real chance of developing as the main transit hub in this multinational project. The attractive geographic location of Poti provides a marquee opportunity for Georgia to establish the country's transit hub.

The Poti FIZ was established in June of 2008. The following April, 300 hectares of land on the territory of the extensive former development zone of the city's port was given to a foreign investor for the period of 99 years. The foreign investor paid \$155 million and the agreement allows the company to lease lands located on the territory of the FIZ to investors. Companies that are registered and operate in free industrial zones benefit from tax concessions. In compliance with the Tax Code of Georgia, companies operating in the Free





Industrial Zones are exempt from profit tax and taxes on goods imported from abroad. In addition, operations carried out on the territory of the FIZs are exempt from VAT. Properties within the FIZ are also exempt from property tax and the goods produced on the territory are exempt from import tax when imported to other territories of Georgia. Lastly, all income tax is paid on the basis of income declaration.

## WHY WAS THE DEVELOPMENT OF THE POTI FIZ HAMPERED?

There is no such thing as a unanimous position regarding Free Industrial Zones in Georgia. However, no one doubts that the Poti FIZ is a very important asset for the economy of the country. Therefore, from an economic standpoint, it is essential to

make this FIZ fully operational.

It is a fact that for various reasons in past years, the Poti FIZ did not meet expectations. As you may be aware, the main purpose of any FIZ is to attract investors, which is in correlation with all the determinants that eventually create an investor-friendly environment. And these determinants can be divided into internal and external factors. The main external factor that initially hindered the development of the Poti FIZ is the military-political conflict that transpired at the time of its creation, which was compounded by international economic instability. When military forces occupied the territory of the industrial zone during the 2008 August War between Russia and Georgia, it had a profoundly negative impact on potential investors. We should also mention that the

world financial crisis significantly reduced the flow of foreign direct investment in developing countries and Georgia was no exception to this.

The internal factor hindering the development of the Poti FIZ was the smallness of the market. Obviously the Georgian market is small, and during the first stage of the development of the Poti FIZ the country did not have the appropriate mechanisms in place to make a non-gravitational impact of expanding the size of the market, since at that time Georgia did not have the opportunities and advantages provided by the DCFTA, nor did the country have a free trade agreement with its biggest commercial partner - China. Making matters worse, a rather asymmetrical free trade agreement between Georgia and Turkey was also progressing at a very slow pace.

It is also important that to mention the visa regime and its related strict policies. Out of the 90 Iranian companies that had left the Poti industrial zone by the end of 2012 due to visa restrictions, very few returned. Despite the fact that international sanctions against Iran have since been lifted, Iranian business entities still face some delays during bank transfers.

One of the most detrimental factors that prevents investors from taking interest in the industrial zone was and still remains the country's liberal tax policy and the simplified licensing system. It is important that the state identifies the possibilities for introducing legal and other types of tax concessions that would enable the FIZs to make exclusive offers to potential investors. Given the fact that the difference between the FIZ tax rate and the tax rate applied in the rest of the country's territory is very insignificant, it is obviously hard to make the FIZ operational. However, the practice around the world demonstrates that the success of Free Industrial Zones largely depends on the management.

It is also important to mention the inefficient management of the Poti FIZ and lack of communication between both the executive and legislative branches of the government in terms of setting out strategies. The management of the FIZ failed to implement these strategies in coordination with the government agencies representing the economic bloc and also failed to identify the legislative and administrative obstacles that hinder successful operation of the managing company. Consequently, in 2016 the managing company RAKIA handed over 85% of the stake to the state.

## WHAT ARE THE FACTORS HINDERING THE DEVELOPMENT OF THE FIZ AT THE MOMENT AND WHAT NEEDS TO BE DONE?

In order to attract the interest of inves-

tors, it is important to ensure the simultaneous presence of various intertwined factors. In other words, a complex approach needs to be taken. Based on foreign experience, the aforementioned tax preferences are hardly sufficient to attract foreign capital. The major priority for them is the presence of the necessary infrastructure. This has been proven by numerous international studies, which show that the government/management of the FIZ must invest \$4 for every \$1 spent and 70% of this must be spent on the construction of the infrastructure. In Georgia, this policy has never been pursued.

Moreover, one of the main facilitators for attracting foreign capital is a cheap workforce and cheap resources. In spite of the high rate of unemployment, Georgia cannot be considered a country that offers a cheap workforce. On top of that, those employed within the FIZ are not exempt from income tax. This somewhat impedes the process of attracting investors to the FIZ. If we compare the Georgian workforce with the European workforce, we will see that even though it is cheaper, the professional skills of the Georgian workforce are much lower. Therefore, it is important to ensure the availability of state educational/vocational programs that aim to improve the professional skills of the Georgian workforce.

This experience has shown that the Georgian law on FIZs does not meet the present-day challenges and is rather flawed. For instance, in terms of trade, when a FIZ resident company buys certain products, only this company has the right to export these products from the free industrial zone for the purpose of selling them. In other words, the resident company is banned from breaking the consignment into lots and also from engaging other parties in the process of selling. Moreover, there are considerable restrictions in place in terms of service delivery. The

FIZ resident companies are banned from establishing business relations with foreign and local companies with the purpose of offering services, e.g. consulting services, transportation services and other types of services. Therefore, it is very important that the legislative base does not restrict the activities that fall outside the realm of trade and production and are equally essential.

