

PLACE YOUR BETS: HOW GEORGIA IS BECOMING A BOOMING GAMBLING DESTINATION

ENGLISH ISSUE

Forbes

GEORGIA

A close-up portrait of Peter Jackson, a man with short brown hair and blue eyes, smiling broadly. He is wearing a dark maroon blazer over a light blue button-down shirt. The background is a dark, neutral color.

POWER PLAYER

PETER JACKSON, THE CEO OF PADDY POWER BETFAIR ON ACQUISITION
A CONTROLLING STAKE IN ADJARABET, TOTALLING 116 MILLION EUROS,
AND MAKING THE COMPANY THE LARGEST INVESTOR IN GEORGIA

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WIN-WIN BET

EBIDTA: 75 MILLION. PROFIT MULTIPLIER: 9 - ADJARABET CLOSSES THE DEAL OF THE YEAR WITH PADDY POWER BETFAIR BRINGING 116 MILLION EUROS TO GEORGIA



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CAN FLY!**

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Cover photos By
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22:30-23:00 PM
(every friday)

SAKMIS KURSI

(BUSINESS COURSE)

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(WOMEN'S NARRATIVE)

11:00-12:00 PM

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Georgia in 2018 Rankings

WE PRESENT TO YOU GEORGIA'S 2018 POSITIONS in the ten most significant international indexes related to economic development. Some of these are economic indexes, while others present corruption, democracy and media freedom levels of individual countries. High levels of democracy and media freedom are an important prerequisite for a country's stability and long-term economic development.

The current level of globalization means that countries only have formal economic borders. International business and capital no longer have any borders - it moves wherever there are better conditions for success. Countries therefore compete with each other to offer potential investors the most favorable conditions. International indexes serve to compare countries based on the economic conditions on offer, but they are also a useful tool for evaluating a government's effectiveness.






BY BESO NAMCHAVADZE

Rank	Country	Overall
14	 Luxembourg	76.4
15	 Sweden	76.3
16	 Georgia	76.2
17	 Netherlands	76.2
18	 United States	75.7

1. Georgia in the Heritage Foundation's Index of Economic Freedom

▼-3

The Heritage Foundation's index measures a country's economic freedom by the rule of law, government size, regulatory effectiveness and open markets. In 2017, Georgia was ranked 13th in this index, but has since fallen to 16th (among 180 countries) in 2018. The ranking is topped by Hong Kong.






Rank	Country	Overall
5	 Ireland	8.07
6	 USA	8.03
7	 Georgia	8.02
8	 Mauritius	8.01
9	 United Kingdom	8.00




2. Georgia in the Fraser Institute's Economic Freedom of the World Index ▲+1

The Fraser Institute measures a country's economic freedom by government size, regulation, free international trade, price stability, rule of law and property protection. In 2017, Georgia was ranked 8th in this index, and has moved up to 7th (among 162 countries) in 2018. The ranking is topped by Hong Kong.

3. Georgia in the Doing Business Index ▲+3

The Doing Business Index is published by the World Bank. Countries are assessed based on 10 criteria, such as starting a business, paying taxes, getting credit, registering property, and so on. In 2017, Georgia was ranked 9th in this index, and has since moved up to 6th in the rankings (among 190 countries) in 2018. The ranking is topped by Hong Kong.

Rank	Economy	EODB Score
4	 Hong Kong SAR, China	84.22
5	 South Korea	84.14
6	 Georgia	83.28
7	 Norway	82.95
8	 United States	82.75

Rank	Economy	Score
4	 Panama	61.0
5	 Serbia	60.9
6	 Georgia	60.9
7	 South Africa	60.8
8	 Croatia	60.1

4. Georgia in the Global Competitiveness Index ▲+1





The Global Competitiveness Index is published by the World Economic Forum. Countries are assessed based on 114 different criteria that are mostly determined on the basis of entrepreneur surveys. In 2017, Georgia was ranked 67th in this index, and has moved up to 66th (among 140 countries) in 2018. The ranking is topped by the United States.

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5. Georgia in the International Property Rights Index

▲+14

The International Property Rights Index is published by the US-based Property Rights Alliance. Property protection is measured by the rule of law, as well as protection of physical and intellectual property rights. In 2017, Georgia was ranked 88th in this index, and has moved up to 74th (among 125 countries) in 2018. The ranking is topped by Finland.

Rank	Country	Score
72	 Mexico	5.17
73	 Croatia	5.17
74	 Georgia	5.14
75	 Tunisia	5.10
76	 Vietnam	5.08

7. Georgia in the Corruption Perceptions Index

▼-2






The Corruption Perceptions Index is published by the Germany-based Transparency International. It is based on more than ten different studies. In 2017, Georgia was ranked 44th in this index, and has moved down to 46th (among 180 countries) in 2018. The ranking is topped by New Zealand.



Rank	Country	Score
16	 Latvia	81.0
17	 Mauritius	80.1
18	 Georgia	79.5
19	 Finland	79.4
20	 Slovakia	79.1

6. Georgia in the KOF Globalisation Index

▲+1

The Globalisation Index is published by the Swiss Economic Institute (ETH). Degree of globalisation is measured by international trade, movement of foreign capital and migration. More globalisation means more development potential. In 2017, Georgia was ranked 19th in this index, and has moved up to 18th (among 178 countries) in 2018. The ranking is topped by Singapore.

Rank	Country	Score
42	 Dominica	57
42	 Spain	57
46	 Georgia	56
46	 Malta	56
48	 Cape Verde	55

Rank		Country	Score
77		Albania	5.98
78		Moldova	5.94
79		Georgia	5.93
80		Guatemala	5.86
81		Fiji	5.85

8. Georgia in the EIU Democracy Index ▼-1



The EIU Democracy Index is published by the influential British magazine The Economist. Democracy levels are measured by electoral process and pluralism, functioning of the government, political participation and political culture. In 2017, Georgia was ranked 78th in this index, and has moved down to 79th (among 167 countries) in 2018. With a score of 5.93, Georgia belongs to the hybrid regime category. The ranking is topped by Norway.

9. Georgia in the Reporters Without Borders' World Press Freedom Index

▲+3

Reporters Without Borders compiles the World Press Freedom Index based on surveys of expert assessment. In 2017, Georgia was ranked 64th, and has moved up to 61st (among 180 countries) in 2018. Georgia's score improved by 0.4 points. The ranking is topped by Norway.

Rank		Country	Score
59		Dominica	26.79
60		Haiti	26.82
61		Georgia	27.34
62		Bosnia-Herzegovina	27.37
63		Niger	27.40

Rank		Country	Score
59		Serbia	26.79
60		Seychelles	26.82
61		Georgia	27.34
62		Albania	27.37
63		Bosnia-Herzegovina	27.40

10. Georgia in the Freedom House's Freedom of the Press Index

▼-2

Freedom House compiles the Freedom of the Press Index based on surveys of expert and researcher assessment. In 2017, Georgia was ranked 100th in this index, and has moved down to 102nd (among 199 countries) in 2018. The ranking is topped by Norway.

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The 10 Most Significant Business Events of the Year

Whether or not 2018 was a successful year for business, is up to each company or entrepreneur to evaluate for themselves. Nevertheless, Forbes has decided to present some of the most significant events that took place in the business world last year, which may have had an impact on individual firms, as well as on the market as a whole.

BY NINO KVINTRADZE



1. Silknet purchases Geocell

Since Geocell's largest shareholder, the Swedish-Finnish firm TeliaSonera announced its intention to leave the Eurasian market several years ago, it has been known that one of Georgia's leading mobile phone operators would be changing ownership. Talks between Silknet, Telia Company and Turkcell were concluded at the start of 2018, and resulted in one of the largest business deals in Georgia's history. Silknet paid \$153 million to add Geocell to its portfolio, which already included internet, cable television and landline telephone services.



2. BGEO demerger

After 10 years of activity, one of Georgia's largest investment groups demerged into two independent companies in late spring of 2018. Bank of Georgia Group PLC and Georgia Capital PLC will continue pursuing business in banking and investment areas, respectively. Both companies have been listed in the premium segment at the London Stock Exchange, and their shares have been traded independently over the last several months.



3. TBC acquires a stake in an Azerbaijani bank

In the summer of 2018, TBC Bank announced its purchase of a stake in Nikoil Bank of Azerbaijan. TBC's Azerbaijani subsidiary, TBC Kredit, currently owns 10% of Nikoil, and plans to acquire additional shares to reach a 50% +1 share interest within three years.



4. Georgia Capital becomes 100% owner of Kindzmarauli Marani

In the spring of 2018, Georgia Capital PLC acquired a 60.5% stake in Kindzmarauli Marani for \$7.2 million. Several months later it purchased the remaining 39.5% to become 100% owner of the company. Kindzmarauli Marani's vineyards cover a 350 ha area in the Kakheti region, while Georgia Capital was already involved in wine business in the form of Teliani Valley, where it commands a 47.9% stake.



5. CBS Group becomes owner of KazTransGaz Tbilisi

The company Waltbay Ltd., which is part of the Georgia-based CBS Group, became 100% owner of KazTransGaz Tbilisi Ltd.. Releasing KazTransGas Tbilisi from its state obligations and giving Waltbay Ltd. the right to demand a payment of more than €347 million borrowed from the Kazakh creditors was the prerequisite of the KazTransGas Tbilisi purchase offer made by Waltbay Ltd.



6. International Bank of Azerbaijan leaves Georgia

The International Bank of Azerbaijan has operated in Georgia since 2007 under the International Bank of Azerbaijan - Georgia name, but announced its intention to leave the Georgian and Russian markets two years ago. The withdrawal process was completed in 2018, and the company's banking license was terminated in the summer. The government of Azerbaijan is the controlling shareholder of the International Bank of Azerbaijan.



7. Euroins Group becomes owner of IC Group

The insurance firm IC Group was acquired by the Euroins Group, one of Eastern Europe's largest insurance companies, and will continue operating on the Georgian market under the Euroins Georgia name. The Euroins Group is a Bulgarian insurance firm which operates in 8 countries and owns subsidiaries in Bulgaria, Romania, Macedonia and Ukraine.



8. TBC Group acquires Swoop.ge

TBC announced its plans to purchase Swoop.ge and develop its e-commerce operations at the end of last year. More specifically, TBC will use Swoop as a base for its new digital trade platform Vendoo, which will allow consumers to purchase products from the comfort of their home.



9. Nikora Trade issues bonds of €25 million

The supermarket chain Nikora Trade has issued bonds of €25 million. These are the first public bonds issued by the company in the national currency. TBC Bank's subsidiary brokerage company TBC Capital ensured the issuance of the bonds. This is the largest transaction of its kind in 2018 in the Georgian corporate public bond segment.



10. Oil companies have large debts written off

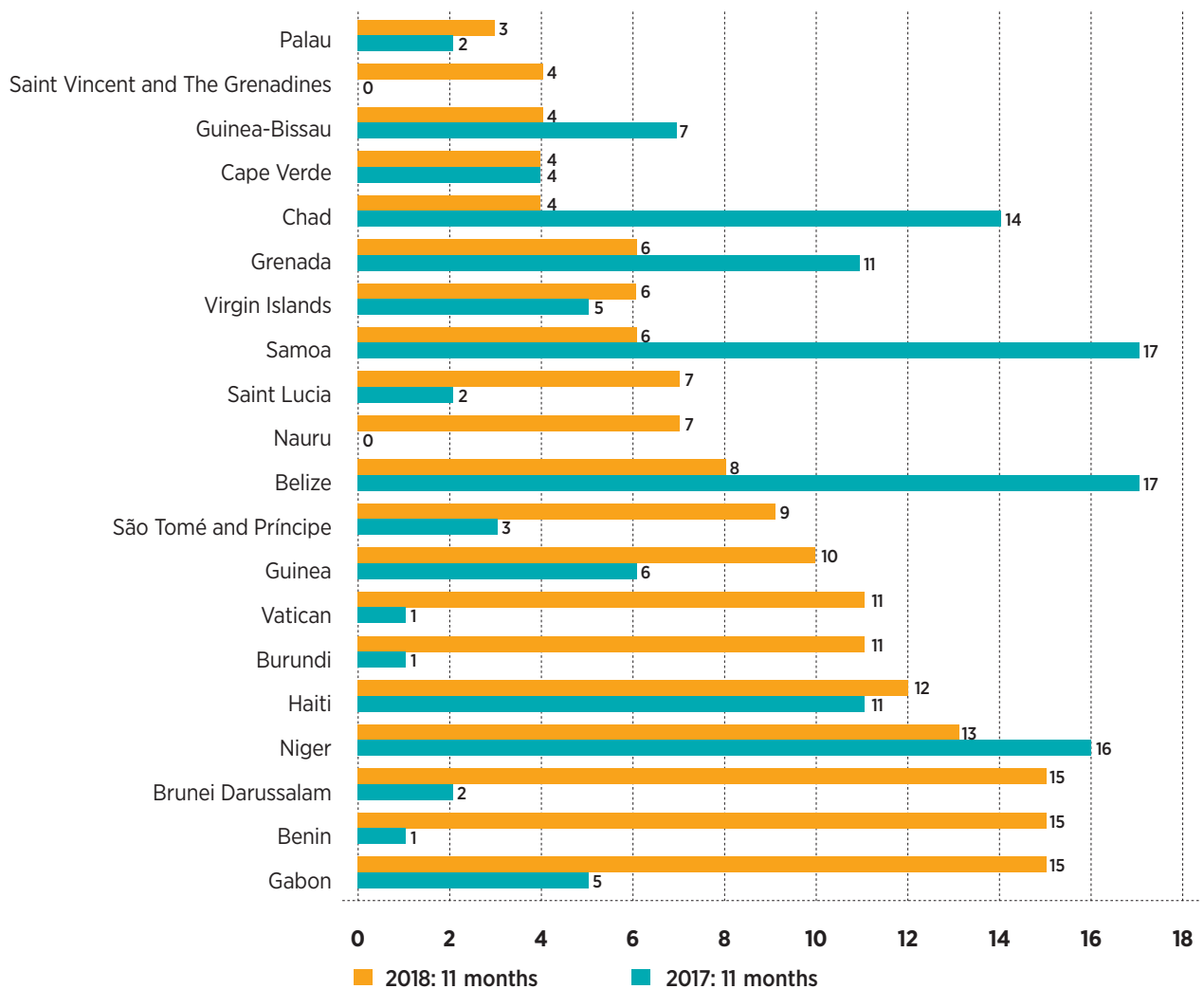
The Competition Agency of Georgia, having carried out a new market study, decided to void the €55 million fine imposed on Georgian oil companies for violating the Law on Competition, and reduced it to €3 million. The companies in question have already paid most of the fine into the state budget.

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A Little about Little

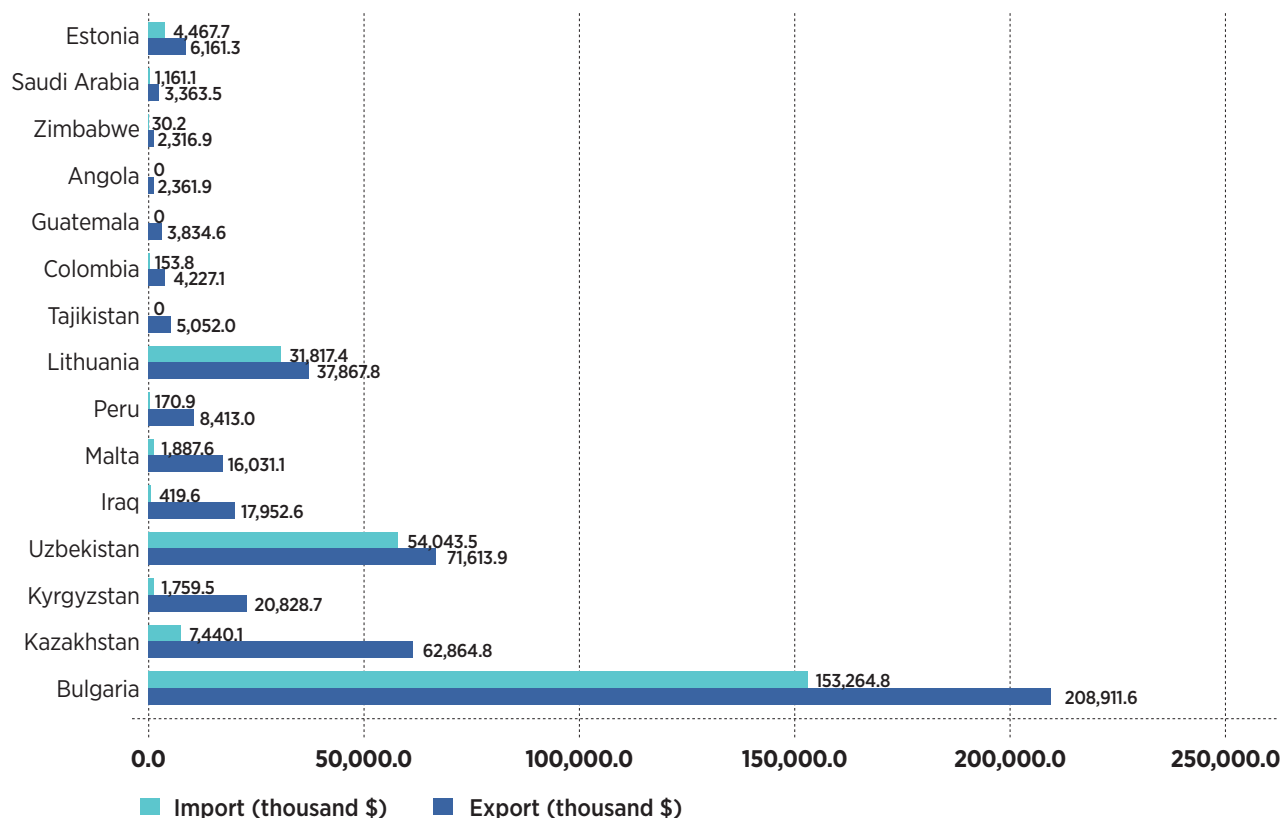
Countries that do not send travellers to Georgia

THE NUMBER OF INTERNATIONAL VISITORS IN GEORGIA continues to grow each year. During the first 11 months of 2018, the number of tourists increased by 17.2% and visitors by 10.6%. And while the overall number of visitors to Georgia exceeded 8.1 million, over half of them (4.5 million) were tourists. Most visitors to Georgia come from neighboring countries - from Armenia, Azerbaijan, Turkey and Russia. On this occasion, however, we decided to focus on countries whose nationals rarely travel to Georgia. There are 4 countries that accounted for one visitor each during the period in question. These are French Guiana, Vanuatu, Papua New Guinea and the Solomon Islands.



COUNTRIES WHERE WE SELL MORE GOODS THAN WE BUY

The trade deficit is one of the main challenges facing the Georgian economy. However, there are a few countries with which Georgia has a positive trade balance with, meaning that we sell them more than we buy from them. The list only includes four European Union members. Georgia's economic ties to the majority of the other countries on the list are minimal, and so is the volume of export. Nevertheless, we thought that you might be interested to know what our exporters and re-exporters are selling in Zimbabwe, Iraq and Angola.



Country	thousand \$	Main Export Products
Peru	4,265.2	Fish oils, fats and their fractions
Bulgaria	192,612.30	Copper ores and concentrates
Iraq	2,551.5	Livestock (live)
Malta	15,650.4	Oil and oil products
Uzbekistan	40,108.2	Medicines
Kyrgyzstan	9,673.9	Medicines
Tajikistan	1,768.9	Medicines
Lithuania	15,328.8	Mineral or chemical (nitrogen) fertilizers
Guatemala	3,834.6	Mineral or chemical (nitrogen) fertilizers
Zimbabwe	2,286.9	Mineral or chemical (nitrogen) fertilizers
Estonia	2,645.0	Mineral or chemical (nitrogen) fertilizers
Kazakhstan	23,760.7	Cigars, cigarillos and cigarettes
Colombia	3,886.9	Ferrous alloys
Angola	2,361.9	Wheat and rye flour
Saudi Arabia	469.8	Sheep and goats (live)

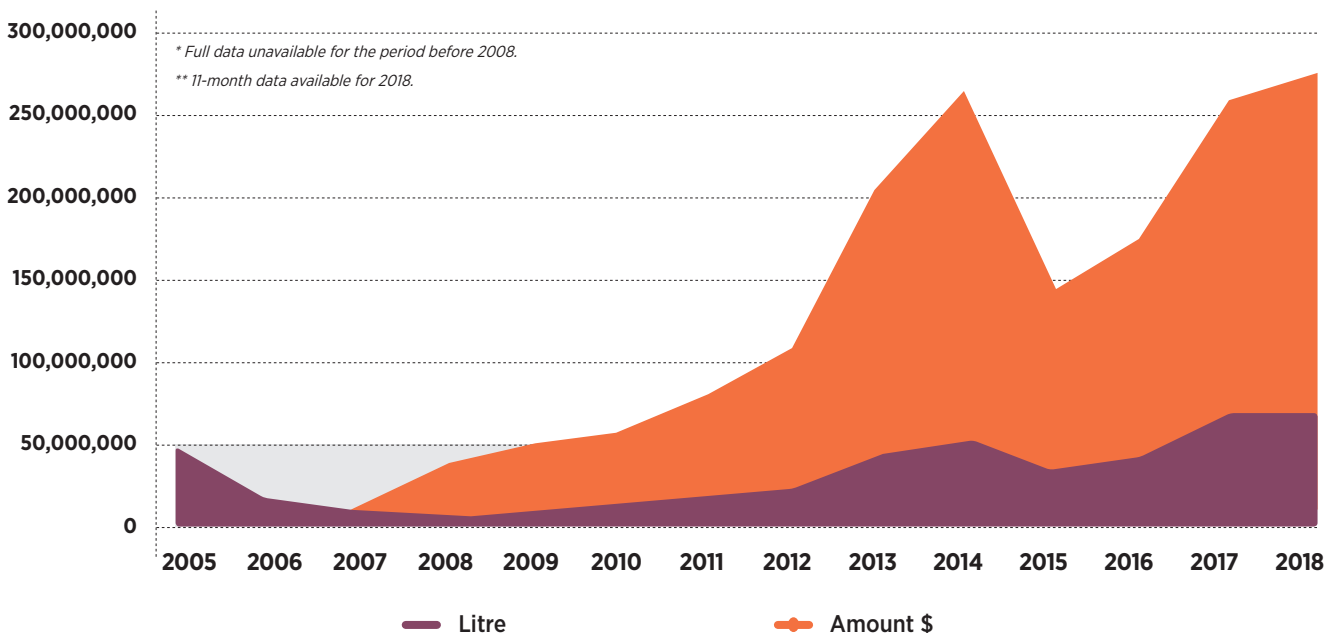
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Countries with Expensive Wine

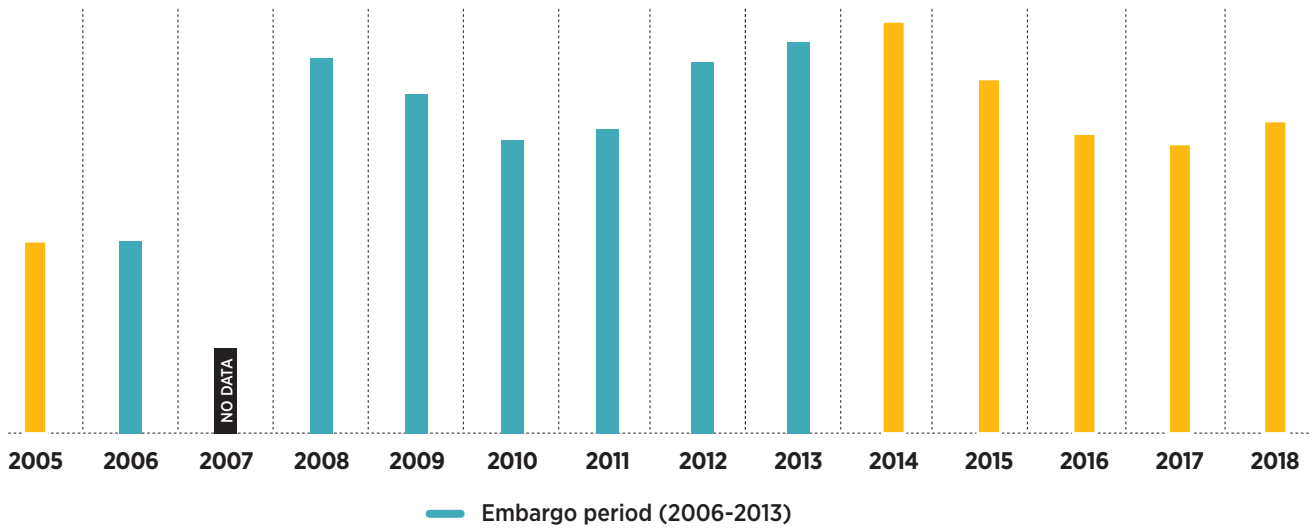
According to the American Association of Wine Economists (AAWE), in 2014-2016 Georgia was ranked 5th in the world with regard to the average price per litre of its wine exports. France topped the rankings published by the prestigious American organization. The average price of exported wine varies by export market. The Georgian National Wine Agency figures differ slightly from the AAWE data.

2017 was a record year for Georgian wine exports in terms of quantity. However, export revenues reached their peak in 2014 - a year after the lifting of the Russian embargo. Up until the start of the embargo in 2006, Russia was the only major export market for Georgian wine. Following the embargo, Georgian manufacturers began diversifying its export markets. The Russian embargo also led to a significant increase in the quality of the Georgian wine, as the average export price soon almost doubled. Although the number of export markets grew and surpassed the 55 mark, Russia remains the largest importer of Georgian wine (61% of the total export for the first 11 months of 2018), as a result of which, the aforementioned growth has not been accompanied by an increase in the average price of exports.

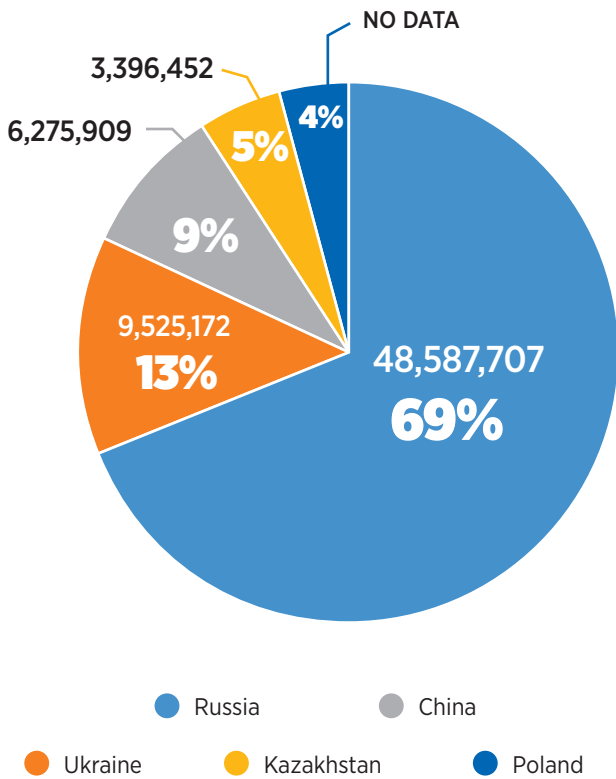
Average export price of Georgian wine



Average export price per litre

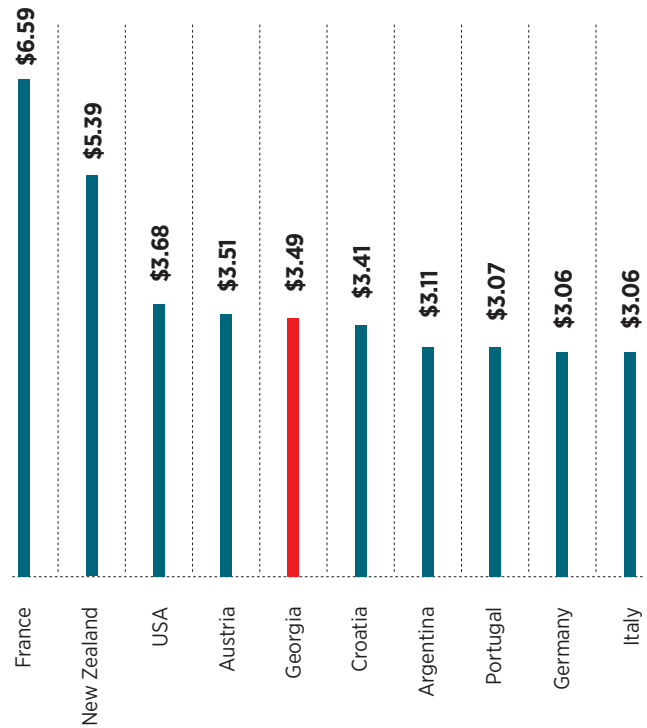


Top five export countries*



*11-month data for the number of bottles (0.75 l) exported in 2018.

Average global export price of wine per litre*



*2014-2016
Source: AAWE

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Top 10 Budgetary Funds Wastes

The embezzlement, misuse and waste of budgetary funds by public authorities in Georgia is not an infrequent occurrence. Such episodes are often so comical in nature that they become the main talking points in both the real world and within social media.

A multitude of suspicions and question marks regarding the use of budgetary funds by public officials has led us to compile a list of the 10 most prominent examples of wastefulness and embezzlement of public funds. We were aided in this exercise by the media project Money Waste Detector, which monitors the lawfulness of the spending of budgetary funds and presents the results in the form of small weekly studies. The list below was compiled based on the following criteria - the amount involved, corruption risk and wasteful spending.

BY ZAZA ABASHIDZE

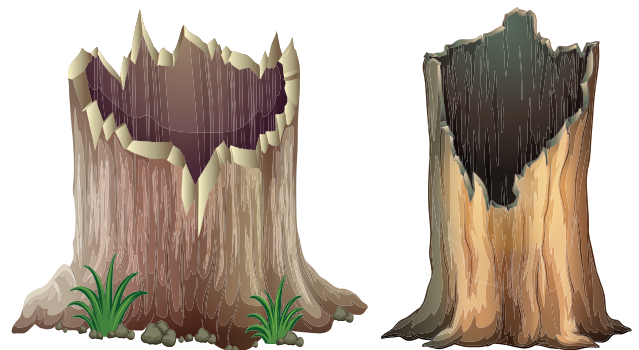
10. Tbilisi City Hall's Potholes - ₾26 227

The amount wasted in this case is relatively small, but this case certainly deserves our attention. David Narmania's 'greening programme' created a seemingly endless number of potholes across the city - 19,000 more than was needed. Were they looking for buried treasure?



9. Ganmukhuri Botanical Garden - ₾325 000

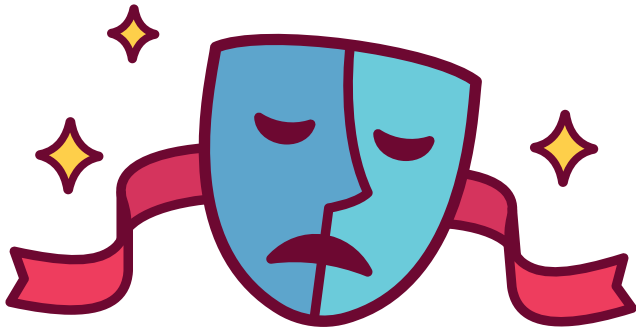
Bidzina Ivanishvili promised to build a botanical garden in Ganmukhuri. He later changed his mind, but not before the Ganmukhuri Botanical Garden entity was established by the Zugdidi City Hall and funded with public money to the tune of ₾325,000.



8. Varketili Metro Station Renovations -

₾347 852

Tbilisi City Hall awarded the formerly black-listed and woefully inexperienced Kvarelremsheni firm the contract to carry out renovations and repair work on Varketili metro station. The ceiling at the newly renovated station soon collapsed, and it was only by good fortune that fatalities were avoided.



7. Kharagauli Ampitheatre -

₾449 999

During the period leading up to the 2016 parliamentary election, the Chief Councillor of Kharagauli, Koba Lursmanashvili allocated a sum of ₾449,999 from the regional budget for the renovation of the amphitheatre. As of today, the money has been spent, while the building lies abandoned and in danger of collapsing.

6. Saakadze Square -

₾517 300

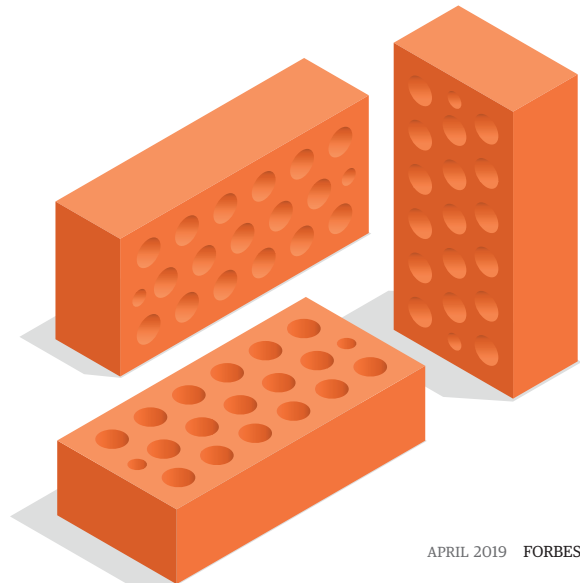
Tbilisi City Hall has spent more than half a million Lari on the Saakadze Square project, which was initially designed to relieve traffic congestion. However, the entire layout of the square and the surrounding traffic lanes were later altered, meaning that much of the aforementioned sum was spent without purpose.



5. Chiatura Council -

₾744 100

In 2016-2017, the Chiatura Council purchased construction materials worth in excess of ₾744,100. Having failed to use these materials purposefully, the council placed them into storage. As time goes by, the condition of the materials is deteriorating and they are losing their functionality.

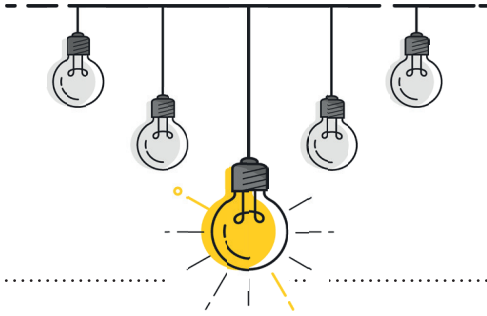


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4. Bolnisi Lighting Project - ₾1 000 000

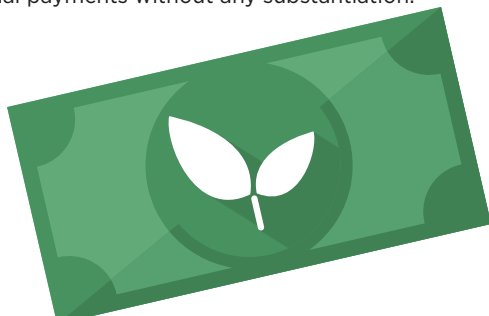
According to the Money Waste Detector researchers, this case requires particular attention, as there is evidence of blatantly corrupt processes taking place. The company owned by the son-in-law of the Mayor of Bolnisi, Davit Sherazadishvili, has been withdrawing more and more funds from the city's budget each year for the same project, the scale of which has not changed throughout this period.

Since the appointment of Mr. Sherazadishvili, his son-in-law's company has won 25 tenders – 18 of them without competition. In each case, the projects were commissioned by the Municipality of Bolnisi. It should be pointed out that Mr. Sherazadishvili also chairs the tendering committee – the body which has allocated large sums of money from the budget to his son-in-law.



2. Additional Payments at the Ministry of Agriculture - ₾8 800 000

In 2017, the Ministry of Environmental Protection and Agriculture issued additional payments worth nearly ₾9 million without justification. The ministry spent ₾53.5 million on salaries, and a further 17% of the sum on other payments. These are usually overtime payments for work carried out outside working hours (including night shifts and weekends), or remuneration for highly responsible work. The Ministry of Environmental Protection and Agriculture issued these additional payments without any substantiation.



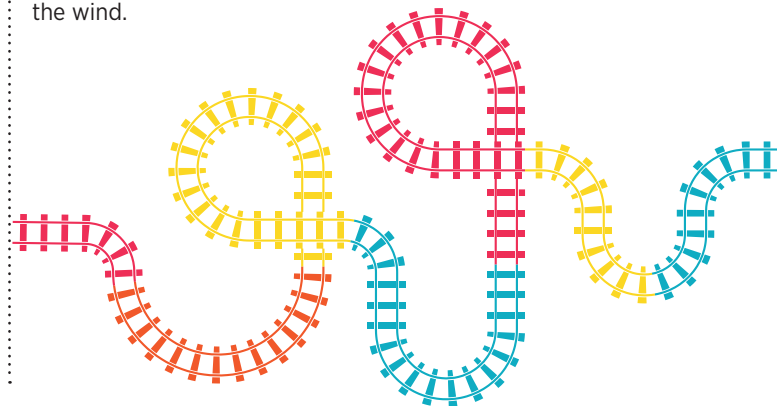
3. Tbilisoba 2018 - ₾1 200 000

The case here is simple: at a time when the population of Tbilisi is lacking numerous social services, City Hall is dumping ₾1.2 million into an event which was created during the Soviet period.



1. Railway Bypass - ₾213 000 000

The railway bypass project remains a contentious topic to this day – many believe that the project was justified, while others were critical of it from the start. The fact remains that the project was halted in 2013, having already cost in excess of ₾200 million. These funds have effectively blown away in the wind.





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Happy Nations

Top 10 countries by wealth increase in 2018

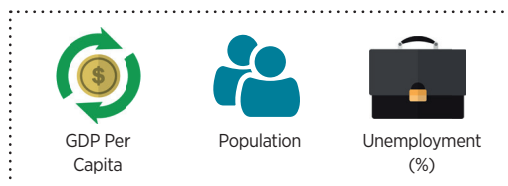
BY BESO NAMCHAVADZE

LAST YEAR FORBES PRESENTED the list of countries that registered the largest increase in wealth in 2017. Below are the 10 countries that acquired the most national wealth in 2018. As a rule, rich countries account for the largest GDP increases. Although the economy of a high-income country does not normally register a high percentage of economic growth, the high-income base effect, coupled with population decline (or slow increase) accounts for a more substantial increase in real per capita income compared to a developing country.



10. Netherlands

In 2018, the average per capita income in the Netherlands **increased by 2,638 PPP dollars**, on the back of 2.8% economic growth and low inflation (1.5%). Economic growth rate was aided by a general improvement in the EU economy. The Netherlands had a per capita GDP of 56,571 PPP dollars in 2018, which places the country at 13th place in the world.



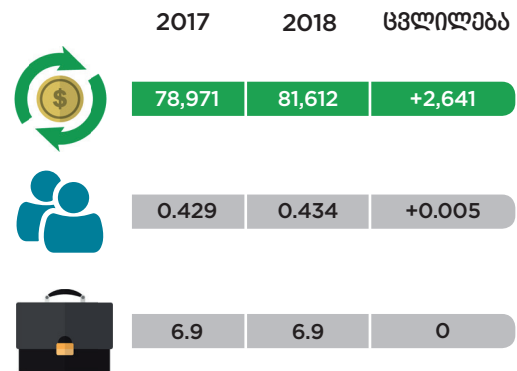
	2017	2018	CHANGE
	53,933	56,571	+2,638
	17.14	17.19	+0.05
	4.9	3.9	-1.0

METHODOLOGY:

An increase in a country's national wealth is conditioned by average per capita GDP growth over the course of the year. Various indicators are used to measure per capita income, and each of them has a different scope. For a better comparison of living standards between different countries, it is best to look at per capita GDP adjusted for purchasing power parity (PPP). This method accounts for differences in the cost of living and the inflation rates of the countries. 1 PPP dollar has an equal purchasing power in every country. GDP growth expressed in PPP dollars is conditioned by a country's economic growth and low inflation rate.

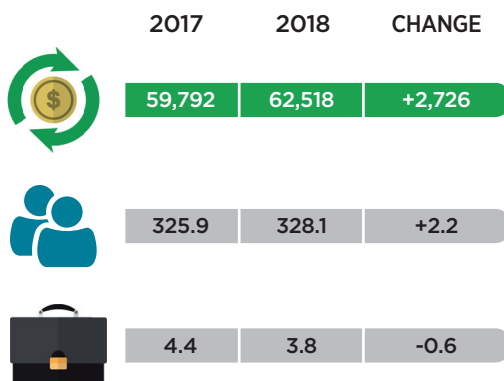
9. Brunei

In 2018, the average per capita income in Brunei **increased by 2,641 PPP dollars**, on the back of 2.3% economic growth and low inflation (0.5%). Brunei is a small oil-rich nation that receives \$2.5 billion in annual revenue from oil sales. Brunei had a per capita GDP of 81,612 PPP dollars in 2018, which puts the country in 4th place in the world.



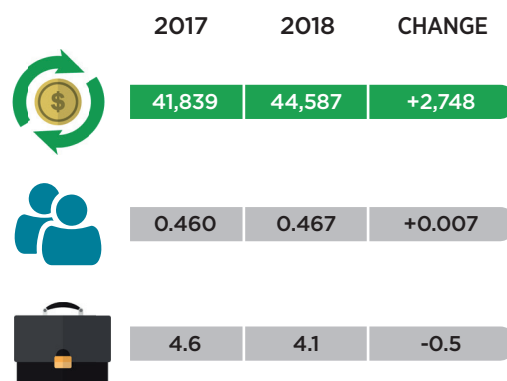
8. United States of America

In 2018, the average per capita income in the United States **increased by 2,726 PPP dollars**, on the back of 2.9% economic growth. The US has a 21 trillion PPP dollar economy, which is second only to China. Notably, unemployment fell to a 50-year low of 3.8%. The United States had a per capita GDP of 62,518 PPP dollars in 2018, which places the country at 11th place in the world.



7. Malta

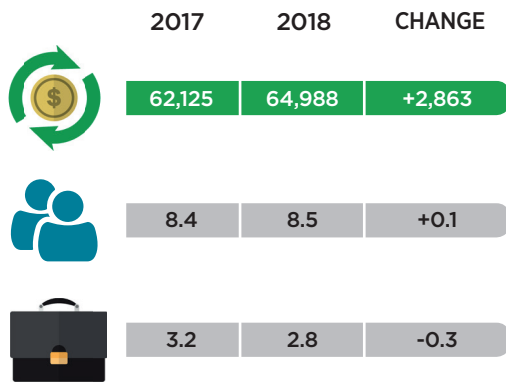
In 2018, the average per capita income in Malta **increased by 2,748 PPP dollars**, on the back of 5.7% economic growth. Malta registered the highest economic growth among developed countries in 2018. It has a population of about 475,000. Malta had a per capita GDP of 44,587 PPP dollars in 2018, which puts the country into 29th place in the world.



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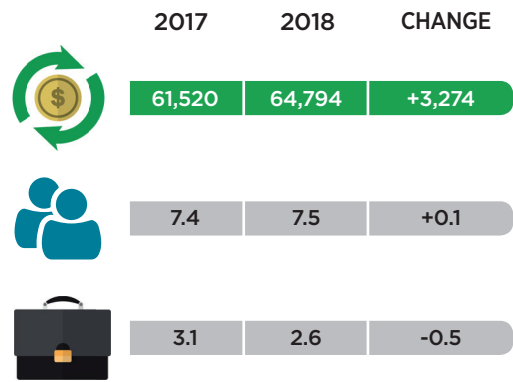
6. Switzerland

In 2018, the average per capita income in Switzerland **increased by 2,863 PPP dollars**, on the back of 3% economic growth and low inflation (1.4%). Although Switzerland is smaller than Georgia in area, it has a 551 billion PPP dollar economy, which is the 38th largest in the world. Switzerland had a per capita GDP of 64,988 PPP dollars in 2018, which places the country at 9th place in the world.



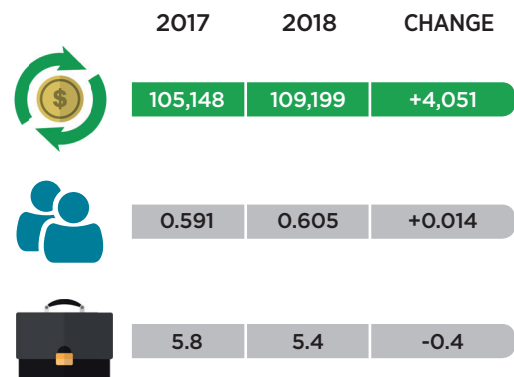
5. Hong Kong

In 2018, the average per capita income in Hong Kong **increased by 3,274 PPP dollars**, on the back of 3.8% economic growth. Its high economic growth rate was aided by faster growth of the global economy, as it is one of the world's largest financial centers directly affected by global events. Hong Kong had a per capita GDP of 64,794 PPP dollars in 2018, which puts the country at 10th place in the world.



4. Luxembourg

In 2018, the average per capita income in Luxembourg **increased by 4,051 PPP** on the back of 4% economic growth and low inflation (0.7%). Luxembourg is an important financial center that has a 66 billion PPP dollar economy and a population of 600,000. Luxembourg had a per capita GDP of 109,199 PPP dollars in 2018, which puts the country into 2nd place in the world.



GDP Per Capita




Population

Unemployment (%)

3. Singapore

The economy of Singapore grew by 2.9% in 2018, while the inflation rate was approximately 2%. Per capita GDP **grew by 4,151 PPP dollars**. Like Hong Kong and Luxembourg, Singapore is also a major financial center and a city-state. Singapore has one of the world's lowest unemployment rates (2%). Singapore had a per capita GDP of 98,255 PPP dollars in 2018, which puts the country into 3rd place in the world.






	2017	2018	CHANGE
	94,105	98,255	+4,151
	5.6	5.7	+0.05
	2.2	2.0	-0.2

2. Qatar

The economy of Qatar grew by 2.7% in 2018, while the inflation rate was approximately 0.6%. Per capita GDP **grew by 4,366 PPP dollars**. Qatar is an oil-rich country that has a population of 2.8 million and virtually no unemployment. Qatar had a per capita GDP of 128,587 PPP dollars in 2018, which makes it the world's wealthiest country.






	2017	2018	CHANGE
	124,121	128,487	+4,366
	2.7	2.8	+0.04
	0.1	0.1	0

1. Ireland

The Irish economy grew by 4.7% in 2018, while the inflation rate was approximately 1.7%. Per capita GDP **grew by 4,455 PPP dollars**, which is the best result in 2018. Thus, Ireland's GDP growth for one year exceeds the total per capita GDP of 50 countries. Ireland had a per capita GDP of 77,670 PPP dollars in 2018, which puts the country into 5th place in the world.