It is also important to mention that the immovable property located on the territory of the FIZ is owned by the administration and this discourages certain groups of investors from investing into something that will not be their property. I believe that it would be more beneficial if the law allowed the transfer of land for a maximum of 49 years only to the companies that are willing to make a particularly large investment and will contribute to the development of the high-tech, knowledge-based fields that are characteristic of the 'cumulative economy'.

From the point of view of taxes, it is problematic that every type of commodity nomenclature produced in the FIZ is subject to 4% import tax when transported to other territories of Georgia. This is problematic because this creates a significant obstacle for positioning oneself on the local market, as well as accessing markets where Georgia has bilateral and multilateral free trade agreements.

When discussing legal amendments, it is necessary that we underscore the need for revoking legal restrictions related to licensing and permissions that are applied in the free industrial zones, e.g. building permissions (other than the norm that is regulated by the law), single and multiple permissions for international shipping on the basis of the international agreements signed by Georgia, permission for international shipping from the territory of Georgia carried out by the non-Georgian shipping companies and lastly, permis-





sion for operating free trade points and customs warehouses.

## THE ACTUAL PROSPECTS FOR DEVELOPMENT OF THE POTI FIZ

The Poti FIZ represents a truly valuable asset for the country, and making it fully operational is a difficult challenge. There are a number of factors that can assist the Poti FIZ in the purposeful, effective and rapid development of its potential. The efficiency of FIZs can be increased by means of institutional and legal support of the government of Georgia. In addition to the effective engagement of the state, the 'Poti Mega Port' construction project launched by the managing company APM Terminals creates a golden opportunity to make the Poti FIZ more attractive for investors and to promote its rapid development. The project envisions the arrangement of a

deep water port adjacent to the industrial zone that will eventually provide bulk cargo handling and container cargo shipping services. From the logistical point of view, this will attract more international players within the industry.

However, the controlling reins for the Poti FIZ have been transferred to a large Chinese company 'CEFC China'. As of 2015, the turnover of this company reached \$40 billion. The company operates in the financial, energy, commercial, trade and logistical spheres and plans to develop the Poti free industrial zone by means of attracting investment for modern technology, as well as the improvement of warehouse and logistics.

The Chinese experience holds out hope that the strategic development vision of the new FIZ management will be results-oriented, since it is very important for the Chinese investors to have their own 'foothold' in Georgia that will create

all the necessary conditions for them to move their products to Georgia in order to take over the European market. CEFC China Energy can make a significant contribution to the enhancement of the idea that Georgia must be viewed as a transportation and logistical hub, since China is the initiating country of the One Belt, One Road Initiative. China's contribution will play a major role in the development of this free industrial zone, as well as attract large investors. It should also be noted the free trade agreement between Georgia and China that came into effect this year, will give Chinese companies additional incentive to use the capabilities of the Poti Free Industrial Zone.

Based on all the above-mentioned factors, I believe that the Chinese company has the power, knowledge and experience to manage such projects. The appearance of a large Chinese company may breathe new life into the free industrial zone of Poti. **F**



ECONOMICS

ITAI ZEHORAI - CURRENT EVENTS

# The Richest Terror Organizations in the World



**2017** has turned out to be an especially bloody year. Over the course of the year, eight huge terror attacks were executed, each with more than a 100 fatalities. Six of the eight deadliest attacks claimed the lives of nearly 1,500 people this year in Syria, Libya, Afghanistan, Egypt and Somalia - planned, financed and carried out by the Taliban, ISIS or Al-Qaeda. According to the Global Terrorism Database of the University of Maryland, in 2016, these organizations were responsible for approximately 70% of the world's terror victims.

It is no coincidence that the deadliest terror organizations in the world are also the wealthiest. "There is a clear connection between the two factors," agrees Maj.-Gen. (Res.) Amos Gilad, chairperson of the Institute for Policy and Strategy and former director of the Defense Ministry's Political-Military Affairs Bureau, in an interview for Forbes Israel. "The financial component of terror organizations is critical, and its indispensability for terror attacks is like fuel for the car," he adds.

As such, financial means are an essential necessity for terrorist organizations. But means of fundraising are inherently limited and are conducted primarily through underground channels, outside of and above the law in the global shadow economy. In many cases, the nature of fundraising activity is remarkably similar

to that of criminal organizations - dealing in drugs, weapons, tobacco or humans, through bank robbery or collecting money in the name of "protection" and even kidnapping for ransom.

Alongside the clearly criminal activity, there is also open activity in which enormous sums of money change hands among funding bodies and terror organizations. This fundraising involves associations, charitable organizations, companies in business, finance bodies, wealthy businessmen - and as it would seem in recent years - governments and states of means.

"Behind every successful terrorist organization stands a financial system and in many cases, it's a country," declared the head of IDF Intelligence, Major General Herzi Halevi. "In our region, Iran is the primary funder of terror organizations." And, indeed, in a comparison of the estimated income of the richest terror groups that we conducted three years ago, one of the salient trends emerging from the findings is the significant strengthening of those terror organizations supported by assisting countries (Hizballah, Hamas, the Islamic Jihad) and the weakening of those that depend on independent sources (ISIS, Boko Haram).

Iran, one of the four countries defined by the US State Department as a terrorist country (along with Sudan, Syria and the newcomer North-Korea), is the main sponsor and force behind many terrorist organizations. Its centrality in the balancing of economic



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(and militant) forces of terror organizations in the Middle East has become critical as compared to previous years, and its importance in terror groups' internal systems of considerations has become crucial.