	2017	2018	CHANGE
	73,215	77,670	+4,455
	4.8	4.9	+0.05
	6.7	5.3	-1.5

LeaderBoard

What You Can Really Expect from the New Pension System

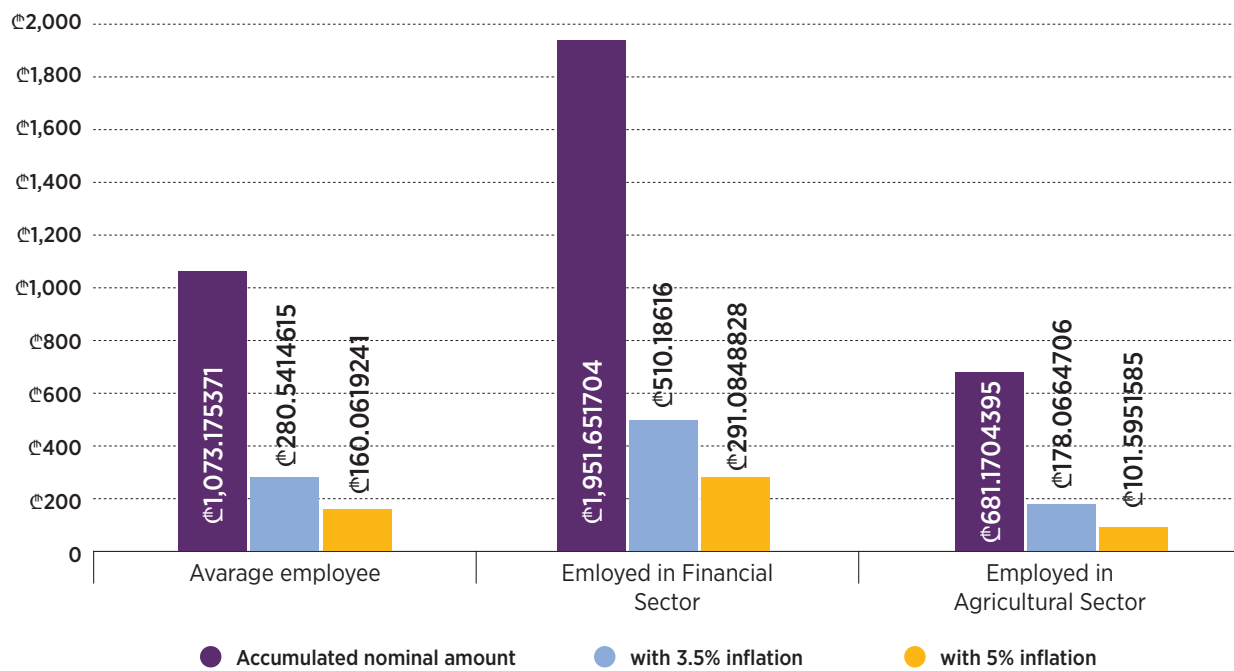
THE NEW ACCUMULATED PENSION SYSTEM came into effect in Georgia on January 1, 2019. Contributing to the pension fund will be mandatory for those under 40 years of age, and optional for those aged 40 years or older. In total, 6% of employee salaries will go to the pension fund each month. However, in contrast with a bank account, where you know exactly what benefits you receive, clear information about the pension savings account will not be available. This is an account which the government has created on your behalf and is transferring funds into it without consulting you.

The amount you will receive from the pension fund after 40 years depends on numerous unpredictable factors such as the rate of average salary increase, economic growth rates, interest rates and inflation rates. For our purposes, we assumed that the interest rate on the accumulated funds will be 4.5% throughout the whole period.

An average employee will receive a monthly pension of ₾1,073 after 40 years. In reality, this figure is meaningless, as we are talking about the Lari in 40 years' time. In order to know the true value of this sum, it needs to be adjusted for inflation.

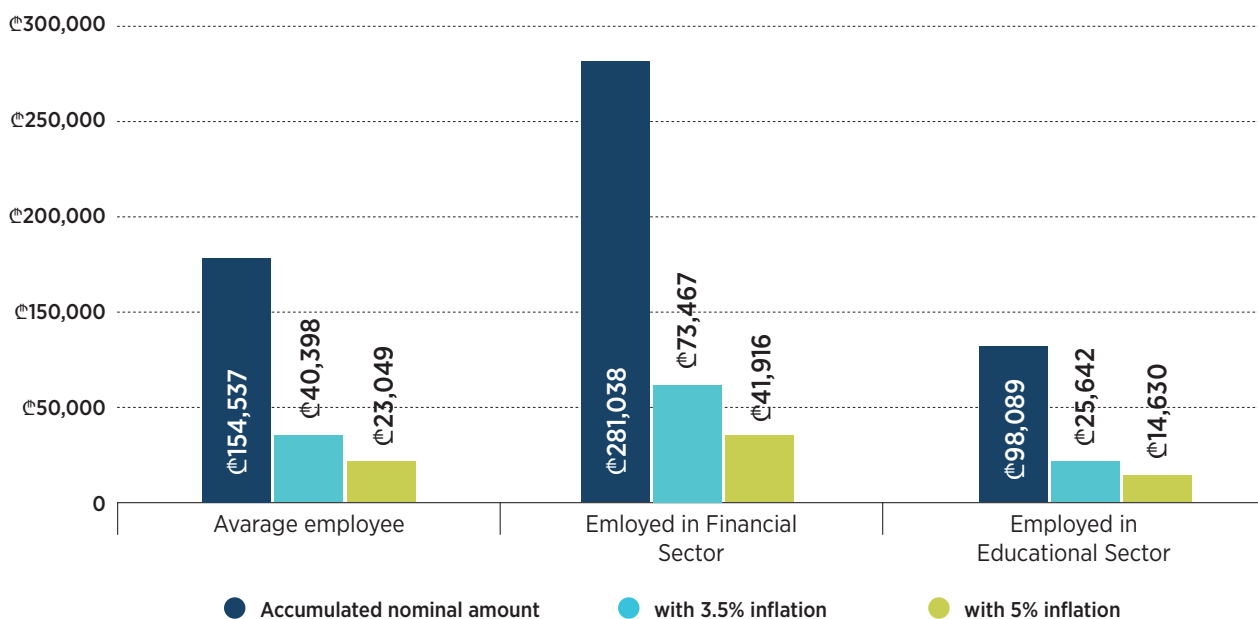
For 1,000, Read 280

In 40 years' time, allowing for inflation of 3.5%, €1000 GEL will be worth what is today €280. Inflation of 5% would lower the figure to €160.



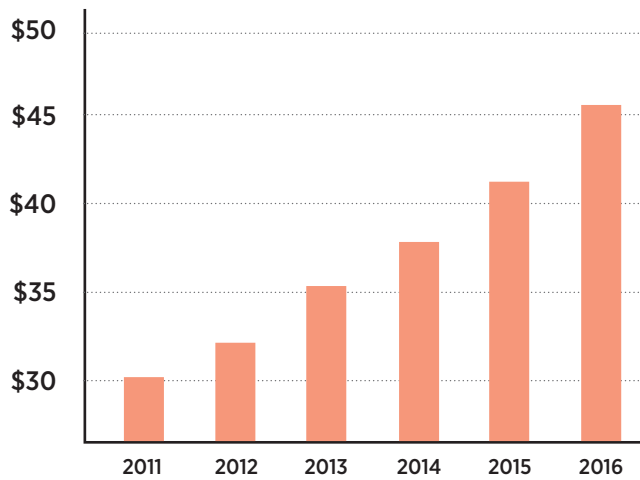
What will your total savings be?

If the Pension Agency pays 4.5% interest to your account over the next 40 years, then as an average employee you will accumulate €154,000, which is the current purchasing power equivalent of €40,000.

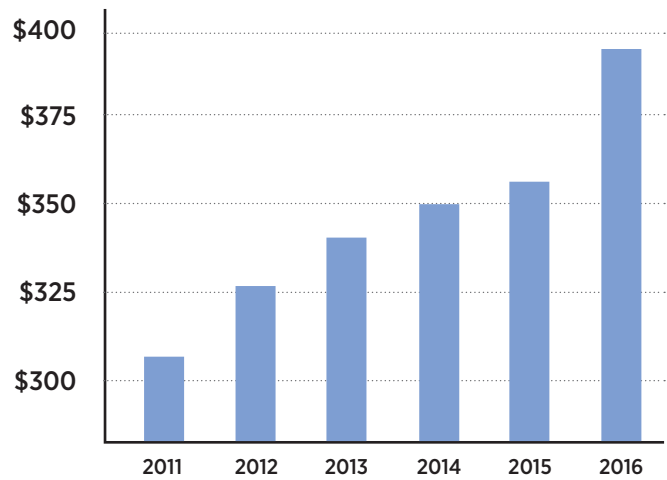


Gambling Around The World: **The Big Picture**

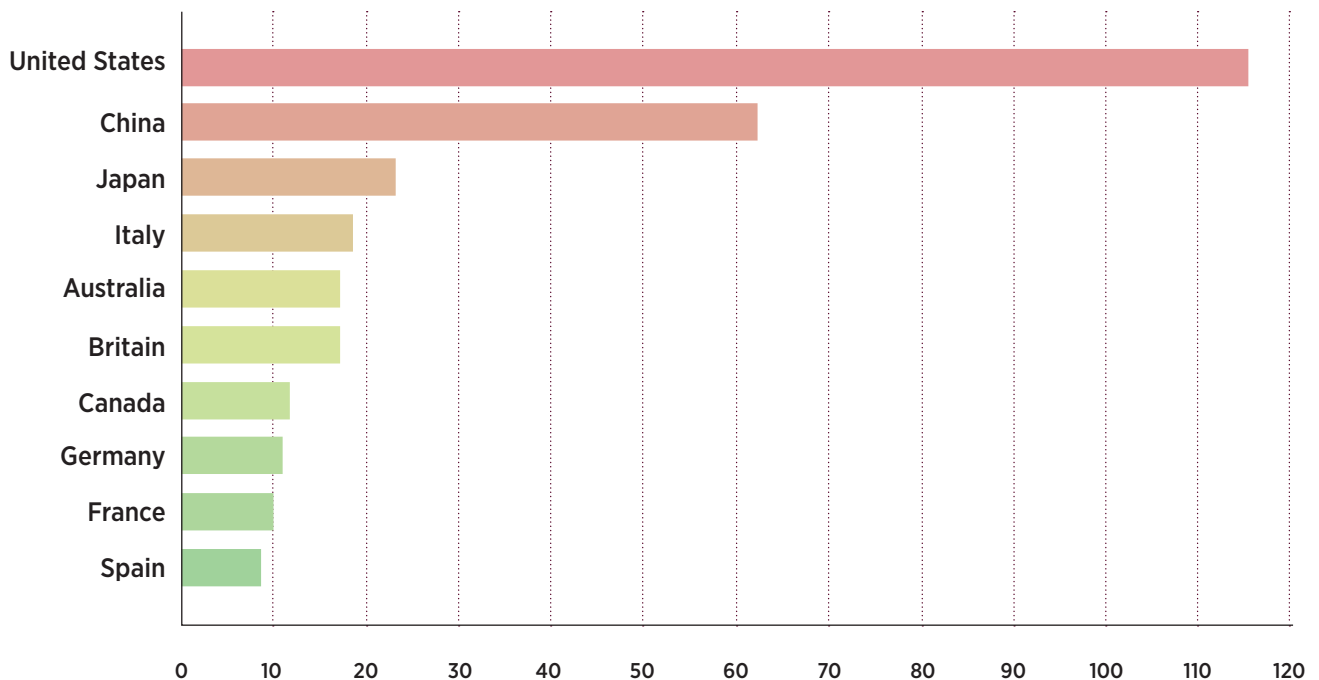
Online Gambling (Billion)



Gambling Overall (Billion)



Gambling Losses per Country 2016 (USD, Billions)



LeaderBoard

Most Popular **Gambling Games**



1. Casino Games/Slots

Casino betting is usually lumped in with a general “betting” group that includes bingo and lottery. But casino gambling has risen from 35.1% in 2013 from 32% in 2007.

According to latest figures among US casino visitors, nearly half (48%) played slots, with just 16% playing blackjack and 6% for poker. Roulette accounted for just 5% of popular play. (Statista).

The growth in mobile and online slots has led to some huge winners. Progressive jackpots have been responsible for some life-changing wins, with players taking down prizes of \$5-7 million in the past few years.



2. Sportsbetting

Sportsbetting is a billion-dollar global industry. However, the unregulated sportsbetting market in Asia means the industry as a whole could well be worth many billions more. Illegal betting syndicates in China and elsewhere have been responsible for fortunes being won and lost on sporting events.

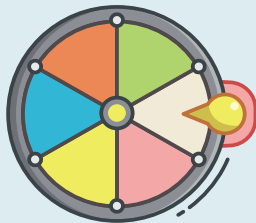
Regulated sportsbetting accounted for \$58 billion in the global market. That figure is set to rise over \$77 billion in 2016. (Source: European Gaming and Betting Association).



3. Poker

Online poker has risen since its boom in the early 2000s. The shutdown of US-facing sites has led to a drop-off in internet traffic. And even in regulated markets online poker numbers are struggling. This comes against a general rise in the number of players gambling in live cardrooms.

The biggest prizes continue to be live, with the World Series of Poker main event champion winning around \$7-10 million. The biggest online tournaments attract enough players to award million-dollar first prizes.



4. Lottery

Lotteries are legal in many countries, even where traditional betting and casino-style gambling is outlawed. The EGBA predicts a rise in lotteries’ share of overall gaming online, from 2.3% in 2013 to 4% in 2016.

In the UK, the National Lottery raises money for good causes as well as giving players the chance to win massive prizes. Lottery prizes rose 22% between 2012 and 2015, with £3.38 billion paid out in 2012 and £4.13 billion in 2015.

BINGO		
7		4
15	30	

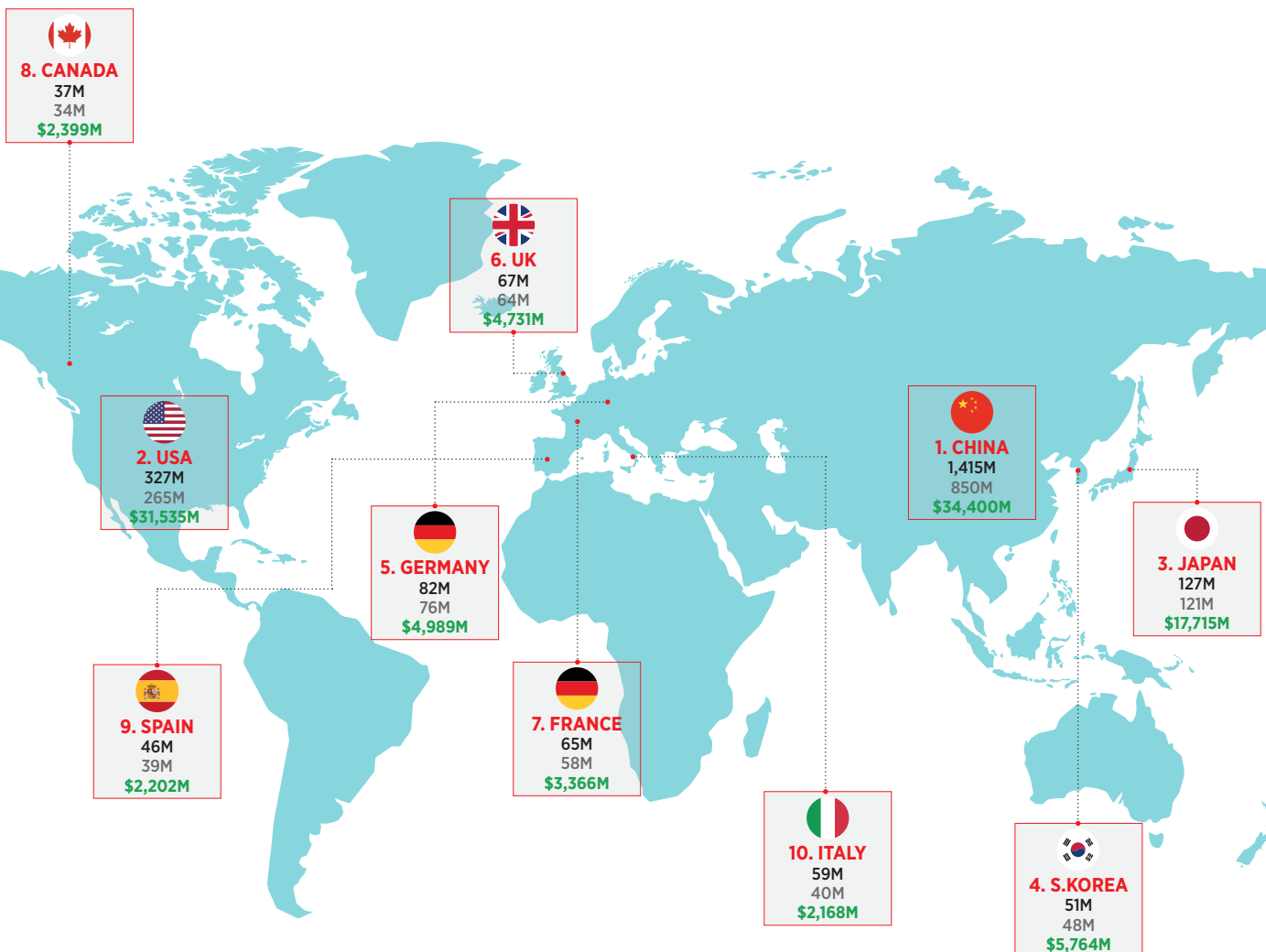
5. Bingo

It’s estimated there are now about 100 million online bingo players worldwide, 70-80% of whom are women, aged mostly between 30 and 50. In 2015 annual gross-gaming yield for the online bingo industry from UK customers along £128.64 million, or 3% of the entire online gambling market share.

In 2015 annual gross-gaming yield for the online bingo industry from UK customers along £128.64 million, or 3% of the entire online gambling market share.

Top 10 Countries/Markets by Game Revenues

KEY: RANK AND COUNTRY
 POPULATION
 INTERNET POPULATION
 TOTAL REVENUE IN US DOLLARS





THOUGHT LEADERS

BESO NAMCHAVADZE - CURRENT EVENTS

Summary of the Past Year and the Challenges Facing Us in 2019



A YEAR AGO I WROTE that the main challenges for the Georgian economy in 2018 would be maintaining the stability of the national currency, reducing inflation and gradually softening the country's rigid monetary policy. The issue of inflation has been dealt with successfully, with the annual inflation rate dropping to 1.9% at the end of November. On the other hand, the exchange rate of the Lari continued to fluctuate throughout 2018, ranging between €2.39 and €2.77 against the US Dollar.

Furthermore, the government was due to spend up to €3 billion on capital projects, but was only able to reach approximately 80% of the target.

2018 exceeded expectations with regard to economic growth. The government's initial growth forecast of 4.5% was raised to 5% on the back of a year-end increase in tourist numbers, exports and money transfers from abroad. On the other hand, we also saw significant growth in imports and a reduction in foreign direct investment.

Consumer lending regulations were tightened in May, which led to a 17% drop in the number of short-term consumer loans. Further strict lending regulations were due to come into effect in November, but

were ultimately delayed until 2019.

ECONOMIC GROWTH AND INFLATION

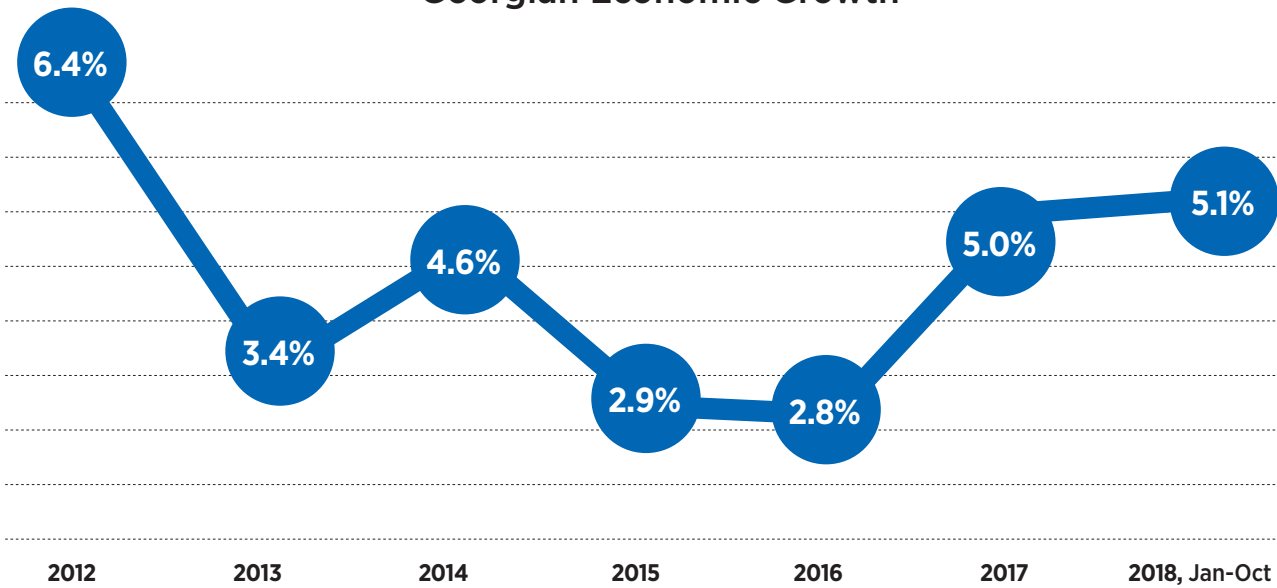
Up until November 2018, the government's annual economic growth forecast was 4.5%, which was ultimately revised to 5%. The final figure (which will be released in March of 2019) is likely to be close to 5%, since the growth rate for the period between January and October was 5.1%.

The growth rate of the Georgian economy was positively affected by the growth in tourism, exports and money transfers. This, in turn, was conditioned by the improved economic environment in the region. Significant domestic factors included the introduction of the automatic VAT refund system and the increase of state capital spending to 40%.

The rate of inflation for the period between January and November was 1.9%. Healthcare costs increased by 5.5%, transport services by 3.8%, while the price of alcohol and tobacco increased by 5.5%. The price of clothing and footwear fell by 6.4%.

The refinance rate (monetary rate) was 7.25% at the start of 2018. The National Bank was planning to

Georgian Economic Growth



gradually reduce the refinance rate, but due to the devaluation of the Lari in the second half of the year and the subsequent increase in the risk of inflation, the rate could only be lowered to 7.0%.

FOREIGN TRADE

2018 was a good year for Georgian exports. The export of goods grew by 24% (\$594 million) between January and November on the back of an increase in the export of light vehicles, copper ore, ferrous alloys, cigarettes and wine. Destination countries that accounted for the largest increase in Georgian exports included Azerbaijan, Armenia, Russia, Bulgaria and Turkey.

Parallel to the rise in exports, the January-November period also saw a 17% (\$1,167 million) increase in imports. Goods that accounted for the said increase included oil products, light vehicles, copper ore, cigarettes and computers. Turkey, Russia, China, Azerbaijan and Ukraine ac-

counted for the largest increase in imports.

The total value of imports exceeded the value of exports by \$573 million, meaning that the trade deficit became wider. The deficit for the 11-month period was \$5.2 billion, which is \$574 million more than for the same period in 2017.

TOURISM

2018 was a very successful year for tourism. The number of tourists grew by 17% during the January-November period as compared to the same period in 2017, while the total number of visitors (tourists, visitors in transit and one-day visitors) exceeded 8 million. The growth in tourism was boosted by an advertising campaign and an improved economic environment in neighboring countries. Russia, Armenia, Iran and Azerbaijan accounted for the largest increase in visitor numbers.

Georgia collected \$2.7 billion in revenue from International tourism in 2017. The 2018 figure will be released at the end

of March, and is expected to exceed \$3.2 billion.

FOREIGN DIRECT INVESTMENT

Foreign direct investment statistics are available for the first three quarters of 2018 (January-September). Foreign direct investment in Georgia during this period was \$1 billion, which is 27% less than for the same period in 2017. The total investment value fell by \$374 million during the nine-month period in question.

Turkey and Azerbaijan accounted for the sharpest fall in foreign direct investment (\$269 million and \$196 million, respectively), which was mainly due to the Shah Deniz-2 pipeline project entering its final stage of construction. Georgia was receiving in excess of \$500million worth of investment annually through the Shah Deniz-2 project in recent years.

Latvia and Germany accounted for the largest increase in foreign direct

investment (\$41 million and \$30 million, respectively). A total of \$490 million worth of investment was made in Georgia during the first three quarters of 2018 from the European Union countries, and \$203 million from the CIS countries. Despite its drop in investment in Georgia, Azerbaijan was still the single largest investor (\$170 million), followed by Netherlands (\$140 million) and the United Kingdom (\$137 million).

The finance sector accounted for the largest share of foreign direct investment (\$196 million), followed by transport (\$173 million) and energy (\$154 million). Agriculture accounted for the smallest share of investment (\$11 million).

The sharpest fall in investment was recorded in the construction and transport sectors (by a total of \$360 million), which is related to the aforementioned Shah Deniz-2 project.

NATIONAL CURRENCY EXCHANGE RATE

As in previous years, the exchange rate of the national currency against the US dollar was one of the most topical issues of 2018. The Georgian Lari's exchange rate against the dollar was 2.6 at the start of 2018, then strengthened to 2.39 by April and remained stable around the 2.45 mark until August, when it dropped once again, reaching the 2.77 mark on November 8. It subsequently recovered by approximately 10 tetri (0.1 GEL).

As usual, the strengthening of the Lari since the start of the year was mainly conditioned by growth in tourism and money transfers. As we saw earlier, the growth in exports was cancelled out by the increase in imports. The devaluation of the national currency in autumn came on the back of increased imports, falling investment, seasonal factors and negative forecasts.

In order to slow down the process of

strengthening of the Lari, the National Bank purchased \$265 million at a foreign exchange auction in 2018. The National Bank did not sell US dollars at any point during the year.

The National Bank's foreign currency reserves increased by \$102 million during the January-November period. The volume of the reserves reached a record high of \$2.9 billion in September.

STATE BUDGET AND NATIONAL DEBT

Over the course of 2018, the state budget receiving more revenue than expected, leading to the parliament amending the Law on the 2019 State Budget in December. The changes resulted in a €149 million increase in revenue and a €24 million increase in spending. The revenue increases mainly came from profit tax (€100 million increase), income tax (€60 million increase) and privatization (€40 million increase).

The budget of the Ministry of Regional Development and Infrastructure was cut by €250 million, as the start dates for several projects, including the Rikoti section of the East-West Highway and the Kvesheti-Kobi section of the North-South Highway, were moved from 2018 to 2019.

The total 2018 state budget was €12.5 billion.

The planned general government budget deficit was 3% of GDP, but the figure was reduced to 2.5% as a result of the amendments to the budget, as well as the higher-than-expected growth in GDP.

Georgia's national debt reached €17.6 billion in November 2018. The increase in national debt was conditioned by the devaluation of the national currency, as well as by new debts. Domestic national debt rose by €306 million and foreign national debt by \$50 million during the 11-month period. The government debt currently amounts

to 45% of the country's GDP. At the end of 2017, the national debt was 46% of GDP.

CHALLENGES FOR 2019

In contrast with previous years, the level of inflation is unlikely to increase. However, under otherwise equal conditions, the National Bank will be able to gradually reduce the monetary rate.

Even though looser monetary policies enable economic growth, the economy is projected to grow by 4.5% in 2019, which is 0.5% less than last year's figure, meaning that Georgia's economic growth will slow. This is not unexpected, especially coming against the background of a significant reduction in foreign direct investment. As such, the average annual foreign direct investment figure of \$1.8 billion for the 2014-2017 period will be very difficult to achieve.

The drop in investment will not only have a negative effect on economic growth, but also on the national currency exchange rate. Ultimately, the latter is dependent on many different factors, and is therefore difficult to predict. One thing is certain - the less the Lari strengthens during the spring and the summer, the less likely is its devaluation in autumn.

Strict lending regulations came into effect in 2019, which will have a negative impact on economic growth unless the interest rates on business loans are reduced significantly to compensate for the decrease in consumer loans.

2019 will also see the introduction of pension reform. Achieving its practical implementation will be the main challenge initially.

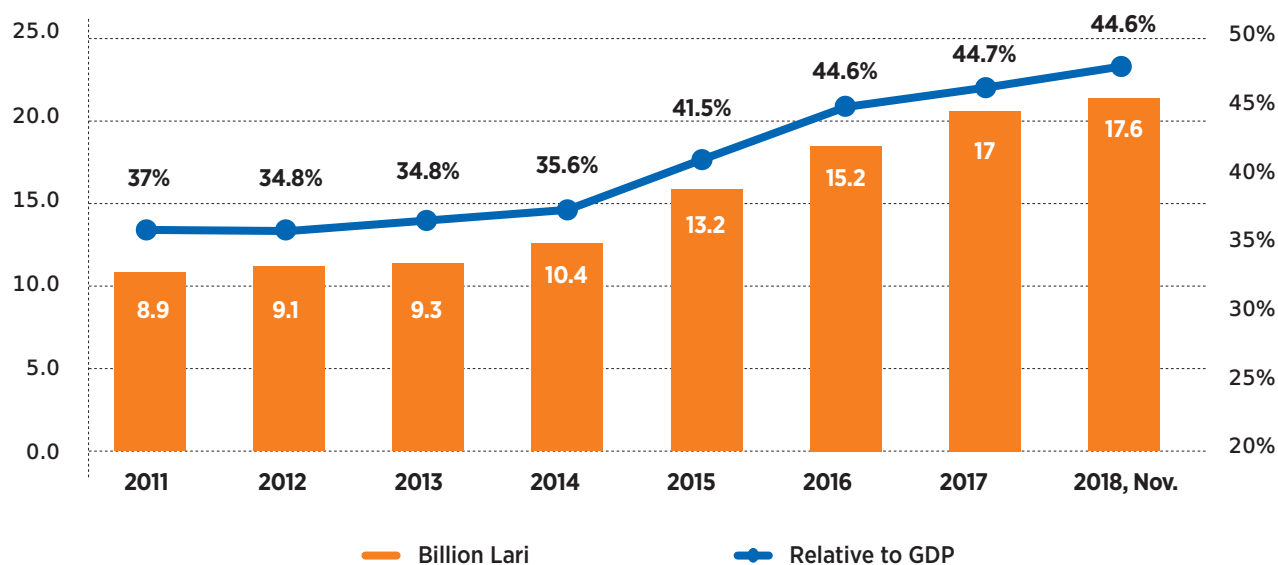
Other key challenges this year include achieving investment growth, reducing trade deficit and spending the €3.5 billion allocated for infrastructural projects.

Georgia is already at a stage where faster economic growth can only be achieved

Leading countries of origin for visitors to Georgia during the January-November period:

	Country	2018 (11 months)	2017 (11 months)	Change
1	Russia	1,341,127	1,083,182	23.8%
2	Azerbaijan	1,311,907	1,194,306	9.8%
3	Armenia	1,162,220	1,166,116	-0.3%
4	Turkey	1,031,147	924,244	11.6%
5	Iran	278,802	269,772	3.3%
6	Ukraine	168,272	161,140	4.4%
7	Israel	148,712	111,844	33.0%
8	Poland	65,469	48,193	35.8%
9	Germany	62,776	41,896	49.8%
10	Belarus	58,020	40,530	43.2%

Georgia's National Debt



through qualitative changes in the business environment. Achieving higher positions in international economic indexes will no longer be helpful, especially since Georgia already holds leading positions in such rankings.

Qualitative changes to the business environment implies stronger democracy and rule of law, as well as a better-educated and qualified workforce. In 2018, the country took a step backwards with regard to strengthening democracy and rule of

law, as we saw clearly during the presidential election campaign. There are no elections in 2019, and the government will have a relatively quiet year to make decisions based on sound economic calculations rather than populism. ^F



THOUGHT LEADERS

SHOTA TKESHELASHVILI - CURRENT EVENTS

Pension Reform will not Reduce Poverty



TACKLING POVERTY IS the main challenge facing the Georgian economy. According to the Prime Minister of Georgia Mamuka Bakhtadze, overcoming poverty can be achieved through inclusive growth.

“We will soon implement reforms that will enable more inclusive growth. These reforms will allow us to alter the existing economic model and adapt it to the concept of inclusive growth. Our main objective will be to eliminate poverty as soon as possible,” the PM stated.

‘Inclusive growth’ has become one of the most frequently used foreign terms among the members of the Georgian government. The World Bank defines inclusive growth as economic development, which encompasses broad sections of society. The term is primarily employed within the context of tackling poverty.

Since inclusiveness has become the stated benchmark for economic reforms, it should not have escaped the government’s attention that one of its flagship economic reforms - pension reform - will contribute very little towards reducing poverty. This is quite clear for all to see.

As part of pension reform, the state will pay 2% of each employed citizen’s untaxed salary into the latter’s pension fund via the Pension Agency. This will amount to a total of €90 million in 2019, and the sum is set to increase each year. Thus, the 2019 state budget will simultaneously fund the pensions of existing pensioners to the tune of €2 billion, and provide an additional €90 million for the pension deposits for employed individuals who reach the pension age.

Georgia has limited state resources. The central government does not have an infinite amount of

money to distribute among the population. If that was the case, then the problem of poverty would have been eliminated long ago.

The main fault with the current pension system lies in the fact that the monthly sum of €200 is not enough to provide pensioners with a dignified existence. On the other hand, the higher-income section of the population is not in need of a universal pension, which effectively represents a tax break for them. A more purposeful distribution of the existing pension funds is therefore possible, and it would have a certain effect on reducing poverty.

The new pension system will have characteristically different results - the state will spend considerably more budgetary resources on the provision of pensions for relatively wealthy citizens than for those who are in acute need of financial assistance. The reform will therefore have no significant effect on tackling poverty among the elderly. On the contrary, this system will affirm the social imbalance.

Let us compare two population groups.

According to the Revenue Service, 1.2 million people were paying income tax in Georgia in 2017, of whom:

1. 230,000 had an annual income of less than €1,200, or less than €100 per month. These citizens, provided that they will receive a similar income in 2019, will only save €72 throughout the year, of which €48 will be paid by these individuals themselves and their employers, while €24 will be paid out of the state budget.

2. 80,000 had an annual income of €12,000-

15,000, which amounts to at least €1,000 per month. They will save a tenfold annual amount of €720 through the pension system, of which €480 will be paid by these individuals themselves and their employers, while €240 will be paid out of the state budget.

The contrast between medium-income employees and those earning the lowest income is striking, with the former group receiving ten times more in state contributions from the total saved amount than the latter. That is precisely how the sum of €90 million reserved for pension reform in the 2019 state budget will be distributed, with citizens earning average and above-average incomes receiving the largest share, and those receiving the lowest incomes receiving a small share.

Lawyers believe that in light of the aforementioned circumstances, pension reform represents a form of state discrimination based on income. This, in turn, violates the constitutional principle of equality. The non-governmental organization GDI has brought a case against this norm to the courts.

"The given case sees persons who live in essentially unequal circumstances being discriminated against on the grounds of their material conditions. The state is allocating budgetary funds through the state pension system to individuals living in unequal material conditions in a discriminatory manner. Persons living in difficult material circumstances receive lesser amounts through the aforementioned contributions than those who are relatively better-off materially," GDI's lawsuit states.

The new pension system represents one of the most significant social reforms in the history of independent Georgia. One of its prerequisites is the establishment of a new, long-term trust from the citizens towards the state. This is due to the fact that the system covers lengthy periods of time - in some cases, more than 40 years.

The main obstacle to the reform is the absence of long-term trust towards the

state. People remember the financial crisis and hyperinflation of the 1990s, which took the Georgian economy to the edge of a precipice. Therefore, there is currently no transparent environment in Georgia for the kind of long-term investment needed for this kind of pension reform.

In the absence of a transparent environment, the funds transferred by the population into the pension fund constitute an expense. These are funds that will no longer be available to the taxpayer. The social background in Georgia is quite bleak, with 69% of the population living in either extreme or relative poverty according to the World Bank. This means that for a sizeable section of the low-income population, the burden of having to pay an additional 4% will worsen their social situation further.

At the same time, the employer's tax burden will increase as well, thereby reducing their budget by 2-4% during the first year. This could slow down the pace of job creation, which, in turn, will also affect efforts to eliminate poverty.

Although the government insists that the pension contribution is not a tax, international practice tells us differently. According to the OECD, if a payment into the social security fund is mandatory, then it ought to be regarded as a tax. For example, in Denmark, a health insurance payment is mandatory for people within a certain income threshold, but is optional for others. The mandatory payment is regarded as a tax, while the optional payment is not. Similarly, the mandatory state pension contribution in the United Kingdom is seen as a tax, while the optional private pension scheme is not.

Georgian employers are obliged to contribute to the pension fund. Otherwise, they will be liable to pay an administrative fine.

Similarly, the Supreme Court of the United States confirmed that the duty to purchase insurance under the 'Obamacare' program constituted a tax.

Apart from reducing the employer's

budget and the amount of tax funds available to the state, the pension system also has a moral fault, as the government denies people the freedom of choice to spend their money as they wish. This approach removes the principle of ethical autonomy, as the state decides what is best for the people. In this case, the government has decided that it is good for us to have pension savings, and what is more, it forces us to adopt its own specific model for accumulating such savings.

Although the accumulated pension funds will be monitored rigorously, the state will not guarantee that citizens will be able to recover their money in full. The state will have no obligation to this end, which means that the pension fund will not be immune from domestic and global economic events, be it market crashes, high inflation or economic crises.

Political events often represent a higher risk for pension funds than market processes. For example, the Polish government virtually expropriated the money from its pension funds in February 2014. In order to avoid a potential economic crisis, the Polish government seized a sum of 153 billion zloty (\$50.4 billion) in treasury bonds from 13 private pension funds, an amount equal to more than half of their investment portfolios. Beyond the legal arguments, the main reason cited by Donald Tusk's government was to reduce the state debt. The budget deficit was instantly turned into a surplus, and the state debt was reduced. However, millions of Poles suffered from significant cuts to their pensions.

It is possible to avoid the repeat of such a scenario in Georgia - the current and future Georgian governments may approach the issue of the pension fund more responsibly than their Polish counterparts. Still, the reform will clearly bring more economic benefits to those with higher incomes, while people lower on the income ladder will be left at the mercy of their basic pension, which currently amounts to a mere €200 per month. ^F



THOUGHT LEADERS

ELENE KVANCHILASHVILI - CURRENT EVENTS

The Judiciary – The Achilles Heel of the Economy



JUDICIAL REFORM REMAINS Georgia's Achilles' heel. A succession of governments has either been unwilling or unable to implement reforms in this field, despite the fact that a country which does not provide adequate protection for human rights and property rights cannot achieve high levels of development or prosperity.

Georgia has been recognized as the world's leading reformer in the past, which shows that in the presence of the appropriate political will, the country has the potential and the ability to achieve better results and become far more attractive to local and foreign investors, as well as ordinary people. However, for one reason or another, such breakthrough reforms have never been attained within the judiciary.

Structural reform is a popular term that we have heard about frequently from donor organizations and others in Georgia for many years. These are reforms that ensure the country's systemic development and increased competitiveness on the international stage. Needless to say, judicial reforms are at the forefront of such structural reforms.

A well-functioning judicial system has a significant bearing on the country's competitiveness. The Global Competitiveness Index clearly shows that the judiciary is one of the weakest links in Georgia's institutional development. According to the 2018 index, Georgia ranks 83rd among 140 countries in the judicial independence component. More importantly, the situation has gotten worse since the previous year.

The picture is likely to further change for the worse when the new Competitiveness Index is published.

Similar to other rankings, it is calculated by taking into account the latest findings, which include the 2019 Index of Economic Freedom that was published by the Heritage Foundation this month. Based on these findings, Georgia's economic freedom score for this year is 75.9, which is 0.3 points lower than in 2018. Although Georgia retained the 16th position in the rankings among 180 countries, one should bear in mind that it had already dropped three places in 2018. Therefore, Georgia is worse off today than it was in 2017.

A sharp decline in judicial effectiveness was the main reason Georgia scored lower in the 2019 Economic Freedom Index compared to the previous year. In 2018, Georgia scored 64.2 in this component, while the latest figure is 54.6. It is also interesting to note that parallel to the drop in judicial effectiveness, the country also scored lower in components such as business freedom and trade freedom.

Until recently, the subject of the judiciary was viewed mainly through the prism of local politics – more specifically, the internal conflict within the ruling Georgian Dream party. The situation changed several days ago, when Georgia's largest business associations and international chambers of commerce released a joint statement criticizing the government's private sector communication strategy, requesting to be more actively involved in the process of determining the criteria for selecting Supreme Court judges.

"The Supreme Court is a strategically important institution. Not only is it the highest court in the country, but it is also a symbol of the Georgian judicial system," states the open letter, which is addressed to the Chairman of



the Parliament, Irakli Kobakhidze and the Acting Chairman of the Legal Issues Committee of the Parliament, Davit Matikashvili. Copies of the letter were sent to the Prime Minister of Georgia Mamuka Bakhhtadze, the Deputy Chair of the Parliament Tamar Chugoshvili and the Acting Chair of the High Council of Justice Giorgi Mikautadze.

Georgia's largest business associations have requested that the parliament, in collaboration with civil society, quickly develop amendments to the Organic Law on the common Courts and, if necessary, the Georgian Constitution.

"We are ready to work with the government and the parliament in any way that we can to make sure that the process of selection and appointment of judges corresponds to the best international practices and the requirements of democracy and rule of law," states the letter.

In response to the joint letter from the business associations and chambers of commerce, the Acting Chairman of the Legal

Issues Committee of the Parliament, Davit Matikashvili, stated that the parliamentary group working on judicial reforms holds its doors open to all stakeholders, including the business associations and non-governmental organizations.

"Our parliamentary working group is open and transparent. It will serve the purpose of agreeing [to] the main principles and gathering all the views regarding the selection of Supreme Court judicial nominees," Mr. Matikashvili stated.

It is also important to note that in the joint statement, Georgia's business associations and international chambers of commerce advise the government to focus their attention on broader judicial reform.

According to the business associations, the selection of Supreme Court judicial nominees without a fair, transparent and predictable process, reinforces the negative perception of the Georgian judiciary and court system that is already held by many observers.

"This is not only bad for the country, but will undoubtedly have a negative impact on Georgia's international reputation, the business environment and the country's ability to attract investment," the letter states.

The country needs an orderly court system not only for political, but also for economic purposes. The rule of law and protection of property enable a substantial increase in direct foreign investment and lower corruption levels, ensuring faster economic growth and inclusive prosperity.

Thus, the Georgian government is faced with two choices: to continue investing substantial financial resources and time in fighting poverty, debt and low economic growth with regulations, without any guarantee of success; or to tackle the root cause of these negative effects by implementing effective judicial reforms and making the business environment more attractive for local and foreign investors alike.

The main red line for Georgia's competitiveness passes through here. **F**



THOUGHT LEADERS

ZVIAD KVLIVIDZE - CURRENT EVENTS

Internationalization of Intellectual Business Services for Private Sector Development



FOR SMALL AND MEDIUM ENTERPRISES, working on exports and in the direction of internationalization is probably the only and most realistic way to develop and expand their business activities. This is largely because companies get opportunities for increasing turnover through international sales, obtaining international knowledge and experience and therefore hiring more people. It also generates new possibilities for importing innovation and technology to Georgia (in our case), which is essential, especially in today's environment of global competition. However, it is worth mentioning that for small and medium-size companies, access to finance, lack of technology and international standards, as well as a scarcity of knowledge in modern business administration, still remains a challenging obstacle.

In general, the development of intellectual services plays a crucial role in economic and business development for the country. In developed countries with advanced economies, trading with services is increasingly higher than trading with goods of total trade. Due to increased global competition and technological progress, this trend is increasing. Even large multinational corporations that produce goods are trying to become service providers at the same time, all the while maximizing the value of the company, because of the increased global competition and technological progress.

With this exact belief and motivation in mind, in the summer of 2017, I moved from the Swedish International Development and Cooperation Agency (Sida) to the position of Deputy Director / Head of Export at Enterprise Georgia, which is the state institution responsible

for SME development under the Ministry of Economy and Sustainable Development of Georgia. Using the knowledge I gained working for various international and organizations in the field of private sector development, my goal was to support and encourage the Georgian public sector to start working on new and innovative directions of SME development support. As such, in 2017, we defined new sectors; in addition to the food and beverages sectors, we shifted our focus to expanding Enterprise Georgia's work on export potential development, export promotion and internationalization support for Georgian SMEs and tripled the important local and international activities.

We initiated and started working on the internationalization of services and managed to identify new sectors - Architecture and Design, Business Consulting and IT (Software Development), and began the implementation of various promotional, educational and business support activities on local and international markets. The work we undertook was recognized by the Swedish government (Sida/Embassy of Sweden in Georgia) and Economic Policy Research Centre (EPRC) as a priority and as important sectors to work with. By the end of 2018, the "Georgian Enterprises Close to Europe" Project kicked off, and aimed to increase the competitiveness of Georgia's micro, small and medium-size enterprises on local and international markets. The "GEClose2EU" project is supported by Sida and implemented by EPRC (Georgian NGO) in close cooperation with Enterprise Georgia. The three-year project with a total budget of \$2.3 million is quite unique and different from any other private sector development support projects that have



been implemented in Georgia so far. Project content, design and priorities focus on the internationalization of intellectual business services as one of the main components of the project.

Under the scope of “GEclose2EU” project, activities will be implemented on behalf of Georgian SMEs in the architecture and design, business consulting and information technology sectors in order to help bring them closer to European standards as they relate to values, technologies, business management and systems, as well as growing business linkages with potential European partners, providing them access to technical assistance (based on competition) and consulting support in internationalization, expansion and development of their businesses.

One may ask why interior or product design is important, or why these fields are important to focus on? I believe that design is a very significant component when it comes to achieving success in business. That’s because all products need a good, attractive visual, which determines how competitive a product can be on the marketplace – let alone international markets. For example, if we look at Georgia’s ‘Rooms Hotel’ brand, which was designed by the Georgian design company called ‘Rooms Design’, it illustrates its own unique design, which added great value to the brand development of Rooms Hotel. This of course is in addition

to the high-quality services and products the hotel offers its clients. One side of this successful business case, is that the hotel is very popular among Georgian and foreign customers/visitors and its direct contribution to Georgian tourism is high. Another aspect of the design’s contribution in the internationalization process is connected to the hotel brand’s plan to start operations in New York. Having said that, it’s not hard to see that product design plays a significant role in international business and it is solidly tied to the success in a value chain.

The Business Consulting sector has the same importance. The countries in which business consulting firms are strong and competitive, have advanced economies and a strong private sector, because as consumers (small and medium enterprises) are able to access to the high quality of services, which impacts on SMEs’ competitiveness, expansion and internationalization. Therefore, the development of the business consulting sector and advancing the quality of these services acts as a cornerstone for SMEs development and growth in a country. However, the consumption of business consulting services from small and medium enterprises is not high or at a desirable level in Georgia right now. As such, I believe that, increasing our focus on supporting the development of business consulting firms and promoting them to become more competitive and internationalized, has strategic

importance for private sector development in the country.

The Information Technology sector is certainly a priority and, in many countries, the public, private and education sectors invest reasonably more resources in it. Increasing the scale and quality of the internationalization of software developers has many positive and multiple effects on the development of, expansion and internationalization potential of SMEs. For example, companies receive access to diverse high-tech business solutions with more competitive prices that ultimately help enterprises improve operational effectiveness and become more competitive in dynamic business environments on local and international markets.

I have had an opportunity to get to know the organizations that have more than 40 years of experience around world promoting small and medium size enterprises, such as Advantage Austria, Business Sweden, SME Support Japan and others. These government organizations have acquired the required knowledge and expertise and developed effective tools and instruments to improve access to finance, export and internationalization promotion, business expansion and business technologies for increasing competitiveness of their SMEs. The same should be the case for Georgia, and certainly, more intensive work for supporting the internationalization of intellectual businesses services should continue. 