All of this is possible on account of Iran's being rescued from the financial quicksand in which it was sinking until not long ago. "The signing of the nuclear agreement and lifting of the sanctions was the removal of the rope around the Iranians' neck," asserted Major General (Res.) Amos Gilad. "It actually saved them from economic strangulation."

## USING BITCOIN TO AVOID RISKS

The involvement of other countries in the region, particularly those of the Persian Gulf, played a central role in the terror arena in recent years. Those countries constitute an important pillar in the financing of terror in the region, whether indirectly, by turning a blind eye to financial transgressions of private entities in the country, or by paying ransom for the release of abducted citizens.

Sometimes, as happened recently, the funding streams intersect - and the boundaries between aid money that flows to terror organizations from particular countries and ransom payments are blurred almost entirely. As part of the condition of the ransom transaction for the release of 26 members of the Qatari royal family who were abducted in Iraq by a local Shiite militia, supported by Iran, Qatar was "forced" to pay an imaginary ransom which, according to an exposé by the Financial Times was around a billion dollars. The unprecedented payment that financed some of the deadliest terror organizations in Syria and Iraq (and Iran itself), was seen by many as direct support of terror by the provocative principdom of

oil and led to the famous boycott imposed by Saudi Arabia, the United Arab Emirates, Egypt and Bahrain.

And in addition to "traditional" means of funding, terrorist organizations are always perfecting their ways of raising and transferring capital from a variety of funding sources, through use of any technological means at their disposal. The Wall Street Journal recently reported that the FBI had exposed an international network run by ISIS that used fake eBay and PayPal accounts to transfer funds to operatives in the US. For some time now Google and Youtube have become the preferred platform of terror organizations for sharing propaganda videos which, thanks to their popularity, has granted them not just exposure and penetration into new audiences, but also generous royalties from advertisers. Sometimes the terrorist groups use the most advanced methods, such as the money transfer system built by IS that uses cryptocurrencies such as Bitcoin in order to avoid traditional bank transfers and accompanying risk.

The rapid growth in recent years of trade in virtual currencies, which uses an alternative global financial system and is characterized by user anonymity, grants terror factions many new and secure possibilities for raising, laundering and transferring money - as proven by the arrest of the 27 year-old Long Island woman, who has been accused of stealing and laundering more than \$85,000, using Bitcoin and other cryptocurrencies, to support ISIS.

"Things have changed considerably in our century", argues Joseph Fitsanakis PhD., a global expert in intelligence and national security from Coastal Carolina University. "It can be argued that the rise in the value of many cryptocurrencies generates income for terrorist organizations - but more a method of circulating currency and providing services that

generate funds. With the use of cryptocurrencies and the so-called Darknet, terrorist organizations are now able to engage in creative means of generating cash. They include the sale of pirated music, movies, and video-games, counterfeit products, including clothing, electronics, pharmaceutical products and even counterfeit tickets to high-profile sports events and music concerts. Those who buy those products often pay for them using cryptocurrencies, primarily through the Darknet".

## THE TOP 10 LIST

Here is a list of some of the world's wealthiest - and most dangerous - terrorist organizations and how they make their money. The list was created based on interviews with security experts and counter-terror specialists, as well as reports and analysis from international NGOs, academic and government organizations, and think-tanks. It brings to light estimated numbers behind the top ten wealthiest terrorist organizations from the State Department list of Designated Foreign Terrorist organizations.

We put together the first ranking three years ago., and the material accrued since then has enabled us to create a reliable and qualitative update of income estimates of terror organizations. But apart from examining the financial means at the disposal of today's terror groups and the ways in which each organization finances its operations, the current research allows a behind-the-scenes glimpse into the way in which these organizations operate: what trends characterize the activities of terror groups, how the map of their interests has changed, who are the financiers behind them and how has the balance of power in the global terror arena changed in recent years.



## 1. Hizballah

TOTAL ANNUAL INCOME – \$1.1 BILLION

Other than the Iranian Government, there is no doubt who is the primary beneficiary of the nuclear agreement. Within a few years, Hizballah's budget jumped significantly with the government expenditure out of Tehran, and if in the past they received about \$200 million per year, today the Iranian funding of the Lebanese terror group, according to estimates by the security establishment, is evaluated at more than \$800 million dollars annually.

But despite the large sums of money flowing from Tehran, the extremist Shiite organization did not always enjoy such wide financial support and there were times in the not-too-distant past in which, as a result of urgent liquidity problems, they made do with just hundreds of millions. Because of this, Hizballah made sure to vary its sources of capital; from raising money and support collected by organizations camouflaged as charities and scattered all over the world, down to real estate dealings and “used car” dealerships run by private business people.

The crowning glory of Hizballah's business portfolio is its hold on the global drug industry. The organization's worldwide crime operation extends from South America, through Africa, Europe, the Far East, Australia and the Middle East. Among their various activities, there are active Hizballah cells engaged in constant money laundering, forgery, weapons trade, smuggling, and of course producing and trading drugs, primarily heroin and cocaine.