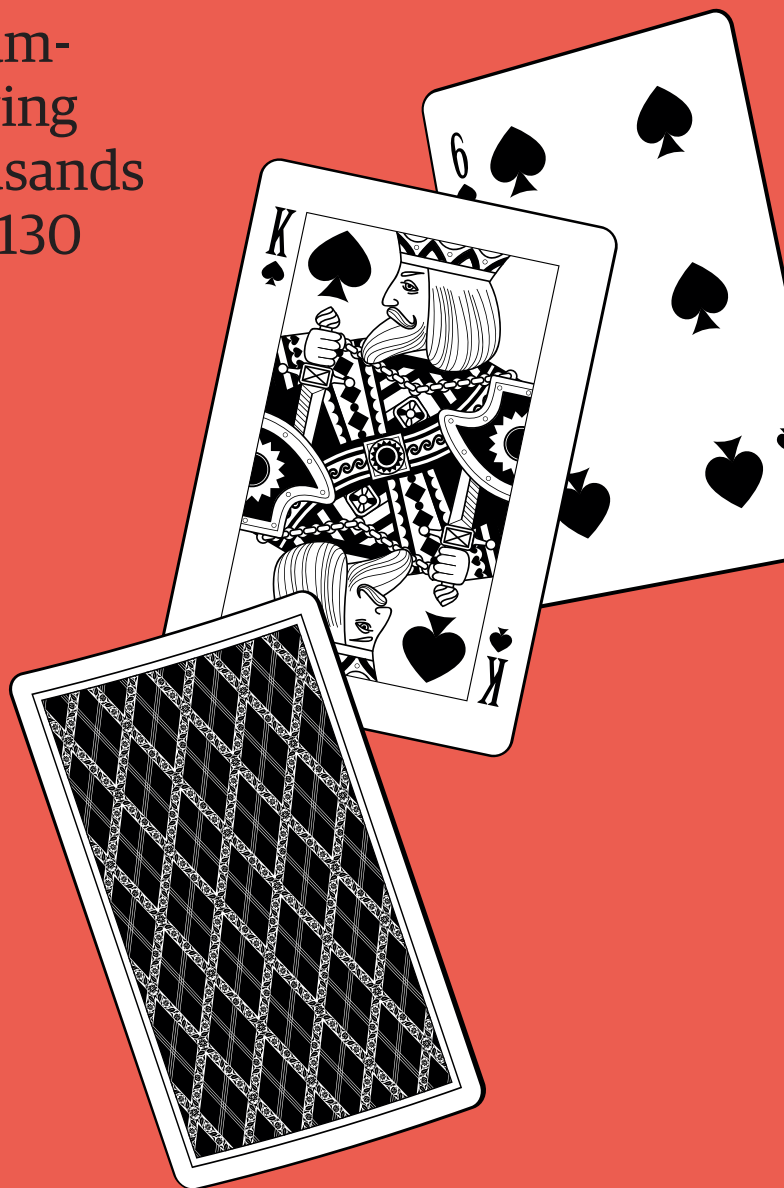
GAMBLING IN GEORGIA

PLACE YOUR BETS:

HOW GEORGIA IS BECOMING A BOOMING GAMBLING DESTINATION

Bookmakers and online gambling in Georgia are a growing industry that employ thousands and generate more than ₾130 million in tax revenue.

BY SHOTA TKESHELASHVILI







GAMBLING IN GEORGIA

Gambling as well as sports betting is a heavily regulated and fully legal sector in Georgia. Large banners and flashing signs across the country beckon visitors and locals to take a risk and spend their money with the hope of winning big.

Georgia's gambling establishments are located near Muslim majority countries where gambling is either illegal or is an underground phenomenon. As such, Georgia attracts many wealthy visitors for this sole reason.

IT innovations are pushing this sector to a wider audience, one that enjoys playing with real money with just a few taps on their smartphones.

According to the National Statistics Office, which receives information from the Ministry of Finance, Georgians bet €996 million (\$374 million USD) in casinos and via other bets in 2012. In 2017 this figure had already increased to over €6 billion (\$2.2 billion USD).

In 2017, gambling accounted for 8.4% of total revenue in Georgia's business sector, which was just above €71 billion at that time.

The largest one-year increase was recorded in

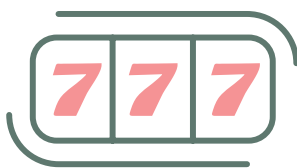
2015, when the rapid growth of online gambling and sports betting resulted in a 91% increase in total turnover in the gambling sector.

The Georgian government has created numerous tax exemptions for the gambling industry in certain parts of the country. For example, to set up a casino, a company has to pay an annual fee of €5 million, but in Batumi, Gudauri, Bakuriani, Borjomi and other places, the fee is twenty times less - only €250,000. These exemptions are put in place to encourage investors to build new resorts and casinos in the rural regions of Georgia.

According to official statistics from the Ministry of Finance, there are 247 permits for organizing gambling activities in Georgia. The industry paid €136.5 million into the state budget in 2018. This is €17 million more than the amount of taxes paid in 2017.

This increase in taxes reflects the opening of new casinos in Georgia. In Batumi in 2018, there were 10 casinos operating. Over the next five years, five more casinos will be opened. From 2013-2016, the number of casino visitors in Batumi increased by 2.3, reaching 680 000 visitors. In 2016, 76% of visitors to casinos in the Adjara region were foreigners.

TAXES PAID BY THE GAMBLING INDUSTRY IN 2018



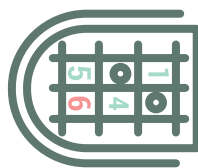
Fee from slot machines -
€75 million
(€6.7 million more than last year)



Fee from lotteries -
€5 million
(€2.7 million more than last year)

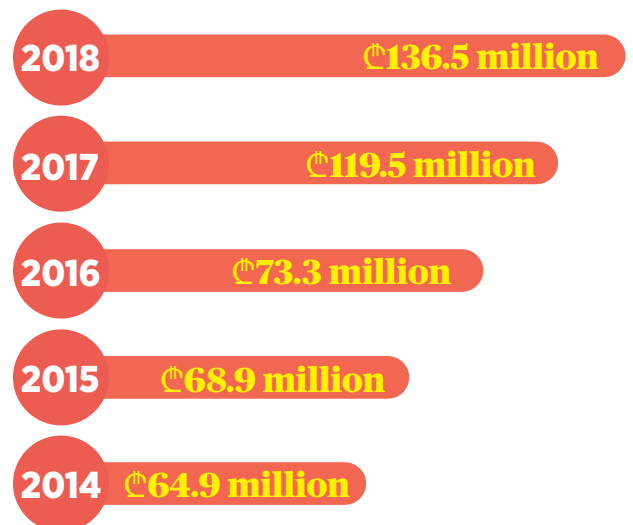


Fee from electronic gambling -
€13.2 million
(less than €4 million in 2017)



Fee casino table -
€41.3 million
(€12.5 million more than last year)

TAXES PAID BY THE GAMBLING INDUSTRY TO THE BUDGET OVER THE LAST 5 YEARS



For many years Adjara has attracted foreign investors for this reason. Many hotels and casinos are owned by Turkish companies, as gambling is illegal in Turkey, and Adjara is on the Turkish-Georgian border.

This increase in gambling has become a worrying issue for some within society, especially because of the risks it poses to young people and minors. According to the national law, the legal gambling age in Georgia is 18 and entering casinos is forbidden for those under the age of 21. While these restrictions are in line with similar requirements in the EU, many believe that minors have found a way to circumvent the laws and safety mechanisms that are in place - especially as it relates to online gambling sites.

PUBLIC PERCEPTION OF GAMBLING

In 2015, Transparency International Georgia and the Caucasus Research Resource Centers (CRRC) conducted a public opinion survey.

According to the survey:

94% of respondents are not engaged in gambling. The majority of the remaining 6% give priority to online sports betting.

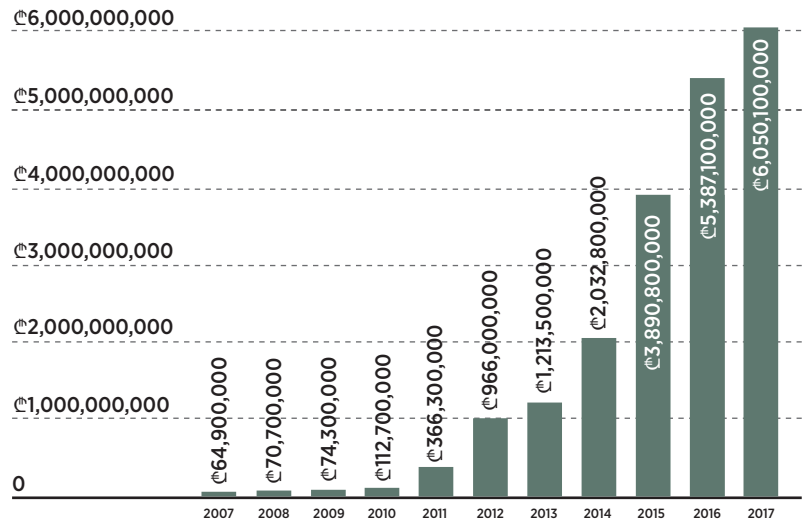
Most people involved in gambling for money do it for fun, and lose more often than not.

Only 2% of respondents reported that they or their family members have encountered significant financial problems due to gambling. Most of the problems reported arose over the last year.

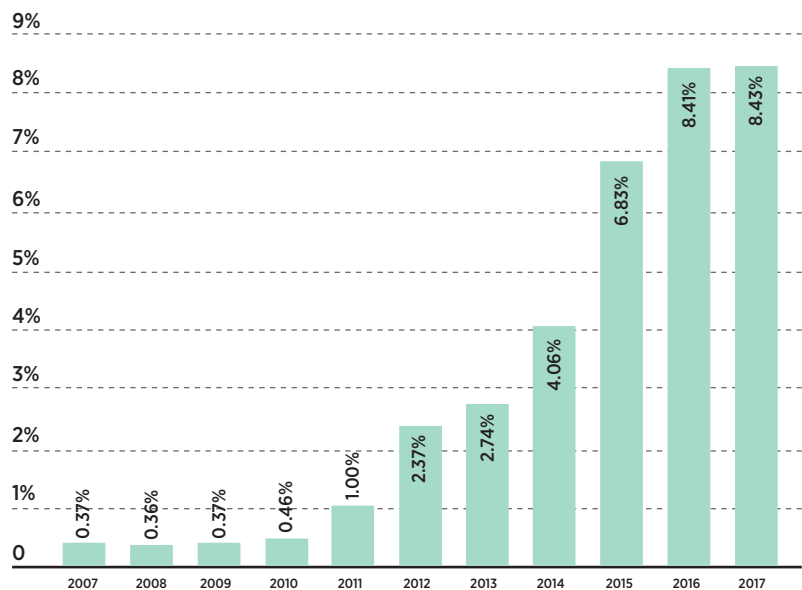
Even though public involvement in gambling is low and only 2% have encountered significant financial problems because of it, a large part of the population (92%) has a negative attitude towards the industry and believes that it should be either banned (63%) or restricted (29%).

According to the recommendations of Transparency International, Georgia should keep its liberal approach to gambling, since this industry is closely linked to the development of tourism, which is one of the most important sectors of the Georgian economy. However, the government needs to do more in order to study and eliminate the potential social risks related to gambling. ^F

REVENUE OF GEORGIA'S GAMBLING INDUSTRY



SHARE OF GAMBLING IN THE TURNOVER GEORGIA'S BUSINESS SECTOR





POWER PLAYER

Headquartered in Dublin, Ireland, Paddy Power Betfair is a leading bookmaking firm and is listed on the LSE and is a constituent of the FTSE 100 Index. Last year the gambling giant brought in revenue of over 2.1 billion euros. The company appointed a new CEO, Peter Jackson, in January of 2018. Jackson has already built an impressive resume. At the young age of 43, he has been the CEO of three companies - Travelex, Worldpay UK, and the Director of Banco Santander UK group. Since he has taken over the leadership role at Paddy Power Betfair, the company has acquired 61% of FanDuel in America and a controlling stake in Adjarabet, totalling 116 million euros, and making Paddy Power Betfair the largest investor in Georgia. The expansion of business in Georgia fits Paddy Power Betfair's strategy well and places them in one of the leading positions on the regulated market.

Jackson has kindly accepted our request to be interviewed by Forbes Georgia and has invited us to the "Power Tower" in Dublin. Like many offices today, it is simple and modern, and full of open spaces. To facilitate better communication between the staff and management, the CEO's office is located on the first floor of the massive building. A blue bicycle sits in the corner of the room and is not something one would expect to see when walking into a CEO's office. The new and changing culture of business and society is very well captured here. In order to adhere to a healthy lifestyle, avoid the morning traffic and to include some exercise into his busy schedule, Peter prefers to cycle to work and his decision for the office location highlights the open culture of the company and shows that he is easily approachable by all his employees.

After engaging in some interesting banter about Georgia and its famous hospitality and discussing his excitement about doing business here, we eventually delved into the topic at hand - Paddy Power Betfair's recent acquisition and Jackson's views on the gambling industry.

BY MARIAM ZURABASHVILI





GAMBLING IN GEORGIA

You recently acquired a 51% stake in Adjarabet and you are planning to acquire the remaining 49% over the next three years. What do you expect to change in this time and why didn't you acquire a 100% stake in the company straight away?

It is not an unusual strategy to pursue and it is very similar to what we have done in Australia and the United States. It gives us opportunity to go into the market, learn about the market and in the meantime work with a local partner.

So you are uncertain whether you will acquire the rest of Adjarabet? Does it depend on how you like the environment?

Yes, it will depend on how we work together and the vibe we will bring.

out of the country. Fortunately we are receiving great support in this respect.

That is lovely to hear. How did you find the regulations with regard to the gambling industry in comparison to other countries?

It is very difficult to draw direct comparisons, as the context is different in each country. We are very pleased with the relationship that Adjarabet has with the local regulators.

Are you planning to make any changes to the company as far as day-to-day operations are concerned, or you will keep everything as it is?

I can say "gamarjoba", which is hello in Georgian and not many of my colleagues can say any more than that. Who are we to try and tell the team in

“We do have a strategy of wanting to grow our business organically, but there are certain markets where organic would never get us there. Georgia is a good example of that. We would never ever be able to grow to the same marketing positions we hold now.”

How did you find the business environment in Georgia? What made you decide to invest here?

As part of our strategy we were interested in investing in regulated markets that have leadership positions. That's how we identified this opportunity in Georgia. From the FDI perspective we prefer the market to be very friendly. We have done the largest transaction in Georgia, which is great to know. So far we have been very pleased from what we found. Also, we wanted to make sure that we received support from the government, to get on with things like visas, and people getting in and

Georgia, who knows how the Georgian market works and what to do on the ground. We have a great team, Archil (Kakhidze) who runs the business is doing a tremendous job. We are very proud of him and the team. We will support them with everything we can and we have to succeed in the local market, but ultimately, we will empower them to have greater success in the market.

In Georgia, Adjarabet also operates land casinos and Paddy Power Betfair is mainly concentrating on online betting. Will you be continuing the heritage and operate a land

business in Georgia?

You are right, we are good in online business and it's been one of our strongest areas. We also have strength in retail. I am very proud of what my team does in that sphere. We have 650 shops operating across Ireland and the UK and typically our shops are much more successful than our competitors. We are very good in operating retail units, so we have a lot of expertise in that. The extent to which we keep retail units in place is part of our licensing obligations which we do in Georgia, and we are very comfortable with that.

Georgia has a very good tax system, as the operation and maintenance costs are low. From Georgia you have the chance to expand your operations to Armenia. Would you consider opening regional offices in Georgia and run the company from there?

We have offices in many areas all over the world. We have extensive operations and we employ thousands of people. We are most interested going where the talent is. There is clearly a lot of talent in Georgia. I have been very pleased with what I saw when I was there. It would be crazy not to leverage those skills and capabilities across organizations.

Crystalbet was recently acquired by GVC. Would you regard them as your main competitors in Georgia?

There are some very good and successful businesses on the local market. Crystalbet is clearly a business that has been doing very well. Other international companies own other businesses. We will never be complacent. Ultimately you have to focus on the right thing for your customer and if you deliver great products to your customer, that's how you can keep growing and be successful.

When I was reading the information about Paddy Power Betfair, one of the things that caught my attention was that the company always expands with the M&A strategy. What is the reasoning behind that?

Paddy Power Betfair has been very successful in

various countries around the world. Paddy Power and Betfair came together at the beginning of 2016 and since then, we have acquired many businesses, including Adjarabet in Georgia. We do have a strategy of wanting to grow our business organically, but there are certain markets where organic would never get us there. Georgia is a good example of that. We would never ever be able to grow to the same marketing positions we hold now.

What criteria do you use when deciding which country to expand in? When making this decision does the company also look at the competitors and the possible companies for acquisitions?

I think we have been pretty clear with our strategy. We want to reinforce our core markets in Ireland, the UK and Australia. Paddy Power Betfair operates in hundreds of markets around the world and we have to insure that Paddy Power Betfair will continue to grow in these markets. We will be launching new languages, new payment functions, differential pricing and localization to support the company's business. The second part is to concentrate on the US and take advantage of opportunities in America. The third part is taking up premium positions in other regulated markets - of course we evaluate them and we look at the competitors and what value we can bring from them.

Because consumer data is becoming a key asset to a successful business, the quest to protect it and obtain it fairly becomes more and more important. Georgia is one of the leaders in providing blockchain technology. What are your thoughts on incorporating blockchain in the Paddy Power Betfair business model?

We are obviously exposed to a lot of personal information as any online business is. We comply with all the General Data Protection Regulations, which ensures that our customers' payment data is well protected. Indeed there are some great things that blockchain technology can do. I am not sure yet that blockchain is able to operate at the types of speed and volume that we see in our business however.



GAMBLING IN GEORGIA



According to the World Bank, Georgia is one of the largest bitcoin mining countries in the world and offers business-oriented regulations and a free economic zone for developing bitcoins. We have seen the rise of digital currency and nearly the creation of the Bitcoin bubble. Do you plan to implement digital currency in the business?

We have to be flexible and make sure we support the full range of payment capabilities that our customers want to use. So far we don't see huge demand from our customers to use Bitcoin. Some of our competitors have looked at it. I think so far this is not going mainstream. For that reason we are not looking to introduce it.

What influence will new inventions in disruptive and soft technology have on the development of the gambling industry?

I think there are some interesting questions like e-sports. We have historically been a very innovative business. We have launched cash out, I hope if there are great innovations to get behind we will be there.

How do you support entrepreneurship and encourage R&D in the company?

Ultimately it is about making sure that we are consumer-centric and focused on delivering what our customer wants. Sometimes it means you have to develop and deliver the problems that you could

not before and now you have to solve them.

What are the most important aspects of the gambling industry as it relates to achieving and sustaining a competitive advantage? Is it the protection of intellectual property, user friendliness or simplifying the process of playing the game and to place bets?

Our experience in various markets all over the world is to have a good quality product. That means different things in different markets and with different brands. For the Paddy Power Betfair brand it is about offering a product that is very easy to use, one that is fast and one that people can find information on what they want to bet quickly. That is also very true in Georgia for Adjarabet.

In general, the trend in society is that everyone strives to adopt a healthier lifestyle. For example, quitting smoking, drinking less and getting rid of toxic addictive habits. Does this changing lifestyle impact the gambling industry as well?

We provide entertainment for millions of customers around the world. There are people who say: don't drink too much, just a glass of wine, exercise every day. There are some people who find themselves addicted to gambling, the same way as some people drink too much or eat too much. Moderation is important.

Do you have any prevention mechanisms to spot addicted gamblers?

We monitor a large number of attributes to identify consumers who we think are at risk. We do intervene when we see customers who have gambling problems. And if they are at risk we make sure to support them by chat and talking to them via email or phone.

What are the main challenges of the gambling industry?

One of the biggest developments in the gambling industry is the opening of regulations for sports betting in America. The size of the Ameri-

can market is large. Everything is big in America, so from a geographical perspective it is one of the arising opportunities. Gambling is a fascinating industry. Only 10% of global gambling is online, so there is a huge runway of opportunities for people to enjoy betting online and enjoy gambling in a safe environment. Hopefully we will be there to help them.

Georgian society is very much politicized, so the chance to place bets on politics and win money will be of high interest. Paddy Power Betfair made a bet during the 2016 US Presidential Election between Hillary Clinton and Donald Trump. How you define the odds for one side or the other?

In the same way we price a football match or horse racing. It is the same in politics, you have to lean for one side or the other, weather you think Hillary Clinton or Donald Trump will win. And sometimes you get it right and sometimes you get it wrong.


Peter your biography is fascinating. For someone of only 43 years of age, you have already been the CEO of three companies. How did you achieve that?

Hard work and luck. The harder you work the luckier you get.

What do you think are the most required skills in the market today?

Being able to sleep on the plane is important. I think there is a simple formula: you have to have clarity of where you are going, communicate that over the business so that everyone understands it and a great team that will eventually get you there.

And lastly, how did you enjoy your trip to Georgia?

It is a beautiful country. Tbilisi is a fantastic city. I was blown away by how pretty it is. I went running there as I do everywhere. It was stunning. The food and wine were great. I am looking forward to spending more time there. 



GAMBLING IN GEORGIA



WIN- WIN BET

Adjarabet is a unanimous leader on the Georgian online gambling market and a successful start up on the Armenian market. After having commanded a 14% market share in just two years, the company has closed what we call the deal of the year with global brand Paddy Power Betfair, bringing 116 million euros to Georgia.

BY ELENE KVANCHILASHVILI
PHOTOS: NIKA PANIASHVILI



GAMBLING IN GEORGIA

This could be the shortest story ever told by Forbes Georgia. Here's the reason: Ebdita: 75 million. Profit multiplier: 9.

Don't tell me you wouldn't agree that in a low middle-income country with serious economic and political risks, these impressive figures are not enough to start and end the story of Adjarabet, a Georgian online gambling company that managed to raise 116 million euros from a very experienced and renowned global brand Paddy Power Betfair.

Paddy Power Betfair is a leading international sports betting and gaming operator and a constituent of the FTSE 100 index of the London Stock Exchange. The Irish company employs over 7,000 people from Los Angeles to Melbourne, via Dublin and London, and these people are linked by their competitiveness, agility, integrity and a relentless customer focus. Paddy Power Betfair runs some of the world's most exciting online sports betting and gaming brands, powered by sophisticated in-house technology, innovative products and creative marketing and sporting partner-

proved to be the most successful, safe and innovative gaming portal in Georgia. It has firmly established itself as a leader on the Georgian market through its commitment to fast payouts and high quality customer service.

Adjarabet definitely gained momentum when it decided to open up for an international partnership in order to further its development goals.

"We got an excellent price," Kakhidze tells Forbes Georgia. "Many developed companies in Eastern Europe can't boast having such deals."

There were several reasons that such a complex deal ended with a handshake.

Today Adjarabet is the only company in Georgia with a strong presence in the Caucasus. Both in Georgia and in Armenia, the company holds more than 10% of market share; employs 800 people, and is well developed technologically. Georgian and British professionals sit on its board, and it is the only online-gambling company in Georgia in possession of an ISO certificate

“A top-notch global company, listed on London and Dublin stock exchanges concluded only two deals in its recent history, and one of them was with Adjarabet. This fact is self-explanatory.”

ships.

In 2018 and early 2019, Paddy Power Betfair had only two cases of M&A. In July it completed the merger of its Betfair US business with daily fantasy sports operator FanDuel. To this day, PPB controls a 61 percent share of the new company, which will be known as the FanDuel Group, with existing FanDuel investors owning the remaining 39 percent.

In February 2019 the company expanded its reach into the Georgian gambling market acquiring a 51 percent share in the leading betting and gaming group Adjarabet.

"A top-notch global company, listed on London and Dublin stock exchanges concluded only two deals in its recent history, and one of them was with Adjarabet. This fact is self-explanatory," says CEO of Adjarabet Archil Kakhidze.

Since 1998, the year Adjarabet was founded, the company

on quality management.

"We were so ready for the future ahead that the transaction ended in six months. And this was without any help from M&A advisers from outside, using only our internal resources. You have to agree it is a very short time for closing such a deal," says Kakhidze.

I agree and he continues: "The post-transaction period will have many benefits for Georgia."

I have to agree again: This deal has a real potential to be an ice-breaker for Irish investments in Georgia.

Paddy Power Betfair knew very little about Georgia when it decided to invest 116 million euros in this country. What's more, it decided it is worth paying 9 times multiplier. This reflects on three main points: First, Adjarabet is a very strong and valuable company in its own right. Second, Georgia as a country that was

evaluated positively considering all the risks and benefits associated with doing business here. Third, the regulatory environment in Georgia is stable as it pertains to the online-gambling sector, which means that at this point, the market is open for long-term business planning.

"Another big advantage was Adjarabet's diversified products covering mass demand and markets, including Armenia," the CEO of Adjarabet notes.

Adjarabet entered the Armenian market two years ago. It is a company which has both 21 years of history on the Georgian market as the unquestionable leader and two years as a successful start up on Armenian market, breaking even and encompassing a 14% market share.

"This is an important factor," says Kakhidze.

Perhaps even more important is the fact that this is not the first time Adjarabet has tried to diversify regionally. In 2013, there was one attempt to expand to Kazakhstan.

"Back then we were not ready for either matrix management or for joint operations. Kazakhstan wasn't ready for online the platform either," he explains.

Thanks to the ability of the company to learn from its mistakes and turn them into positive experiences, this time its business model for Armenia proved to be successful.

"This gave us confidence to seek the means and resources to diversify even further - to and beyond East Europe and Asia. Local resources were no longer enough. We needed partners in that," Kakhidze says.

Paddy Power Betfair turned out to be the right partner. 2019 will reveal even more, since this will be the year they integrate the joint business. This, as the CEO of Adjarabet explains, means that by the end of this year, Adjarabet will absorb all the benefits its large-scale partner can offer, including all the know-how and products - in short, everything that belongs to a global brand.

The next checkpoint will be after three years, when the founders have to decide whether to continue with this partnership or to end it by selling the rest of their shares to the global player.

"This depends on how the company develops," says Kakhidze.

Competition on the online-gambling market in Georgia is tough, but Kakhidze believes that this deal, which is opening doors to Paddy Power Betfair on the local market, will bring stability.

"Georgia is like any other European country in this segment," he says, referring to the fact that the top three largest players on the Georgian market are international - two of them are British and the other is Swedish. All three of these companies sit on the London Stock Exchange.

"This sector is clearly very successful. It has drawn very large European investments to the country," says Kakhidze.

Still, Georgia is far from viewing this business free of stigma. It's not Britain, for example, where betting on horse race is a social event in a pub rather than some illicit activity.

"The stigma used to be stronger in the past," Kakhidze says. "With more tourists coming to visit Georgia, this business contributes more to the country's economy."

The figures tell the same story. Taxes paid by the gambling businesses into the budget in the last two years amount to €119.5 million (2017) and €136.5 million (2018) respectively.

Online gambling is a relatively new industry worldwide. But all the latest research from sources like MarketWatch anticipate that the global online gambling market will generate revenue of more than \$74 billion by 2023. According to market assessments, the global online gambling market is mainly driven by an increase in per capita income and the cost-effectiveness of mobile applications that are also attracting new players on the global market.

"In the last years, technology-wise, we were developing along the lines that the world has been developing in this segment. This is one reason why Paddy Power Betfair easily saw us as their equals," says Kakhidze.

The CEO of Adjarabet is quite experienced in spotting opportunities. Despite years of experience in betting and in the financial sectors, his voice changes when he remembers the closing of the transaction. Listening to him, one immediately realizes how much effort and energy has been poured into this deal, and that the notes of pride in CEO's voice are totally justified.

"It was a very interesting process. The deal was closed right before the weekend. The stock markets were closing and only the next morning was the transaction finally announced. And then it started: One after another, all British and Irish business and gambling editions started to print stories about the deal. I was sitting back watching the markets and you could see how well Paddy Power Betfair's shares were performing on the stock exchange. And the message of the global brand was that it had bought a very good company at a good price," recalls Kakhidze.

The interview ends. We shake hands and I head down a corridor from a relatively modest office where I have taken up about an hour of the CEO's time. Only one thing is on my mind: how essential the long-term vision for development is in business, and if played by experienced hands, how skyrocketing the benefits are that this card can rip off.

The rest is in the individual's own risk and responsibility.

I would even bet on it.

Would you? **F**

My Desired “Blockchain-Georgia”: *What the Prime Minister said and what I understood*

BY MARIAM TURASHVILI
HEAD OF PROJECT MANAGEMENT DEPARTMENT AT NATIONAL AGENCY OF PUBLIC REGISTRY



P rime Minister of Georgia Mamuka Bakhtadze and Minister of Justice Tea Tsulukiani recently presented the interim results of the land registration reform initiated in 2016. In this short period of time, there were more than 600,000 applications were processed and 301,976 hectares of plots registered, which underscores the success of the reforms. But I want to talk about another subject matter this time.

From the moment of the Prime Minister’s speech, videos have been shared on social media and various online editions. The terms

“New Technologies”, “Blockchain”, “Innovations”, “Digital Transformation”, “Data Security” and others have been heard on different platforms.

But what did the Prime Minister tell us? What is he expecting from us when he talks about the importance of digital transformation?

The National Agency of Public Registry (NAPR) launched the process a couple of years ago. In 2016, the former chairman took a bold step, by using the word “Blockchain” and started working on implementing this revolutionary technology together with the BitFury

group. In 2017, a small Blockchain button was added to the extract from the registry, which contains information about the unique hash-code of the document. And this means exactly what the Prime Minister said:

It is impossible to delete, alter, rewrite, illegally manipulate with the data stored in the system.

Yes, Georgia is the first country that started using this technology and storing data in a global blockchain network.

The successful completion of the pilot project transformed local skeptical attitudes into international recognition, which provided the agency more motivation to explore the other advantages of blockchain technology.

The new goal for the NAPR was now set - to introduce SMART and TRUST contracts. The purpose of the TRUST contract is to eliminate the financial risks to citizens when transferring property ownership rights. SMART contracts entail fully automating the processes and transactions to be carried out by clicking on one button.

Sounds easy!

However, when it comes to real estate-related contracts, which is not as easy as ordering food online, we are expected to offer citizens the highest standards of security.

What will happen in my desired "Blockchain Georgia"? How can events develop in accordance with the Prime Minister's statement that "every ministry is encouraged to use similar technologies in every reform implemented in 2019 to realize the digital transformation of Georgia"?

In my desired "Blockchain Georgia" internet is accessible throughout the country. The statement provides an opening for every state authority to start asking questions: What kind of blockchain will be the most suitable for us? Public, private or consortium? What type of consensus is acceptable? PoA, PoW, PoS or others? And what do they mean anyway? Permitted "nodes" or free access? Who gives permission? Should information be encrypted or public? Do we need external entities as auditors?

In "My Blockchain Georgia" SMART contracts implementation, authorization, authentication in a protected environment is already possible. The Public Service Development Agency can already verify the digital identity. High-quality data is provided by various authorities, court decisions are accessible, and peer-to-peer transactions are valid.

And what comes next?

Confirmation of the will of the citizens - providing an electronic signature by clicking on one button.

In "My Blockchain Georgia", the Revenue Service is also involved in the process so we won't forget to pay our property tax. In the Ministry of Education, brainstorming is underway. I think they don't give grades anymore in elementary school. So let's imagine the university, the lecturer inputs the data in special software and then everything is automated! The arithmetic mean is calculated, the overall results are based on these calculations and the program makes a decision

on granting the diploma, which is later accessible to the employer. Therefore, the candidate is not asked to provide additional certified documentation. Furthermore, if the academic excellence scholarships are also calculated automatically, the words "bias", "corruption" and "discrimination" will be a thing of the past.

In the same "Blockchain Georgia", the Ministry of Agriculture starts to analyze the concept of "field to fork". What does the traceability of the product mean? Where is the farmer who wanted to store the food's life cycle on blockchain? Maybe it does not make sense at all? But then, why are VIN numbers of cars used worldwide?

In "My Blockchain Georgia", the Ministry of Economy prepares revolution in the field of energy and starts researching the possible usage of 3D printers. Start-ups enjoy the opportunities of crowdfunding. The Central Election Commission believes that voting on blockchain can be real and hires the developers. The Ministry of Health digitizes the patient's health records. Business registry, TAX, licenses, notarial acts, wills, marriage contracts, Apostille - a suitable platform can be found for everyone.

It does not mean that blockchain is the universal solution for everything. Digital transformation does not necessarily entail using Blockchain technology. It might be a zero-paper policy, the introduction of Optical Character Recognition, using Artificial Intelligence in certain processes, the capabilities of Augmented Reality and many others. For instance, what if we don't just tell tourists the stories of an unprecedented victory that was achieved during the battle of Didgori, but instead tell the story using new technologies to create a virtual reality, and by letting them physically feel the story? And with this we would have been able to re-create the history we are so proud of and make it tangible.

Finally, in "my Blockchain Georgia", a new working space is created. And it's a platform where all the people involved work together, where strategic decisions are made, where bold steps are taken, where innovative ideas will lead to revolutionary results and where no one is afraid to make mistakes because they will learn from them later.

One of the most important functions of the state is the maintenance of information related to identity, property and business in a protected environment. The management and use of this data is difficult, even for well-developed governments. The registration agencies usually form their own infrastructure and database, which has to be protected from damage, fraud, cyber-attacks, and unauthorized access, which at the same time should reflect highly precise information.

How can we become only the suppliers of information and automate the rest of the processes? Or why is digital transformation and automation better? To illustrate this, only Estonia's example will be enough; they manage to save 820 work years annually by developing e-governance.

How can we achieve "our Blockchain Georgia"? No one will tell us, we are the ones to think about it and we are the ones to do it, that's exactly why we are where we are. F



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Forbes

GEORGIA

NO UPPER **LIMIT**

THE STORY OF MUSICIAN **NINO KAMBEGASHVILI** IS NOTHING IF NOT IMPRESSIVE. SHE COMBINES SEEMINGLY DIFFERENT INTERESTS SUCH AS MUSIC, POLITICS AND BUSINESS

CEO

NINO KAMBEGASHVILI

THE SKY IS THE LIMIT

The personal story of musician Nino Kambegashvili is nothing if not impressive. It is difficult to believe that a person can combine seemingly different interests such as music, politics and business so seamlessly. Her charitable activities both in and outside Germany are worthy of attention in their own right. The story of the Georgian girl's success began at the Hoch Conservatory in Frankfurt in 1998, and continues to this day. Her name is connected to numerous bold initiatives and successful business deals. In an interview with Forbes Georgia, she speaks about her habit of seeking to incorporate culture, art and science into every business niche.

BY ELENE CHOMAKHIDZE





Nino, you are a musician by profession. Was it your initiative to move to Frankfurt in 1998, or did you receive a specific professional offer?

I was 16 years-old when the Rotary Art Club was established in Tbilisi. In fact, I co-founded this club, and was actively involved in its activities. I have been a very active person since I was a student. I always do more than I am tasked to do, and I enjoy it. I received an invitation from the Frankfurt Conservatory at the age of 18, and I finished in the top-five of the entry exams among 200 applicants. I was given a scholarship by the Rotary Club, which helped me a lot. In fact, I went on to receive several scholarships from this club over a certain period of time. Thus began my fortepiano studies at the Frankfurt Conservatory in 1998. I also had a chance to conduct additional studies within another faculty, and I chose the Faculty of Composition, where I had the opportunity to work with the legendary composer Hans Zimmer. You can imagine how many new doors were opened for me at that time.

It is evident that your early activities in Frankfurt were only associated with music. How did the events unfold afterwards, and is Frankfurt a place where dreams and goals can be realized?

Frankfurt is a very diverse city that offers many opportunities. It is more international than most cities in other states of Germany. When I first arrived there, I could not speak German at all. Nevertheless, during my first year in Germany, I was hired by a private music school as a music teacher, and I learned the language by communicating with the children. This school paved the way for me to enter the music business. I had numerous students, with whom I organized several successful concerts. In 2007, having already graduated from the Frankfurt Conservatory, one of our concerts was attended by a close friend's husband, who is a German music professor. Afterwards, he pledged to help me open my own music school. He provided funds totalling 5,000 euros, which allowed me to open a school in an area of Frankfurt where no such establishment existed before. The building only had three classrooms, and I myself lived in one of them to save money.

Did your friend's husband's investment pay off?

While working at my previous school, I realized that more money could be made by giving music lessons than by organizing concerts. This school has been posting substantial revenue figures for 12 years. More importantly, these revenues are growing on a regular basis, which even surprised the people at the bank who could not imagine that a music school could be a lucrative asset. Personally, I have a habit of looking for a business niche where I can incorporate culture, art and science along with making money.

Did the opening of your own school inspire you to establish the Georgian-German Economic and Cultural Association, or did this idea come about earlier?

I established the association in 2006, approximately one year before I opened my school. Music schools in Germany were quite boring at the time. They lacked dynamism. I decided to organize an international competition, where children would not only perform, but also compete against each other. It is hard to believe that the culture of organizing such competitions was absent in the homeland of Bach and Beethoven. Many Germans today do not regard music as a profession, because there is not a lot of money to be made in this field. They think pragmatically, and choose to pursue more lucrative professions. In order to obtain state funding to organize the competition, I had to establish a non-governmental organization, and that is how the association was created. We received several thousand euros in funding each year, which allowed us to establish an international festival that carries the name of my school - the Golden Key. We tried to popularize the festival in Georgia, where there was a lot of interest, but many people did not have the funds to even cover the cost of flights. I decided to come to Georgia to organize trials together with Nika Memanishvili at the old Concert Hall. We selected six children, whose visit to Germany was fully financed by us. All of this took place in 2007, and it was the association's first event.

So, approximately 10 years after arriving in Germany, you already had your own school

and your own association? That is undoubtedly an interesting synthesis. However, we are particularly curious to know how you became interested in politics.

It just so happened that I became acquainted with several interesting individuals who were active in politics, such as my students' parents. The district where our association set up its office was also home to the chairman of the conservative Christian Democratic Union - Angela Merkel's party, which I later joined myself. Most classical musicians are conservative by nature, so this party was best suited for my mentality. I would say that politics chose me, rather than the other way round. By 2006, members of the party were already aware of my work, and asked me to join. They saw potential in me. The CDU takes the loyalty of its electorate very seriously, so it always stands firmly behind the people. I have

family was unable to pay. Over the course of the past 20 years, I realized that the further I moved forward, the more I was able to do. My ambitions were growing, I needed to raise more money, and so on. Many people asked why I was putting so much on my plate. My response was always the same: I have the necessary strength and ambition. Naturally, I am talking about a healthy ambition. It is amazing to see so many happy people around me after a successful project. It makes my own life more diverse too.

Since you mentioned charity work, I would like you to recall your visit to Afghanistan, which was a very risky but noble undertaking. Why did you specifically choose to go to Kabul?

2010 was a strange year. I arrived at the National Music Institute in Kabul and stayed there for a

“I always advocate decentralization, and the case of Georgia is no different. The provincial regions must be given more opportunities to strengthen economically.”

never come across a stronger political union in my life. In Germany, politics are done for the benefit of the population. ‘To do’ is the most relevant verb with regard to politics for me, and I am delighted to be part of this culture. I have been a CDU member long enough to be able to enter the Parliament of Hesse directly in 2020, without having to participate in elections. I will then be in charge of Eastern European relations.

I get the impression that each new undertaking helped you improve upon your previous work. Do you see a pattern?

I was able to use the music school's finances for the charitable association's activities. Politics ensured that all of our economically sound projects received material and moral support. Everything falls into place like pieces of a puzzle. Culture, economics and politics jointly lead you towards doing charitable work. There are poor people in every country, and Germany is no exception. I have given many lessons for free, as I knew that the student's

month. I wanted to help as much as I could, because there were lots of incredibly talented Afghan children studying music there. From the moment I arrived, I felt the city's strength, which it passed on to me. I had wonderful pupils. I had the idea of establishing a girls' orchestra - the first of its kind in the country. We were successful, and the orchestra went on to perform at the Davos Forum opening ceremony. This was a very successful project. Apart from Afghanistan, I also had numerous interesting undertakings in Georgia. In 2013, I brought Peters notes to the country. The president of Peters gave us 1,500 notes as a gift. We also gave away four electric pianos and other musical instruments.

Last year you opened the first Georgian restaurant in Frankfurt, called Old Tiflis. Is the opening of the restaurant in any way connected to the Frankfurt Book Fair, where Georgia was a guest of honor last year?

For some reason, people were weary of opening a Georgian restaurant in Frankfurt. I took this deci-

sion because I believed in what I was doing. In 2018, as a result of hard work and great effort, Georgia obtained the status of a guest of honor at the Frankfurt Book Fair, and I decided to fill this gap on the market. I was surprised to learn that nobody had thought about presenting Georgia's culinary aspects during the fair. I quickly found a location close to the fair and opened Old Tiflis only two months later. In the beginning, I was waiting tables myself, as I wanted to personally welcome the guests, explain to them who we were and what we offered. We also did some crazy stuff for marketing purposes. For example, we cooked small khinkalis and took them onto the streets for people to try, screaming "khinkali, khinkali!" It worked, and we got a lot of people interested in Georgian cuisine. The restaurant was very popular from the beginning.

In hindsight, was the opening of the restaurant a successful move?

As you enter the restaurant, you see photos from my private album, where I share the stage with people such as Hans-Dietrich Genscher. Customers become curious about the stories behind these photos, and we end up striking up a conversation. They can spend hours at the restaurant enjoying various Georgian dishes and wine, which I also tell them everything about. In the end, we make money by passing time in an enjoyable fashion, without even noticing it. This is further proof that you can make money by doing something that you enjoy. One of the local newspapers even referred to me as a 'gourmet pianist,' which I liked a lot. In another achievement, the Radeberger Brewery, which has a virtual monopoly on the local market, offered me full financial backing and commercial space to develop a business concept. I am taking advantage of their offer, and from the first of April this year, I will be renting a large space in one of the city's oldest palaces in order to organize and manage wine and food festivals and cultural events during the summer.

It can be said that your activities allow you to act as a goodwill ambassador in Germany. How do you see the development prospects of the economic ties between Georgia and Germany? Do you have any plans of your own

with regard to Georgia?

I always advocate decentralization, and the case of Georgia is no different. The provincial regions must be given more opportunities to strengthen economically. Two large German investors are currently interested in building hotels in the Georgian countryside. We will be visiting Georgia together in April. One of the investors wants to build a 2 or 3-star hotel in a village, and is only asking that the state allow him to use a plot of land free-of-charge for a certain period of time to set up the business. Tust Immobilien is a real estate company that specializes in building medium-class hotels across the world. The investor asked me to find a suitable village in Georgia to build a hotel, and I am currently





pursuing this matter. Imagine how wonderful it would be to open a hotel in such a village, creating jobs and boosting local tourism. Various festivals could be organized there, attracting more and more interest in the location. The village would become financially and morally stronger, which would be enormously helpful in light of its difficult geopolitical location. As for the other investor, this is a company that unites several real estate specialists. They also wish to invest in real estate in Georgia, but not in Tbilisi. One of the options is Kvereti resort, where it is possible to build an excellent medical hotel. Along with these two investors, I will also be bringing the President of the Frankfurt Airport to Georgia in April to negotiate an agreement between the two

countries in the field of logistics.

What is your success based upon?

My strong character and the support which I receive from my team. Your team can only be strong if you are fair and honest in your relationship with them. I always protect the interests of all my team members, be it the chefs or the cleaners. The formula for my success is to share my profits with my team. For example, I always increase the salaries of the teachers at my school in accordance with inflation. We have an equal number of holidays, and we are very friendly with each other. However large the building, it is doomed to collapse unless it has a sound base. That is how I view my business activities. **F**



CHASING THE FUTURE

BY ELENE CHOMAKHIDZE
PHOTOS: KHATUNA KHUTSISHVILI



CEO

BK CONSTRUCTION

More than 20 completed projects, including 3 branded hotels, 5 projects undergoing construction, and reconstruction of several historical buildings - this is what the portfolio of BK Construction looks like. In 2017, the BK team with 25 years' worth of construction experience, merged with m², taking over the latter's construction and engineering activities.

Forbes Georgia enquired about the results of the merger, as we sat down with the Managing Partner of m², and the CEO of BK Construction, Shota Berekashvili.

Let us start from the beginning. How did you get into the construction industry?

BKConstruction first appeared on the market under the name of BKCapital. However, the team behind the company had started out years ago in Moscow. Choosing the right professionals to work with is the primary factor that determines success in the construction business - afterwards the process proceeds smoothly.

The founders of our company boast 40 years of experience operating in the construction industry. They started off in Kutaisi Construction Trust, headed by my father and as of 1992 were doing business in Moscow. Times were tough back in the 90s, however my father, Tamaz, managed to recruit and retain a great staff. He personally trained these professionals and formed a strong team with whom he managed to implement new technologies and run the company smoothly at a time, when nothing was being built.

The company's activities between 1992 and 2009 were largely focused on public buildings, including the construction of schools, kindergartens, offices, as well as commercial and residential complexes. The company has also been involved in multifunctional district constructions. As of 2009 we have started operating in Georgia under the brand name of BK Capital, until in 2017, the company was rebranded BK Construction.

Did you simply change the name, or did you also adopt a new concept?

The main reason for rebranding was our company's impending 2017 merger with m², which transformed BK Capital. We created a completely new, modern brand with a clear vision for the future, vast experience and direction towards honing our standards.

We also made sure to select a relevant brand name for the firm. Most of our work goes into benefitting the m² projects, however we also do business with third parties.

It's worth noting that the merger with m² provided BK Construction with a great opportunity to grow and strengthen its position on the market, yet the scale of the project posed new challenges. However, our company has never backed down from challenges; we've always been ambitious to grow. Our rebranding and transformation allowed us to mature, while also increasing the scope of the m² activities. Nowadays, we offer our clients comprehensive services throughout the whole project cycle including project planning and construction management.

Going back to 2009, could you tell us a bit about what the market looked like back then?

In 2009-2010, the construction market was only just beginning to take shape in Georgia. There were very few companies that could carry out large-scale construction- no more than 2 or 3 firms, ourselves included. In 2010, we undertook a highly ambitious and interesting project -the reconstruction of the Bank of Georgia HQ. This was our first major project. On one hand, it was unique due to its architectural complexity, naturally posing as a challenge for us as a construction and engineering firm; on the other, due to its role in defining the city's identity and skyline, it placed an increased sense of responsibility on us as we were working on its reconstruction. Moreover, Office buildings are more complex in their nature than residential developments: they require more detailed engineering solutions, including complicated heating, ventilation and safety systems. In 2009, none of the local construction companies had the experience or the expertise to carry out a project of this nature in Georgia.

With the first successful project under your belt, what impact did it have on your business and its subsequent development? Would you say that it was the most difficult project for you?

Naturally, the reconstruction of the Bank of Georgia headquarters is a project of great pride for us, as it represents an integral part of the architectural fabric of the city. I would like to stress the point that this project required caution and considerable responsibility. The building was virtually reborn. We are also proud of the funicular reconstruction project, which we carried out in 2010-2011. Construction of the Iveria Holy Virgin Cathedral on the Makhata Mountain stands out due to its historical significance. We are currently working on a huge project - the Saburtalo City Mall, with the total buildable area of 120,00 square meters. BK Construction made a 2.7 million GEL investment to purchase new technology for this project. These modern systems and professional planning allowed us to complete the steelwork of this massive project within one year's time.