Despite sweeping denial by the leaders of the religious extremist organization, officials from the American Drug Enforcement Administration (DEA) have in the past presented conclusive evidence linking the drug organizations active at the Triple Frontier (Argentina-Brazil-Paraguay) with extremist Muslim organizations and Hizballah in particular. Its involvement in the drug industry of South America began in the early 1980s and has gained significant momentum over the last decade; through use of the large Shiite-Lebanese diaspora and close collaboration with South American cartels and drug organizations as well as crime and terror organizations in North Africa, a global-narcotic network has been created, netting billions of dollars a year. Among those enjoying the spoils is Hizballah. Today the total income generated by the organization's global-narcotic operations comes to hundreds of millions of dollars yearly.

## 2. The Taliban

TOTAL ANNUAL INCOME: \$800 MILLION

Unfortunately, the Taliban's success in recent years can also be measured financially. The Taliban runs a financial mechanism similar to that of ISIS (until recently) – the broader the territory they seize and the greater the population under their control, the more resources and potential revenue streams they have to convert into huge sums of money. The Taliban's primary source of income today, as much as hundreds of millions of dollars each year, comes from the production and trade of drugs (mainly growing opium and manufacturing heroin). After that (in order of decreasing importance) the organization makes hundreds of millions from the pirate mining of natural resources within the regions under its control, collecting ransom for hostages and, finally, from donations.

As mentioned, the foremost source of capital for the Jihadist organization relies on the extensive narcotic network built and refined over the years. This made Afghanistan into the biggest heroin production and growing operation in the world and the reason why more areas in Afghanistan are used for growing opium than there are areas in Latin America for growing coca. This network is responsible for one of the most essential arteries of the global drug industry, yielding hundreds of millions of dollars a year. According to the ‘2017 World Drug Report’ of the United Nations Office on Drugs and Crime (UNODC), Afghanistan is the largest producer and exporter of opium in the world and is responsible for the production of approximately 90% of the world's heroin. In total, more than 400 tons of heroin are produced in Afghanistan each year and the net value of opium exports alone constitutes around 12% of the country's GDP. A report presented to the UN's Security Council states that roughly 3 million Afghani people today are directly or indirectly employed by the drug industry. This is mind-boggling, as the country's entire workforce is approximately 8 million people, according to the CIA.

As much as this sounds like a huge sum, this is only half of the total income produced by the Taliban. An important additional piece in their rich and varied financial system is their pirate mining of minerals, namely copper and iron. A further significant source of income for the organization comes from donations, mostly from wealthy Saudi sheikhs and philanthropists. According to a study conducted by the New York Times, the Kingdom of Saudi Arabia is among the group's heavy funders of the group. Although the government in Riyadh officially supports the Afghani government and the American task force in the country, Saudi authorities in practice turn a blind eye to the increasing sums of money flowing from the private accounts of the wealthy.







### 3. Hamas

TOTAL ANNUAL INCOME: \$700 MILLION

Last June marked tenth anniversary of the Hamas movement's control over the people of Gaza. Looking back, it seems there is no cause to celebrate. A special report recently published by the UN allowed a glimpse into the intolerable life in Gaza under the mismanagement of Hamas and points to a dizzyingly escalating humanitarian crisis. According to a summary in the UN report, the Gaza Strip will be unlivable by 2020 if the current situation persists.

The security intensification that came with Hamas' seizure of rule over Gaza brought with it immediate economic mayhem. A stream of more than 100,000 workers that entered Israel daily, and provided livelihood for hundreds of thousands of people in the Gaza strip, has almost entirely stopped. According to the World Bank, the current rate of unemployment in Gaza is the highest in the world and stands at over 40%. Among youth, the rate rises above 60%. The average income in Gaza is \$1,800 per capita, among the lowest in the world. Electrical infrastructure and the factories that were destroyed in fighting, as well as the gross lack of raw materials (those that are not redirected by the heads of the organization to rebuilding tunnels), has paralyzed industry, which currently amounts to furniture production, cultivation of tomatoes and fishing.

But despite the catastrophic situation of Gaza, Hamas is managing to generate numerous funding sources from the impoverished population there, bringing in tens of millions of dollars each month. The sophisticated and elaborate tax network redirects significant capital flowing into Gaza as aid. This, for instance, is how Hamas collects taxes on the money-changing companies that convert the foreign currency to shekels, pocketing tens of millions on the way. In addition, Hamas runs hundreds of businesses monopolizing a variety of fields from real estate to security, banking, and even hotels and tourism.

Along with taxes, hundreds of millions of dollars flow in to the organization's account each year as private donations from business owners or various societies from all over the world. The biggest current funder of Hamas is, not surprisingly, Iran which, along with Qatar has committed to contributing large sums of money to the tune of hundreds of millions of dollars a year. In order to ensure that not all the money goes to the rehabilitation of Gaza and improving its residents' welfare, the regime in Tehran has specifically allocated a significant sum from its contribution to support Hamas and its military arm's activities. According to security sources, this allowance is 70 million dollars a year, and is responsible for nearly half of the military wing's estimated budget of 150 million dollars.

### 4. Al-Qaeda

TOTAL ANNUAL INCOME: \$300 MILLION

Under the organization's fundamentalist umbrella are some of the deadliest organizations operating today. According to the US State Department Country Reports on Terrorism a number of the primary branches include: Al-Qaeda in the Islamic Maghreb (Libya, Algeria, Ivory Coast, Mali, Nigeria, Tunisia and Burkina Faso), Al-Qaeda in the Arabian Peninsula (Yemen and Saudi Arabia), Al-Qaeda in the Indian Peninsula (India, Pakistan and Bangladesh), al-Shabaab (Somaia) and Tahrir al-Sham (Syria).