However, we have even greater challenges ahead of us. I would highlight a modern urban development project, which we planned together with the Canadian-American firm ZGF. The modern neighborhood will be constructed on a 10-hectare land and shall include residential, commercial and office buildings, as well as spacious recreational areas, parks and sports facilities. This is a unique project for us, as we are building a new neighborhood based on European and American models, set to affect the cityscape, making it more attractive.

I am particularly delighted to note that we've built three internationally branded hotels in Georgia - Ramada Encore Tbilisi, Moxy Tbilisi by Marriott and the Radisson Collection Tsinandali. These projects provided us with valuable experience. Since 2009, approximately 70% of our projects have been carried out in cooperation with m². Each successfully completed project was better than the last one. Therefore, the merger with m² was a logical continuation of our collaboration.

The market is clearly better regulated today than it was 10 years ago...

We welcome the latest developments in the construction industry. I am referring to the introduction



“Naturally, the reconstruction of the Bank of Georgia headquarters is a project of great pride for us, as it represents an integral part of the architectural fabric of the city.”

of more stringent safety norms and health and fire and life safety regulations. This shall place us on an even footing with other development companies. I would also like to stress the benefits of the recent fundamental standard changes that regulate both construction safety and quality.

It's noteworthy that our joint projects with m² complied with 90% of the aforementioned regulations even before these came into effect. This has always been associated with substantial costs. However, we are operating in a high-risk environment, which requires adherence to high standards of health and safety for our specialists, as well as

to the general construction norms. Our engineers and workers are invaluable to us. This was the case before the regulations, and it is the case now.

How will BK Construction benefit from this new market? What will be the company's competitive advantage?

Generally speaking, construction is a complex industry, and we can view the issue of competition in broad terms. Competitive environments in the fields of engineering, steelwork, façade work and decoration differ from each other quite radically. There are also substantial differences based on the

project type, whether it is a residential or a commercial project, a hotel or an office block. For example, we face fierce competition in residential construction, while the opposite is true with regard to hotels, as there are few Georgian companies that can carry out such complex work. Our advantage is our strong and experienced team of engineers and technical personnel, which brings together both young and older professionals who share their knowledge and expertise with each other.

Furthermore, we are operating modern systems, and are constantly looking to upgrade them. This speeds up the construction process, that benefits both the client and us, as our technological advantage gives us the edge over other companies in the context of healthy competition. In short, our competitive advantages are our resources, our experience and our willingness to constantly strive for development.

How difficult is it to source qualified workforce in Georgia, and what is your perspective about the labour market asymmetry, which we often hear about?

Our company's main asset is our staff. BK Construction currently employs up to 150 engineers and technical personnel. These people are our wealth, as they bring decades of experience in their respective fields of expertise to the table. They are the core and the brain of the company. They plan and design each stage of every project.

Naturally, the subsequent development of the project is dependent on a specialist workforce; our company relies on highly qualified individuals in this regard. As of today, BK Construction employs approximately 1,100 people, but in light of the scale of our planned projects, this number is set to at least double over the next two years. We believe that we will be employing as many as 2,500 professionals in the near future.

How do you plan to double these figures? Tell us more about your future projects.

We are planning to build up to 1,000,000 m² over the next five years. Most of this work is related to the m² projects, but we are also actively working with third parties. As stated earlier, we are planning to double our workforce, but we are also



facing the reality of shortage in qualified engineers, technical experts and other specialists in various areas of construction. This led us to the idea of establishing a vocational college of construction in Zestaponi. Construct2 is a joint project between m² Real Estate and the Ministry of Education, Science, Culture and Sport. Its total investment value is \$4 million. Through its 11 short-term vocational courses in engineering, the college will prepare up to 600 certified specialists each year; simultaneously the state programme will train labour safety and environmental technology experts. The



college will receive its first wave of students in March. Academic courses will run between 2 and 3 months, and will be followed by three-month paid practical training at one of our facilities. Tuition at Construct2 is free and graduates will have the opportunity to become involved in BK Construction projects.

In summary, what is the main prerequisite for achieving success in this business?

You must know what you want to achieve, and who you want to achieve it with. When we were

working in Moscow, we were constantly thinking about returning home. We wanted to implement large-scale, high-quality projects in Georgia. However, this was not possible during the 1990s. Our main achievement was maintaining a team of professionals who have stayed on the same page and shared the core values that determine success of our work - they are highly qualified, motivated and united as one big family. I am delighted that we are now fulfilling our dream - we are back in Georgia and doing what we love, with the same team and a new sense of determination. **F**

THE DOMINO EFFECT

Chirina is one of the largest companies in Georgia that operates a full meat production cycle and controls the whole production process, from each specific egg to your plate.

BY ELENE KVANCHILASHVILI
PHOTOS: KHATUNA KHUTSISHVILI

Revaz Vashakidze celebrated the New Year by receiving two awards. He was named the 2018 Entrepreneur of the Year by Forbes Georgia, while Chirina was awarded Blue Ribbon status by the European Bank for Reconstruction and Development (EBRD), which means that the company stands out for its best practices and high potential.

As we shall see, both of these decisions are completely justified.

Chirina is the largest poultry farming complex in the South Caucasus, and one of the most successful food production companies in Georgia. Founded in 2010, it has already invested approximately 160 million and managed to position itself as one of the leading players on the meat production market. The company, whose major brand is Biu-Biu, employs more than 400 people.

The company was the first in Georgia to open stalls selling fresh chicken under the Biu-Biu brand name. It was also the first local firm to implement modern practices in poultry production, and it continues to upgrade them on a regular basis. What is particularly impressive, is that one can recreate the whole production line at Chirina - from each specific egg to your plate.

"We were aiming to create and implement advanced, modern agricultural products. Once it is implemented, the effect is immediately on hand," says Rezo Vashakidze.

Chirina continues to expand its production even further. The gradual increase in investment is also part of the long-term vision which the company was founded upon.

"It is fine and well to say that you are going to build

a farm and start poultry production, but there are so many details to this process - be it incubation, poultry rearing, establishing a raw material base, or branding. We addressed all of these issues in advance, which ultimately allowed our company to establish itself on the market," states the Deputy Director of Chirina, Ketik Vashakidze.

Not only has the company managed to establish itself, but it has become the largest, vertically integrated enterprise in the South Caucasus.

Chirina currently owns breeder, pullet and broiler farms, a feed mill, a grain dryer factory, a meat processing plant, a hatchery, a rendering plant, a waste water treatment plant, apple gardens, a fruit refrigeration complex, and the veterinary laboratory Sana.

Furthermore, the company partly provides its own raw materials for production, as it owns vertically integrated enterprises and lands for growing corn and wheat. Since this is not enough for mass production, Chirina also buys and processes raw materials from Georgian farmers.

"Chirina's activities have a domino effect," says Ketik Vashakidze. Indeed, since the grain dryer factory was built in Sartichala, the number of uncultivated plots in the surrounding areas decreased significantly, as a real market was created for the local farmers.

The principle of a vertically integrated enterprise and the domino effect are the two main aspects that led Chirina's founder Rezo Vashakidze to become involved in poultry business.

Vashakidze is a biologist by profession. Having graduated from Tbilisi State University, where he studied together with Kakha Bendukidze, he obtained graduate



Revaz Vashakidze

and doctoral degrees at the Engelhardt Institute of Molecular Biology (EIMB) in Moscow. He subsequently worked at the EIMB in the field of genetic engineering.

"I had the advantage of being a biologist who spoke English," recalls Rezo Vashakidze, adding that choosing a career field that was relatively well-shielded from corruption and crime allowed him to achieve success in Russia. "The oil business was most affected by corruption and crime. I protected myself by pursuing a degree in biochemistry. No gangster knew chemistry at the time."

Vashakidze went on to participate in the privatization of chemical plants. He owns shares in several of them to this day. In 2007-2008, following the rise of nationalist sentiment in Russia, he first sent his family back to Georgia, and later moved back himself.

"Georgia was actively fighting corruption, and I found the investment environment to be attractive," Rezo states, explaining his reasons for deciding to invest in his home country. He saw demand and job creation opportunities in the field where he chose to conduct business. The case of Chirina demonstrates that the poultry business has created a whole new cluster, meaning that the jobs required for this cluster are more diverse and long-term in nature.

Sourcing qualified staff remains a challenge, but here too, Chirina has implemented a system which its top management claims to be successful: each year, the company invites specialists from abroad to teach staff about the latest developments and approaches in the field, and to conduct on-site work with them for a certain period of time. At the same time, company employees regularly take part in international conferences and exhibitions.

Deputy Director of Chirina Ketí Vashakidze understands the value of education very well. Her professional debut virtually coincides with the company's origins. She received an education in economics in the United States and Germany, before undergoing her graduate studies at INSEAD. When she returned home from the US in 2011, Chirina was a well-calculated business plan. Ketí did not have to think long about fully involving herself in the process of turning the plan into reality. However, she recognized that conducting real work required more than just theoretical knowledge. Prior to setting up the system with her team, she made sure to fully familiarize herself with all aspects of the process, be it the best practices (for which she conducted

extensive travelling and communication with partners), setting up production, creating new products or bringing those products to the market.

When Ketí Vashakidze returned to Georgia, she never contemplated working in the public sector, as she firmly believes that the country can only achieve progress on the back of a well-developed private sector. In the case of Chirina, she first realized the company's role in the country's economy in 2013, when Biu-Biu chickens went on sale for the first time.

"It is so encouraging to enter a shop and watch people choose the product that you helped create," states Vashakidze.

Observing the choices made by the consumer is not only encouraging, but absolutely necessary in business. According to Chirina's founder Rezo Vashakidze, up to 16,000 people visit Biu-Biu chicken stores every day. Data such as customer spending per visit and by district, or their payment method of choice, is highly valuable for the company to gather and analyze.

When asked about the patterns emerging from the aforementioned data, Rezo states that there are few positive conclusions that can be drawn.

"The volume of sales largely depends on people receiving their salaries and pensions on time. Chicken is the cheapest type of meat, so if people are not buying it, then it is safe to assume that they do not have money."

Rezo Vashakidze believes that the National Bureau of Statistics ought to be demonstrating the same scrupulous approach he takes with his own company when it comes to collecting and updating data, making it transparent and accessible for the private sector. He laments the fact that the data provided to him on request by GeoStat rarely matches his own analyses. According to him, Georgia's economic policy will never reflect the country's real needs unless an accurate overall picture can be presented. For Vashakidze, even a vital piece of data such as the economic growth figure remains no more than a number for as long as it is not being translated into real per capita GDP growth.

All international studies show that per capita GDP growth increases meat consumption. According to the UN Food and Agriculture Organization (FAO), production and consumption of chicken meat has been steadily growing since 2005, and this trend is set to continue until at least 2030. Qualified forecasts show that annual production and consumption of chicken meat in developing countries during this period will increase by 3.6%

and 3.5%, respectively.

The FAO identifies per capita GDP growth as one of the most significant factors that influence meat consumption. Other major factors include population growth, urbanization, pricing and technological achievements in the field of meat production.

Chirina is not scared of competition. On the contrary, the company regards it as the main stimulant for growth and development. Its plans were never limited to the local market, and in the context of competition, unlike many other players on the market, it views consistent product quality as a factor of equal importance to pricing.

"Our goal is to ensure that our products are always of the same high quality, and it does not matter whether you buy them today, tomorrow, or in a year's time," Ketivashakidze explains. According to her, it is impossible to achieve uniformity and consistency in production without implementing standards. Furthermore, Chirina carries out regular veterinary lab tests and reduces the risks associated with product quality to a minimum.

"People who eat high-quality food get ill less frequently, meaning that it costs the country less to look after them," explains Rezo Vashakidze, adding that the terms of the EU-Georgia Association Agreement are based upon sound business logic.

"The Europeans would not have implemented so many production standards unless they knew that streamlined production brings higher profits in the long term."

People at Chirina have never questioned the need for standardized production, and at no stage have they regretted investing in this area. Today the company's production is virtually waste-free. For example, at the end of the poultry rearing cycle, chicken droppings are taken to a special landfill, where they are converted to organic fertilizer (compost), which is used to grow corn and wheat on the company's land. The use of the more natural and healthier compost instead of chemical fertilizers significantly increases the quality of the final product.

Furthermore, the waste produced at the company's meat processing plant is fully converted into protein products. Modern equipment for the protein feed mill is supplied by the Danish firm Haarsley. The waste gets processed into chicken fat, while the flour produced from bones, feathers and blood is used in agriculture as an animal feed supplement. To this end, Chirina is



Keti Vashakidze

working with a company that produces cat and dog food. According to Rezo Vashakidze, feathers, blood, head and feet make up approximately 30% of a chicken - waste which needs to be disposed of. Thus, out of every 2,000 tons of product, approximately 600 tons have to be thrown away.

"This is a major problem," says Vashakidze.

Systemizing the issue of natural waste and implementing norms is one of the areas where Chirina is actively working with the Georgian government. The



company is pushing for the implementation of certain standards in production waste management, and it has studied the international best practices in this field. However, despite many years of proactive communication with the government, this issue has still not been resolved.

“Reducing bureaucracy and speeding-up the decision-making process would significantly improve the business environment. The public and private sectors ought to be actively collaborating towards the same goal - to live in a better country,” states Ketj Vashakidze.

Another challenge facing Chirina, which cannot be resolved without active government support, is the issue of exports to the European Union. Although the company itself is in full compliance with all EU norms, food exports require the country’s harmonization with

all the stipulated standards. This means that unless Georgia implements all the required norms, Chirina will be unable to export its products to the EU.

Rezo Vashakidze has also studied international practices in this field. According to him, some countries have requested quotas for individual harmonized enterprises, meaning that the enterprises in question were inspected by the appropriate EU authorities and allowed to carry out exports due to their compliance with the set norms. Vashakidze believes that more active communication with the business sector will allow the government to avoid such dilemmas, as well as ensuring that international agreements are better suited to the private sector and more beneficial for the country.

“It is simple to import poultry and eggs from Turkey, but the same cannot be said about the process of exporting products in the other direction. The same applies to China, with whom we have a free trade agreement. Chinese products are actively being imported to Georgia, but when we applied for permission to export chicken feet to China, we have had no response for 18 months. We have tried involving everyone, from the embassy to the ministry, but still we have heard nothing,” states Rezo Vashakidze, adding that the only neighboring country with whom Georgia has a well-functioning trade relationship is Azerbaijan. Chirina has been exporting its products to Azerbaijan for the past 18 months.

Vashakidze firmly believes that the government must focus on efforts to fully harmonize trade relations with the European Union, and only then turn its atten-



tion towards opening new markets for high-quality local products.

Senior managers at Chirina hope that the company can implement best production practices in the country and set an example for other local players in this field. According to them, the more vertically integrated large enterprises there are in Georgia, the faster we can change the existing picture, whereby half of the population is employed in agriculture, yet the sector only accounts for a small share of the country's GDP, making it greatly dependent on imports.

"Scale economies are an important aspect," states Ketivashakidze, explaining that this is one of the factors that have allowed the company to manufacture high-quality products at competitive prices. In this context, she believes that experienced, large-scale enterprises such as Chirina must be the main target group for initiatives such as the preferential agro credit project. Indeed, the company built the grain dryer factory and warehouse complex in Sartichala through government support. According to the Ministry of Agriculture, the total investment amount was €6 million.

Chirina also has big plans for the current year. First, the company plans to build new farms and increase poultry meat production by approximately 1,800-2,000 tons per month. Secondly, it plans to expand its pro-

duction of processed poultry products (chicken ham, sausages etc.), for which it will only use high-quality local meat. The company also wishes to start producing turkey meat, but this will depend on whether the revenue and purchasing power of the population increases.

Until then, Revaz Vashakidze and his team are sure to continue gradual progress towards achieving their goals. The company has a streamlined philosophy. It is reflected in the company founder's quote, which I have purposefully reserved for the conclusion of this article.

"If business does not work at home, then it will not work away from home either."

That, too, is a domino effect. ^F



ECONOMICS

IRAKLI DANELIA - CURRENT EVENTS

Perspectives of Georgia-Azerbaijan Cooperation in the Context of the New Silk Road Project



IN LIGHT OF THE GLOBALIZATION PROCESS, Georgia and Azerbaijan enjoy a favorable geographic location - at the crossroads of where Europe and Asia meet. This provides the two countries an opportunity to develop an effective transport and logistics sector. Because the South Caucasus has the potential to become a hub for the transportation of strategic cargo, one of the top priorities of Georgia and Azerbaijan is the coordinated functioning of the transport and logistics sectors, the modernization and construction of transport infrastructure in accordance with international standards, the harmonization of legislation with international law and integration into the Trans-European Transport Network.

The Caucasus Transit Corridor (CTC) is a bridge connecting several important economic regions/population centers. These include the European Union (EU) (500 million), the Commonwealth of Independent States (CIS) (200 million), Turkey (75 million) and the Caucasus region, which has 17 million inhabitants. Georgia forms a gateway within the shortest transit route between Western Europe and Central Asia (CA) for the transportation of oil and gas, as well as dry cargo. At the same time, Georgia and Azerbaijan serve as a horizontal transportation link between, Turkey, CA states and Iran.

Georgia, with its liberalized economy, increasingly efficient customs and corruption-free environment, continues to evolve into an effective regional transport corridor to and from the Black Sea. On the other hand, Azerbaijan, spurred by lower oil prices, is actively

developing the transport and logistics sector to improve regional links and connectivity to complete the corridor to and from the Caspian Sea region. For continued CTC growth, and to attract trade flow, the competitive gaps and bottlenecks must be identified and addressed. Recommendations must be developed that will ultimately lead to reduced transit times, increased reliability, and lower costs for goods moving through the CTC.

China's New Silk Road Project - The 'One Belt, One Road' Initiative

In 2013, Chinese President Xi Jinping announced the One-Belt-One-Road (OBOR) initiative and his wish to facilitate trade and transport throughout Central and Southeast Asia. By investing in infrastructure projects and increasing commerce, China hopes to foster relations, growth and economic development. The OBOR initiative will create alternative trade routes, while providing greater and more rapid access to the CA and the European hinterland. Both ongoing and future planned efforts for transport and trade facilitation have come to coalesce under three main routes: the Northern Corridor, the Caucasus Transit Corridor, and the Southern Corridor

Interest in the OBOR is also being fueled and shaped by competing political interests. National interests, sanctions, conflicts and instability have always influenced cargo flows, and OBOR is no different. The competing interests of the actors are impacting development efforts in multiple countries.

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OBOR includes 65 countries comprising more than two-thirds of the world's population, one-third of global GDP, 75% of known energy reserves and a quarter of global merchandise trade.

From a Chinese perspective, the benefits of OBOR are summed up as providing faster transportation of Chinese goods; reducing China's risk in maritime interdiction; facilitating development in China's poor western inland regions, especially Xinjian which borders Mongolia, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan and India, and creating industrial bases across the Eurasian landmass to address China's surplus problem in domestic markets.

Transporting goods from China to Europe via sea, though the cheapest alternative, takes too long.

Sea and air freight dominate EU-China trade. 62% Chinese exports to the EU are

by sea and as high as 24% are by air. Roads and railways make up 8% and 2% of Chinese exports to the EU. Railroad transport could cut down transportation times for China's exports.

The European Union remains China's most important trade partner in Eurasia.

In 2017, the EU was China's second biggest export market after the US, covering 18% of its total exports. In turn, European multinationals are key investors in value chains involving China. Furthermore, the geographical landmass between the EU and China accounts for 65% of the world's population and 30% of global GDP.

Competing Transit Corridors for CTC

There are three alternative routes from the United States of America/EU to CA and from China to the EU:

Route 1: Northern Corridor via Baltic/Russia - Destination Almaty (Kazakhstan, KAZ)

- Antwerp/Rotterdam (EU) / Savannah/Charleston (USA) - Port of Riga- shipping by rail to Almaty

Route 2: CTC via Poti - Destination Almaty

- Antwerp/Rotterdam (EU) / Savannah/Charleston (USA) - Port of Poti - shipping by rail/road to Almaty via Baku/Aktau

- Shanghai (Asia) / Istanbul/Ambarli (TUR) - Port of Poti - shipping by rail/road to Baku

Route 3: Southern Corridor via Bandar Abbas - Destination Baku

- Shanghai (Asia) - Port of Bandar Abbas - shipping by road to Baku

- Shanghai (Asia) - Port of Ambarli - shipping by road to Baku

Trans-Eurasian land bridge - a transport alternative

The northern route through Russia is about 13,000 km long, taking around 16 days. The Trans-Siberian route has two alternatives - in addition to the Trans-

Mongolian line through Ulaanbaatar, there is the passage crossing directly from China into Russia in the Russian Far East. The Trans-Siberian route has the advantage of crossing only a few countries on its way to Europe. However, on this route, the freight crosses into Russia through far northeastern China, servicing China's eastern port cities that have access to the Chinese ports in the east. Moreover, a significant part of the demand for rail freight is from the inner parts of China and not from the east. Both speed and costs are falling for rail freight transportation between China and the EU. The 11,000-km journey between Chongqing and Duisburg via the Kazakhstan route, which took about 18 days in 2014, now takes about 14 days due to technical improvements - considerably less than the time for goods travelling to Europe via the maritime route, which takes approximately 45 days.

The old Silk Road or the China-Central Asia-Western Asia corridor, which passes through Central Asia, Iran, and Turkey to Europe is yet another alternative to the Northern options.

The first Silk Road train, carrying cargo from China to Iran, arrived in Tehran in 2016, suggesting a new chapter in the cooperation between China and Iran in the post-sanctions era. The train, before arriving in Iran, passed through Kazakhstan and Turkmenistan after it left Yiwu city in eastern China's Zhejiang Province, travelling a distance of 10,399km in 14 days - one month less than sea travel from Shanghai port to the Bandar Abbas port in Iran. The route involves crossing too many countries (among them Kyrgyzstan, Uzbekistan, Turkmenistan and Iran), which perform poorly in terms of connectivity. In addition to lacking transport infrastructure, entry to these countries is by border delays and burdensome customs procedures.

The Trans-Caspian Route Middle Corridor Promises and Shortfalls

The corridor corresponds to the EU's TRACECA and Turkey's Middle Corridor visions for connecting China to Europe. The trade route starting from China, travels through Kazakhstan and possibly through Turkmenistan in Central Asia, crossing the Caspian Sea to the South Caucasus and Turkey extending to the EU. The Trans-Caspian corridor has the advantage of promoting China-EU trade, as well as promoting EU's access to energy markets in Central Asia all the while circumventing its dependency on Russia - primarily in energy.

The Trans-Caspian route or the Middle Corridor, a multimodal route, which involves crossing several countries between China and Europe, requires a comprehensive network of infrastructure, harmonized customs and cross-border procedures.

The Northern Corridor has significant advantages over the CTC in terms of cost and transit time. The main advantage of the Baltic route to Europe is the short sea shipping between the Baltic ports like Riga and European deep sea ports like Hamburg. Moreover, rail transportation between Baltic ports and the CA is cheaper than via the CTC/Poti/Baku. Transport charges for imports to CA via the above analyzed three routes vary by location. A preferable route within Europe is Hamburg to Riga.

Georgia-Azerbaijan transport and logistic capabilities. Georgian-Azerbaijani Pipelines

Turkey, Azerbaijan, and Georgia are increasing their cooperation with one another, especially through mega projects in the transportation and energy sectors, some of which also involve Central Asian Republics. Three such mega projects are the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) or the South Caucasus Pipeline (SCP).

The BTC pipeline, backed by Western

companies and led by BP, became operational in 2005. It serves as Azerbaijan's "main export pipeline" rising above the Baku-Supsa (via Georgia) and Baku-Novorossiysk (via Russia) pipelines. Crude oil from Kazakhstan and Turkmenistan (key energy suppliers in Central Asia), is also being transported via the BTC pipeline.