Al-Qaeda of the Islamic Maghreb is mainly active in Central and Western Africa and exploits the region's instability and the penetrable borders of the countries in which its operations are based. It currently deals in the illegal trade of drugs, weapons, automobiles and people - and recently in the increasingly profitable branch of illegal trade in cigarettes and tobacco. A special report by the KPMG firm estimated that the illegal cigarette market in the countries of the Maghreb in 2016 constituted tax losses of about 565 million dollars. The scope of the illegal tobacco trade in North Africa currently stands at more than a billion dollars annually, and according to the UN comes out to about 60 billion black market cigarettes annually, of which a significant portion flows directly to the criminal and terrorist organizations controlling the region. Kidnapping for ransom payments also constitute a large source of income for the group, bringing in additional millions of dollars annually.

Like its brother in the West, Al-Qaeda of the Arab Peninsula takes great advantage of the local instability and local support, particularly in Yemen, to occupy territories, consolidate its hold in the region and so produce sizable income streams. Two years ago, for instance, the organization succeeded in taking over Mukalla, an important central port city in Yemen. Their control of the city, held until April 2016, generated about 2 million dollars a day for the organization from collecting protection fees and taxes, as well as pocketing an additional 20 million dollars from plundering local banks - according to a special report of the UN Security Council. In addition, Al-Qaeda of the Arab Peninsula continues to create ongoing revenue streams from kidnapping and ransom payments, as well as donations from charities of wealthy notables, primarily from the Gulf States

Jabhat al-Nusra, Tahrir al-Sham in its current incarnation, is Al-Qaeda's proxy in Syria. The extremist Sunni organization's income comes primarily from ransom payments and generous donations from the wealthy Sunni Gulf states. This year the organization wrangled a hefty sum of money for the provocative transaction in which it released Qatari royalty in exchange for the unprecedented sum of an estimated \$130 million, according to the Financial Times.

A relatively new organization in Al-Qaeda's portfolio, but a veteran of Africa's bloody terror arena, is al-Shabaab, the Somaian terror group. Like the rest of Al-Qaeda's destructive affiliates, al-Shabaab also obtains its own funding. According to a UN report, the organization raises funds mostly through taxing the inhabitants of the territories under its control. Additional funding comes from pirate mining and illegal coal trade as well as kidnapping and ransom payments - all of which make tens of millions of dollars per year for the terror organization.

لَا إِلَهَ إِلَّا اللَّهُ مُحَمَّدٌ رَسُولُ اللَّهِ



## 5. ISIS

TOTAL ANNUAL INCOME:  
\$200 MILLION

As of now with the fall of the town Rawa, the organization has lost its last urban stronghold in Iraq and those who controlled a third of the country have been almost entirely eliminated. Getting rid of any remnants of their control is just a matter of time and considering the great power they held until not long ago, this is a remarkable collapse. At its peak towards the end of 2014, the Islamic State extended over 100,000 square kilometers – larger than South Korea – and subjected 10 million people to its oppressive rule at the height of its power.

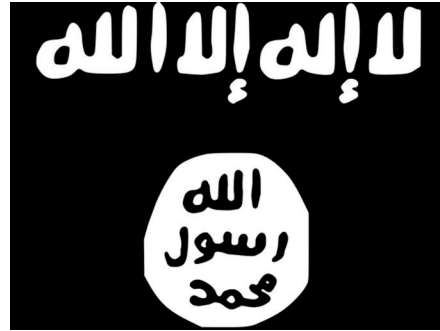
The vast lands that the organization captured during its rapid conquests throughout 2014 and the millions of people subjugated to its cruel rule made up the source of its wealth in its heyday. ISIS controlled oil and gas fields, rich mineral deposits, fertile agricultural lands, factories, weapons and of course millions of people underpinning the organization's finances, primarily through paying the organization taxes and 'protection' fees. Three years ago, precisely at the height of ISIS' military and political power, its annual income stood at around 3 billion dollars. In an unprecedented, comprehensive study published by Forbes Israel, ranking the 10 richest terror organizations in the world, ISIS was rated as the richest terror organization in the world; indeed, the richest in the history of terror.

The basis for its speedy money-making (as with many similar examples in the Middle East) came, unsurprisingly, from one major factor – oil. But this source of quick income soon became ISIS point of weakness. The intensification of the fighting against them and the grueling daily battles on the ground eventually led to the loss of extensive territory, including loss of control over fields of oil, gas, and precious mineral deposits. The organization suffered massive air raids by the coalition forces (attacks deliberately focused on the oil reserves) which added further strain and ultimately brought about the dwindling of profits from the organization's primary source of income. Soon afterwards, what's more, the price of oil collapsed, plunging from 110\$ per barrel at the beginning of 2014, to less than 30\$ per barrel in 2016, further slashing the organization's profits.

Income from oil and gas, which constituted the main source of ISIS' wealth, was not the sole source of capital in its financial system. Taxes, ransom, protection fees and robberies of banks and antiquities became important components of wealth accumulation. As the only governmental authority in villages and towns under its rule, ISIS collected taxes and protection fees from the occupied population. But loss of control of the population it controlled until recently naturally brought about a drop in this source of income.

Apart from the large energy reserves that they controlled and the coercive mechanism for collecting protection, ransom and taxes for their own profit – ISIS also conquered vast agricultural lands, factories, power stations, dams, and other strategic facilities – which added greatly to their power and economic strength. In addition, the organization held vast territory in the 5 most fertile agricultural districts in Iraq that control about 40% of the wheat crop and various types of grain grown in the country, which in total, according to estimates by agricultural experts, amounted to 30% of the local agricultural market under ISIS' control. All of this was lost when the organization withdrew from the large areas that it held.

According to estimates, the deadly terror organization lost over 90% of its income in the last three years alone, from about 2-3 billion dollars in 2014 to only 200 million dollars in 2017. In the coming year, ISIS will return to its original financial standing, and will be supported again primarily by ransom payments, donations, and external aid to finance its guerrilla activities in Syria and Iraq.



## 6. PKK - Kurdistan Workers' Party

TOTAL ANNUAL INCOME:  
\$180 MILLION

According to the US State Department's annual terrorism report, the PKK has many and varied sources of capital and relies heavily on the widespread Kurdish diaspora across Europe for funding its operations. According to estimates, the money flowing into the organization ranges between \$50 to \$100 million annually.

The primary source of PKK's income stems, unsurprisingly and similarly to other terror groups, from the drug trade – namely heroin and cannabis. The United Nations Office on Drugs and Crime (UNODC), has estimated that the organization makes about \$75 million annually from heroin. In the past, British intelligence estimated that the PKK is responsible for 40% of the heroin smuggled into the European Union, with the US Treasury also noting its significance in the global drug industry.

Another important dimension of the PKK's illegal business transactions is human trafficking, as well as pirating of tobacco and cigarettes, according to a special report by a NATO intelligence branch. From the illegal migration from Asian and African countries and smuggling people and illegal substances into European countries, the organization is making millions of dollars each year.

Apart from its criminal money-making activities, the PKK also runs a legitimate and legal network for raising funds and aid money from its many supporters. The PKK's European arm runs hundreds of aid organizations for increasing propaganda and collecting donations and solidarity tax from among the Kurdish community, particularly in Germany. A special report published by Germany's domestic intelligence service (the BfV), has estimated that funds flowing into the organization from donations come to about 30 million dollars annually, about half of which is collected from the Kurdish community in Germany.







## 7. Kata'ib Hizballah

TOTAL ANNUAL INCOME: \$150 MILLION

Practically since its inception, the organization has been heavily funded by its Iranian patron, which makes sure to devote money and resources for the organization's activities. More can be learned from a lawsuit filed against European banks by American veterans and the families of soldiers killed in Iraq. According to the statement submitted against the banking powers, HSBC, Credit Suisse, Barclays, Standard Chartered and the Royal Bank of Scotland channeled money from Tehran to the terror organization in Iraq. These funds allegedly were transferred directly from Iran to Kata'ib Hizballah in order to finance shootings and roadside bombings in which dozens of American soldiers were killed or wounded. The claim explicitly implicates Kata'ib Hizballah as one of the main recipients of those funds which, according to the pleadings, came to over 100 million dollars.

An additional source of income comes from abductions and ransom payments, which in the last year brought huge sums into the Shiite terror organization's account. Kata'ib Hizballah was the organization that headed the plan and execution of the abductions of 26 members of the Qatari royal family while they were on a falcon hunting expedition in December 2015. The dubious release transaction saw the royal family transfer the astronomical sum of a billion dollars to Iran and other terror organizations (which triggered the big boycott against Qatar by Saudi Arabia, United Arab Emirates, Egypt and Bahrain), and the Shiite organization is estimated to have received an especially hefty cut of the spoils. According to the Financial Times which exposed the details of the transaction, suitcases loaded with cash amounting to about 700 million dollars were transferred to Iran and its 'partners' in exchange for the hostages' release.

## 8. Palestinian Islamic Jihad

TOTAL ANNUAL INCOME: \$100 MILLION

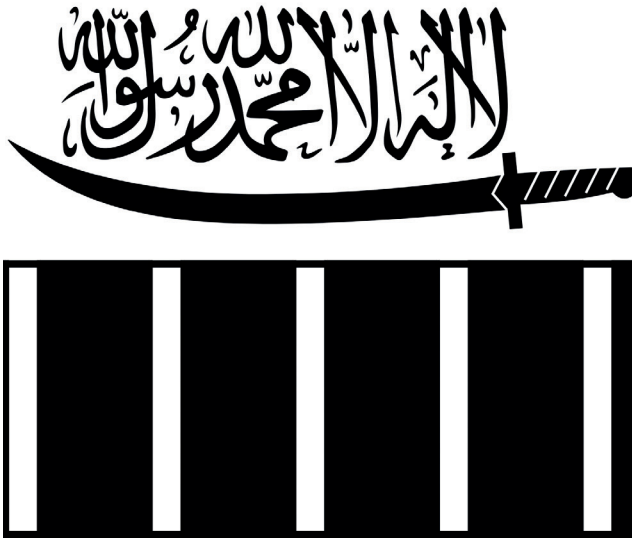
Up to 2 years ago, the Islamic Jihad was facing a severe economic crisis, as one of their senior officials expressed it "the most severe economic crisis in the history of the organization," which was founded in 1979 as a branch of the Egyptian Islamic Brotherhood movement. The Jihadi organization's sources of funding had dried up and its pockets emptied. In a political crisis with their Iranian patron, close ally and nearly exclusive sponsor, the latter threatened to cut the oxygen flow to the Jihadist organization - brought the Islamic Jihad to the brink of bankruptcy and to its lowest point in its many years of activity.

At that time the coalition forces of the region's Sunni states (led by Saudi Arabia, Iran's Sunni rival), began a large-scale military operation against the Houthis in Yemen. While the heads of the Islamic Jihad were determined to remain neutral, the Iranians demanded explicit support for the Shiite Houthis. When expression of support was not forthcoming, Tehran decided on a drastic cut in funding for the organization, which went into a violent tailspin.

Eventually, the Islamic Jihad leaders gave in and surrendered to the dictates of Tehran, including a public "declaration of loyalty". A delegation of senior officials headed by Ramadan Shalah, secretary general of the organization, was dispatched to end the tensions and to consult the Revolutionary Guard. During the meeting, Shalah thanked Qasem Soleimani, commander of the Quds force (the elite unit of the Revolutionary Guard), for the 'exclusive' support of the Palestinian intifada. In what was described as a sweeping declaration of loyalty by the Islamic Jihad to Iran and unconditional acceptance of its demands, the organization's secretary general criticized the 'other Arab states' that did not support the Palestinian uprising and declared that "Iran is the only country that supports the intifada and the families of the martyrs."

Unsurprisingly, the reward soon followed. Soon after the meeting, the heads of the organization received an offer of reconciliation in the form of tens of millions of dollars. It is estimated that Islamic Jihad receives support from Iran of about \$70 million a year and that Iran alone is responsible for supplying nearly 75% of the Palestinian terror organization's entire budget.





## 9. Lashkar-e-Taiba

TOTAL ANNUAL INCOME: \$75 MILLION

According to the US State Department, the Lashkar-e-Taiba organization relies heavily on the Pakistani diaspora (with most capital flowing in from communities based in the Gulf States and Britain), and aid funding from business people, Kashmiri tycoons and Indian mafia. Additionally, many millions are funneled into funds and charities that operate under the organization's aid arm, which they use to garner support and sympathy from among the local population.

Lashkar-e-Taiba maintains training camps for its fighters, along with schools, daycare centers, welfare institutions and clinics all over Pakistan and is active in Afghanistan as well. Most of the fundraising to the charity and welfare funds (in which, as usual, nobody knows where the line lies between funding charity and terror) is done publicly, through extensive publicity campaigns in the Pakistani media. In addition, according to some estimates, the Pakistani terror organization continues to receive generous financial support from Pakistani officials.

## 10. The Real IRA

TOTAL ANNUAL INCOME: \$50 MILLION

Despite the efforts of customs authorities and security forces, the organization's leaders have refined their fundraising abilities and manage to pocket tens of millions of dollars per year, mostly through a sophisticated global network that smuggles and sells cigarettes and tobacco. The tobacco smuggling industry in Britain has been thriving in recent years, bringing in huge sums of money.

A special report produced by the international accounting firm KPMG suggests that the illegal cigarette trade on the black market in Britain is among the largest in Europe. In 2016, approximately 5.55 billion cigarettes were sold illegally – with a black-market value of around \$1.1 billion annually. In a special investigation done by the Sun, senior government officials declared that IRA members (including the Provisional IRA) are responsible for about 40% of the illegal tobacco market in Britain, and with the profits generated by this industry annually, tens of millions of dollars in royalties go directly to the RIRA.

The crime and terror organization recently got an unexpected boost from parliament – thanks to the same law that forbids the branding of packets of cigarettes and rolling tobacco. According to experts, the passing of the law significantly simplified the forgery work required of those profiting from black market tobacco and is expected to channel tens of millions of dollars more their way with a hefty portion expected to go to the RIRA.

Apart from illegal trade in tobacco, the radical Irish organization also enjoys significant royalties from its pirate network of falsified alcohol and fuel products as well as protection fees that it collects – especially in those areas under its influence, in which police enforcement is low.

An additional source of capital for the Real IRA, according to the US State Department Report on Global Terror, comes from supporters in the large Irish community in the USA. The underground Irish organization knows well how to exploit this wealthy target audience, and raises funds based on the support of Irish-American activists who oppose the peace agreement.

Real I.R.A.  
(Oglagh nA hEireann)





# GEORGIA'S LEADING TV BUSINESS PROGRAMS

**TV პირველი**

**SPEND WEEKDAYS WITH:**

**ანალიტიკა**



**ქალების  
ნარატივი**



**ANALITIKA**

**15:00-16:00 PM**

**22:30-23:00 PM**

(every friday)

**SAKMIS KURSI**

(BUSINESS COURSE)

**15:00-16:00 PM**

**22:30-23:00 PM**

**QALEBIS NARATIVI**

(WOMEN'S NARATIVE)

**11:00-12:00 PM**

**SAKMIANI DILA**

(BUSINESS MORNING)

**07:55-11:00 AM**

[WWW.BM.GE](http://WWW.BM.GE)

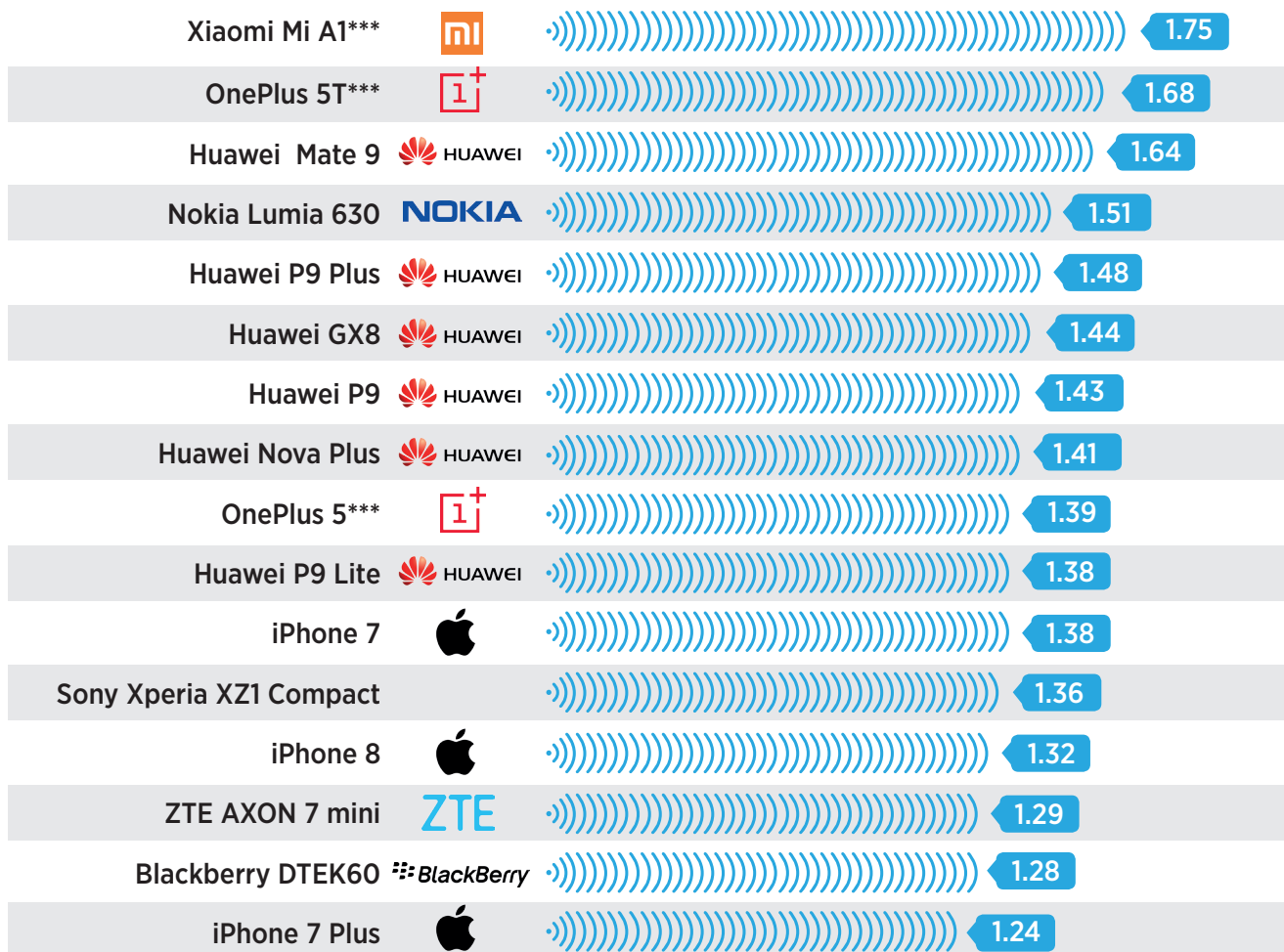
# Which Smartphones Emit The Most Radiation?

“Specific Absorption Rate” of smartphones that emit the most radiation\* (in watts per kilogram\*\*)

TODAY, PEOPLE ARE NEVER FAR from their smartphones, whether it's in their hand during their commute, lying in their pocket at work, pressed to their ear to make a call or resting on their bedside table at night. Questions have been raised about whether our close proximity to smartphones might be damaging our health. While there is no conclusive scientific research yet on the impact of cellphone radiation, people who want to weigh up the possible risks should take a glance at the following infographic.

It lists the smartphones that emit the most radiation while the device is held to the ear during a call. The data comes from the German Federal Office for Radiation Protection (Bundesamt für Strahlenschutz) which maintains a comprehensive database of smartphones and the level of radiation they emit. Even though there is no universal guideline for a level of emission deemed harmful, the German certificate for environmental friendliness known as the Blue Angel (Der Blaue Engel) only certifies phones with a specific absorption rate of less than 0.60 watts per kilogram.

Currently the smartphone with the highest levels of radiation is the Mi A1 from Chinese company Xiaomi. By and large, most of the worst offenders for emissions are Chinese models, with 10 out of the top 16 smartphones on the list produced by Chinese manufacturers such as Xiaomi, Huawei, OnePlus and ZTE. Well known American smartphones do appear on the list as well, however, with three versions of the iPhone present.



\* Current models (as of December 2017) from the following vendors: Apple, Blackberry, Google, HTC, Huawei, LG, Motorola, Nokia, OnePlus, Samsung, Sony, Xiaomi, ZTE

\*\* While calling with phone placed on ear

\*\*\* Dual SIM devices

Source: German Federal Office for Radiation Protection; StatistaCharts