Gas from the Baku-Tbilisi-Erzurum (BTE) or the South Caucasus Pipeline (SCP) connects Azerbaijan's Shaz-Deniz fields with Erzurum in Turkey over Georgia. The EU has proposed that the Trans-Caspian gas pipeline connect the BTE to producers in Turkmenistan and Kazakhstan.

PORT OF BATUMI handles shipments of liquid and dry cargo, which has a capacity of 15 million tons. It's important to note that the capacity of Batumi Container Terminal is 100,000 TEUs per year. Dry cargo terminal has a maximum capacity of 2 million tons per year. In addition, Batumi Oil Terminal provides the services of oil and oil products from Kazakhstan, Azerbaijan, Turkmenistan, Georgia and other countries. Batumi oil terminal is supplied with by Georgian Railway via wagon-cisterns, which is underway in modern railways. The capacity of the oil terminal is about 15 million tons per year.

PORT OF POTI is the largest port in Georgia and the main gateway of the CTC. The port handles liquid and dry bulk, ferries as well as containers. It has 15 berths, with a total berth length of 2,900 meters and more than 20 quay cranes. The turnover of dry and liquid cargo in Poti port is about 600,000 TEU. The port is operated by the global terminal operator APMT, having acquired 80% shareholding interest of the port and the Poti Free Industrial Zone (FIZ). Poti Port starts with an approach channel that is 1.6 km in length and consists of two elbows. The approach channel is 12.5 meters deep in its total span. The projected range of drafts at the berths varies from 8 to 12 meters deep.

APMT took the decision of making container movement more organized within

EU'S TRADE BY MODE OF TRANSPORT IN 2017 (EUROSTAT)

EU's Import from China		
	Volume	Weight
SEA	€213.7 billion	90.80%
	62%	
AIR	€83.4 billion	2.00%
	24%	
ROAD	€27.7 billion	4.40%
	8%	
RAIL	€5.6 billion	1.00%
	2%	
TOTAL	€342.5 billion	

EU's Export to China		
	Volume	Weight
SEA	€101.9 billion	96.40%
	62%	
AIR	€52.5 billion	1.50%
	32%	
ROAD	€3.5 billion	1.30%
	2%	
RAIL	€4.5 billion	0.80%
	3%	
TOTAL	€164.2 billion	

EU's Import from Outside of the EU		
	Volume	Weight
SEA	€870.5 billion	88.90%
	54%	
AIR	€419.8 billion	0.30%
	26%	
ROAD	€255.4 billion	4.90%
	16%	
RAIL	€20.6 billion	5.20%
	1%	
TOTAL	€1616.3 billion	

EU's Import from Outside of the EU		
	Volume	Weight
SEA	€830.2 billion	82.00%
	49%	
AIR	€503.9 billion	2.30%
	30%	
ROAD	€315.5 billion	12.70%
	19%	
RAIL	€21.2 billion	2.70%
	1%	
TOTAL	€1616.3 billion	

the port land area and invested in creating a modern container yard inland container terminal (ICT) adjacent to the free industrial zone with the link to the railway shunting station. It has a storage capacity of 2,500 TEUs and operates a fleet of modern terminal tractors and reach-stackers for the rapid reception/dispatch of boxes. APMT is negotiating with the shipping lines to transfer discharged containers directly to the ICT to speed-up vessel operations. APM Terminals Poti and Poti New Terminals Consortium have submitted a conceptual design for the first stage construction permit of Poti port expansion to the Ministry of Economy and Sustainable Development of Georgia. The designs include construction, development and operation of a new breakwater, 700 meters of quay wall for dry bulk, containerized and general cargo and will be equipped with modern equipment's such as Ship-To-Shore

cranes in accordance with international standards.

PORT OF ANAKLIA will be designed over the course of nine phases, with an aggregate investment of \$2.5 billion. Anaklia Port's depth will be 16 meters, which enables it to berth vessels up to 10,000 TEUs in capacity.

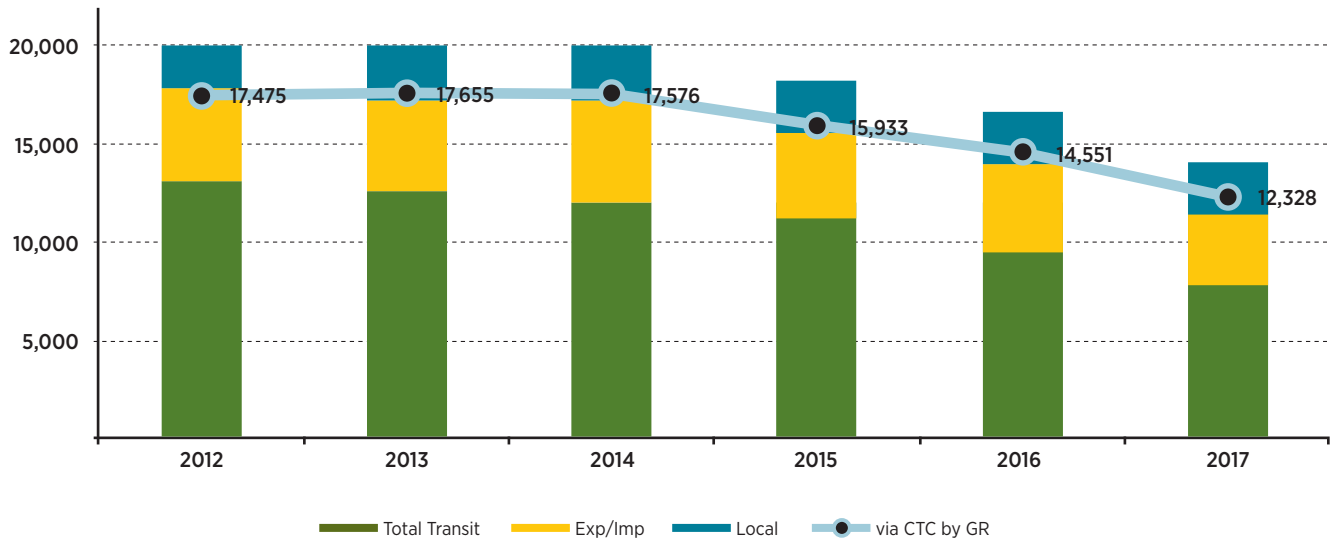
Anaklia Port will have the ability to dock container vessels with a capacity of 10,000 TEUs. During phase 1, 60 hectares of land will be used for the construction of the container terminal with a capacity of up to 900,000 TEUs and a dry bulk cargo facility with the capacity of 1.5 million tons.

PORT OF BAKU Baku International Sea Trade Port (BISTP) is the largest and the most important of the dry bulk Caspian Sea ports. The port has road and rail connections. It also consists of four main terminals - the main cargo terminal, a ferry terminal

(with two docks), a container terminal and an oil terminal. Current turnover capacity at the main cargo terminal can reach 2 million tons per year; the ferry terminal can handle up to 6 million tons and the oil terminal has a turnover capacity of up to 15 million tons. The container terminal has the capacity to store around 5,000 TEUs.

PORT OF ALYAT The development of a new port near the village of Alyat, approximately 70 km south of Baku, has been underway since 2012. After the completion of the new port construction, the existing port of Baku will be completely closed down. According to the port's management, the port will be comprised of a dedicated container terminal, a RORO ferry terminal, a logistics center, as well as a special economic zone. The new port will be developed on a plot of 400 hectares in three stages. The first stage will be launched in 2018 and will consist of a

GEORGIAN RAILWAY (GR) FREIGHT TRANSPORTATION, K TONS



container terminal for 40,000 TEU annually, while the total capacity of the port will be 10 million tons annually. The container terminal will operate with state of the art technology including bridge cranes. The estimated investment volume in the first stage of construction including modernization of the railway lines from Baku to Alyat will amount to 546 million Euros. The third and phase of construction should provide the port with 25 million tons of annual capacity.

Direct Ocean Services to Black Sea Ports

Global liner shipping companies, although naturally competing for market shares, often join in temporary alliances to share and rationalize large containership slots for common ocean routes. Hence, economies of scale are still enjoyed while each company's cargo volume may be separately below ship utilization profitability level. Close rivals Maersk and MSC have joined forces in 2015 to share ship slots on trans-oceanic routes on Far East/Europe and transatlantic services.

All Black Sea ports were feeder ports

until 2003. Their drafts did not allow for the accommodation of the ever-growing size of ocean vessels. They were not connected directly with ports of departure where large ocean containerships were consolidating containers for the entire region and shipping them to the nearest hub ports in the Mediterranean (Istanbul, Piraeus etc.) for transshipment on smaller feeder vessels and distributing them across the ports of final destination in the Black Sea. Transshipment made the TEU cost and transit times higher and relinquished the cargo owners' opportunities to benefit from the economies of scale that large mother vessels deliver.

CTC railway mainline sections

ADY and GR are members of the Organization for Cooperation of Railways (OSJD), an inter governmental body among 24 state-run railway companies of the Eastern Bloc of Europe and Mongolia, the so-called 1,520 gauge area, and China. The organization coordinates the improvement of rail transportation aspects, with a special focus on intermodal transportation from Asia to Europe among the member states of the

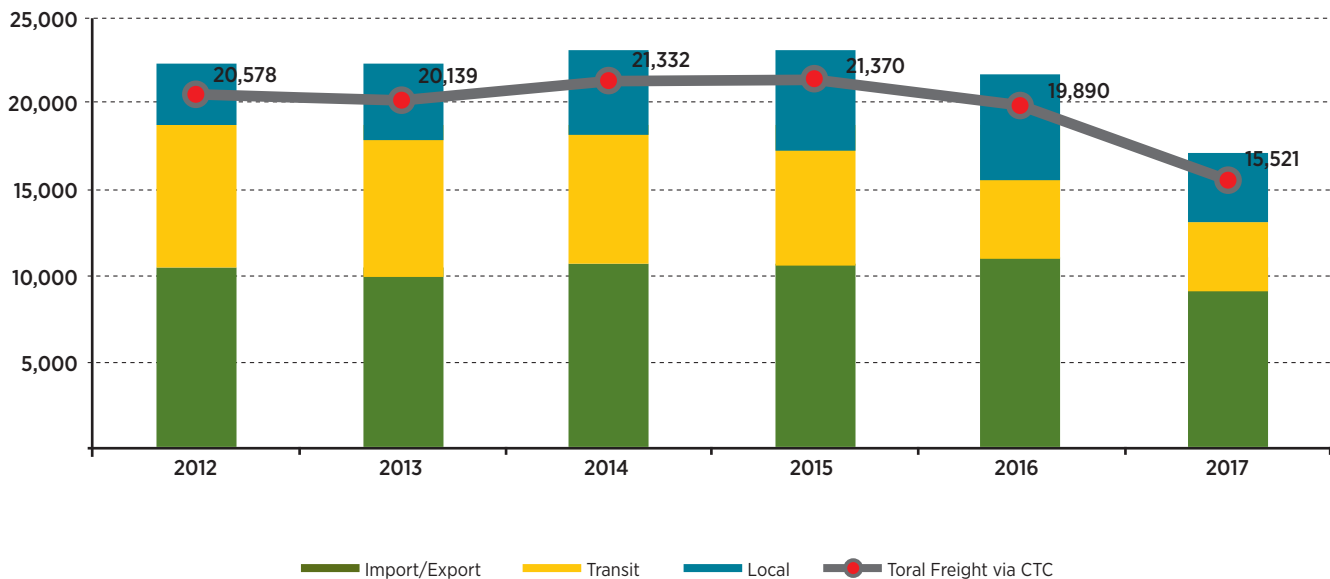
"The Agreement on International Goods Transport by Rail" convention.

The main trans-Caucasus railway line that also represents the CTC rail route is the Batumi/Poti-Tbilisi-Baku line connecting the Black Sea with the Caspian Sea via Azerbaijan. An 863 km route from Poti to Baku is almost fully double-tracked. The Georgian sections span 396 km from Batumi and 362 km from Poti to the Georgian-Azeri border and further on the Azerbaijan section from BeikKiasik to Baku, 501 km respectively. GR can handle 27 million tons annually.

The total length of the rail tracks span 2,115 km, out of which 820 are double tracks including both the north corridor to Russia and western corridor via Georgia.

The Baku-Tbilisi-Kars project is intended to complete a transport corridor linking Azerbaijan to Turkey (and therefore Central Asia and China to Europe) by rail. It is interesting to note that in late 2015, a goods train took only 15 days to travel from South Korea to Istanbul via China, Kazakhstan, Azerbaijan, and Georgia—considerably less time than a journey by sea. The line is intended to transport an initial annual volume of 6.5

GEORGIAN RAILWAY (GR) FREIGHT TRANSPORTATION, K TONS



million tons rising to a long-term target of 17 million tons.

The infrastructure evaluation segment of the Global Competitiveness Index 2012-2017, annually compiled by World Economic Forum (WEF) experts, ranks about 140 countries' various economic performance indicators. GR infrastructure occupies 38th place in the latest report, while ADY has advanced to the 29th position due to its upgrade projects. GR rankings are stable but in the long-term, more serious upgrades would be necessary to improve its position. The competing North Corridor Russian Railway ranks 25th, slightly above the CTC railways, which would not be expected from one of the biggest railway companies in the world in terms of revenue, physical infrastructure and rolling stock needs. Another competitor, Iran Railway Company, lags behind the CTC rail infrastructure at the 46th position.

Prospects for Georgia-Azerbaijan cooperation in terms of strengthening transit function of the CTC

Trade facilitation may manifest in various effects, such as fewer delays at border

crossings, better targeting of risk shipments, and higher productivity of staff or the on-line filing of documents. Trade facilitation indicators therefore describe and interpret the various aspects of trade facilitation. The most commonly used indicators tend to focus on the following aspects:

- Required time for key procedures or processes, such as release of goods at border stations
- Costs, usually reflected as transport or freight costs
- Number of documents, such as the documents required for clearing goods
- Availability and quality of transport infrastructure and services
- Prevalence of rule of law or level of corruption

The following recommendations are proposed to address the challenges that go along with Georgia-Azerbaijan cooperation, improve competitiveness of the corridor, reduce costs and transit times, and improve reliability:

Continue infrastructure development, including the East-West Highway on the Georgian section, and railway modernization

on both the Georgian and Azerbaijani section. After completion of the projects, transit times along the corridor will be significantly reduced. Moreover, the establishment of intermodal logistics centers in Georgia and Azerbaijan will improve the intermodality of the corridors, optimize the freight flows and reduce the costs of transportation.

The development of the new container terminal under Poti mega sea port is a vital step to improving reliability and reducing the costs of transportation through the CTC. In addition, the successful completion of the development phase in the new Port of Alyat should be accelerated to improve efficiency and reduce the transit time significantly.

It is necessary to encourage competitiveness across the Caspian Sea, to improve the service quality and reduce the costs of transportation. Lastly, a more detailed study to investigate potential trade and freight flows which might be attracted to the CTC should be conducted, and identifying measures to improve door-to-door operations will be necessary to support the CTC's positioning as an attractive transit route. ^F



ECONOMICS

BESO NAMCHAVADZE - DEVELOPMENT STRATEGY

Georgia: 6th in the Doing Business Ranking



THE WORLD BANK recently published the new Doing Business index, where Georgia occupies the 6th spot in the Ease of Doing Business Ranking with 83.28 points, trailing only New Zealand, Singapore, Denmark, Hong Kong and South Korea. Last year Georgia was ranked 9th with 82.80 points.

The Doing Business report has been published by the World Bank since 2003. The study currently includes 190 countries, measuring the ease of starting, managing and closing businesses.

The Ease of Doing Business index has enjoyed considerable popularity in Georgia. The country rapidly rose up the rankings, jumping from the 100th spot in 2005 to the 37th in 2006 and the 9th spot in 2013. Between 2005 and 2012, the previous government of Georgia devoted considerable attention to the rankings, with some reforms being specifically aimed at improving the country's position in the table. The results were quick to arrive. Georgia's rapid progress in the annual Ease of Doing Business Ranking and other rankings became the country's calling card. During this period, Georgia was named by the World Bank as the world's leading reformer country on two occasions.

Georgia's rankings worsened slightly in 2010-2011, as well as in 2014-2015, which was mainly due to changes in the methodology of composing the index.

Prior to 2012, the Georgian parliamentary opposition did not regard the country's progress in these rankings as significant and claimed that the index did not reflect reality. This is partly true, as the index has the specific purpose of evaluating the weight of bureaucratic procedures (i.e. regulations) on business. It does not take into account circumstances such as political stability, the threat of Russian aggression, corruption, education levels, the

rule of law and others that are also very important to the business environment.

Following the change in government, Georgian Dream officials continued to insist that too much attention was being paid to the index, and that the rankings did not reflect the reality. Bidzina Ivanishvili even made a statement to this effect during the World Economic Forum in Davos.

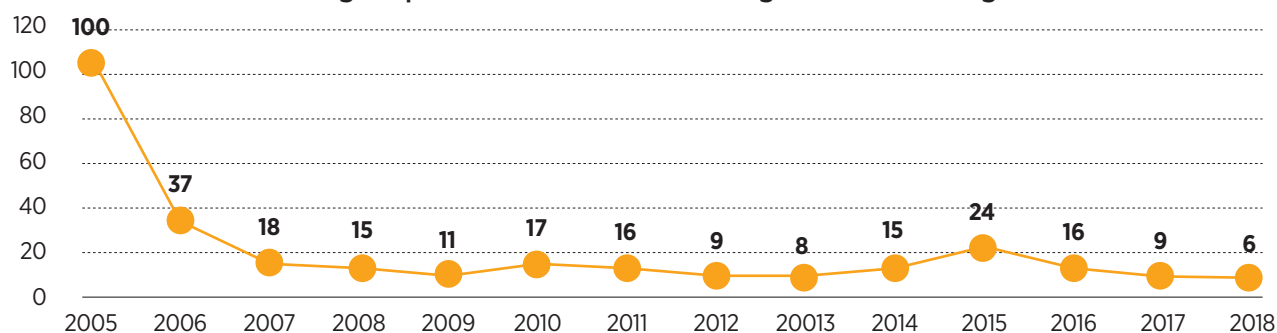
During the 2010-2012 period, around 4-5 reforms aimed at improving Georgia's positions in the Ease of Doing Business ranking were carried out annually. In 2013-2014, the number fell to one reform per year. Additionally, the methodology of calculating the index was also changed, and it is impossible to say precisely whether or not Georgia would still have lost positions in the rankings had these changes not come into effect.

The government's attitude towards the index changed in 2016, and improving Georgia's positions in the rankings once again became a stated objective. The reasons for this are well known - it is good for the country's business environment in terms of public relations and attracting investors. Five reforms were carried out to this end in 2016, and three each in 2017 and 2018 respectively. Consequently, Georgia reached its highest position in the ranking, climbing to 6th place.

The Doing Business index consists of 10 components, which collectively produce a country's overall score and ranking. Georgia has the highest score (99.3) and ranking (2nd) in the Starting a Business component. A company can be registered in two days in Georgia without a minimum mandatory fee.

Georgia also ranks 2nd in the world with 81.7 points as it relates to protecting minority investors, and 4th with regard to ease of registering property. The country

Georgia's position in the Ease of Doing Business ranking



performs worst in the resolving insolvency category, where it ranks 60th due to the length and cost of the insolvency procedures, as well as low debt recovery figures.

This year, Georgia scored higher in every component compared to the previous year with the exception of Getting Credit, Protecting Minority Investors and Trading across Borders. The biggest improvements were registered in the Paying Taxes, Starting a Business and Enforcing Contracts categories.

According to the World Bank, last year Georgia undertook three reforms aimed at improving the ease of doing business in the country. These reforms are as follows:

1. It is no longer necessary to register as a VAT payer during a company merger, which improves the Starting a Business component.
2. The profit tax reform, which improves the Paying Taxes component, and
3. The implementation of an automated, randomized method of assigning judges to cases, which improves the Enforcing Contracts component.

Georgia's rise up the rankings prompts the question as to why this has not been reflected in more foreign investment and economic growth. Part of the answer lies in the fact that this index is not as comprehensive as others such as the Global Competitiveness Index, where Georgia is in the 66th position. Were it not for the fact that the Global Competitiveness Index is partly based on the Doing Business Index, Georgia would have been ranked even lower.

Generally speaking, business environ-

Georgia's position in the rankings by component			
	Rank	2018 Points	2017 Points
Overall Rank	6	83.3	82.8
Starting a Business	2	99.3	97.8
Dealing with Construction Permits	27	77.6	77.6
Getting Electricity	39	84.4	84.3
Registering Property	4	92.9	82.8
Getting a Loan	12	85.0	85.0
Protecting Minority Investors	2	81.7	81.7
Paying Taxes	16	89.0	87.1
Trading across Borders	43	90.0	90.0
Enforcing Contracts	8	76.9	76.0
Resolving Insolvency	60	56.0	55.6

ments are considerably more complex than the components of the Doing Business Index would suggest. Moreover, if we are talking about attracting investment and economic growth, then business environment influences each aspect of the country's life to a varying degree. For example, from 2017-2018, the world's fastest-growing economies were Ethiopia, Cote d'Ivoire and Bangladesh. At the same time, Ethiopia was ranked 159th among 190 countries in the Doing Business Index and Cote d'Ivoire 122nd. This paradox is mainly explained by the fact that these countries are considerably poorer than Georgia, the workforce there is cheaper, and there are no obstacles to foreign investment. These countries would develop even faster if they improved the aspects that are listed in the Doing Business Index.

To summarize, holding leading positions in the Ease of Doing Business Index is beneficial for economic development, yet it is not sufficient. For the poorest countries, it is not even necessary to be ranked high for as long as cheap labour constitutes their main advantage. Georgia is already at a stage where there is little scope left for improvement with regard to the Doing Business Index components. Being ranked 6th is therefore a considerable achievement, but the Georgian economy has other fundamental problems that are not reflected in this index. These include low education levels, the threat of Russian aggression, weak rule of law (corruption, ineffective judiciary, poor protection of private property) and an insufficient level of democracy, which is vital to ensure a stable political environment. **F**



ECONOMICS

SHOTA TKESHELASHVILI - DEVELOPMENT STRATEGY

Poverty vs Debt

"There are three factors that have caused the spread of poverty in Georgia, the chief among them being people taking out loans."

- Bidzina Ivanishvili



SPEAKING BEFORE THE FIRST ROUND

of the recent presidential elections, former Prime Minister of Georgia Bidzina Ivanishvili identified loans and excessive debt as the prime reasons for the spread of poverty in the country. The second round of the elections was preceded by the announcement that Mr. Ivanishvili's Kartu Foundation would be covering debts of up to €2,000 for people across all of Georgia who had been unable to repay their bank loans. The government stated that the goal of this measure was to reduce the volume of bad debt.

New regulations are due to come into effect on the Georgian financial market in 2019. More specifically, changes to lending rules for natural persons will lead to the introduction of a rigid framework for the financial sector. Lending procedures will change significantly, with an in-depth examination of a person's ability to repay becoming mandatory.

The planned changes are aimed at reducing the volume of debt in the country. The chairman of the ruling party ascribes national poverty to the prevalence of the aforementioned loans. However, one must ask whether citizens are poor prior to taking out loans, or whether the loans make them poor. Which comes first - the loans or poverty?

There is no single methodology for assessing the level of debt. An important measuring criterion is the ratio of non-performing loans to total gross loans in the banking sector. According to IMF data, Georgia's figure

based on this criterion is one of the lowest in Europe at 2.7%. For comparison, numerous European countries have a far greater number of accounts in arrears (4.2% in Denmark, 9% in Ireland, 9.8% in Italy, 10% in Russia, 11% in Portugal).

According to the 2017 National Bank of Georgia (NBG) report, one million people took out loans without having any income officially registered to their name. The report also shows that the arrears figures are particularly high in the micro-loan portfolio. NBG calculates that out of all the issued loans of up to 400 GEL, 45% were overdue.

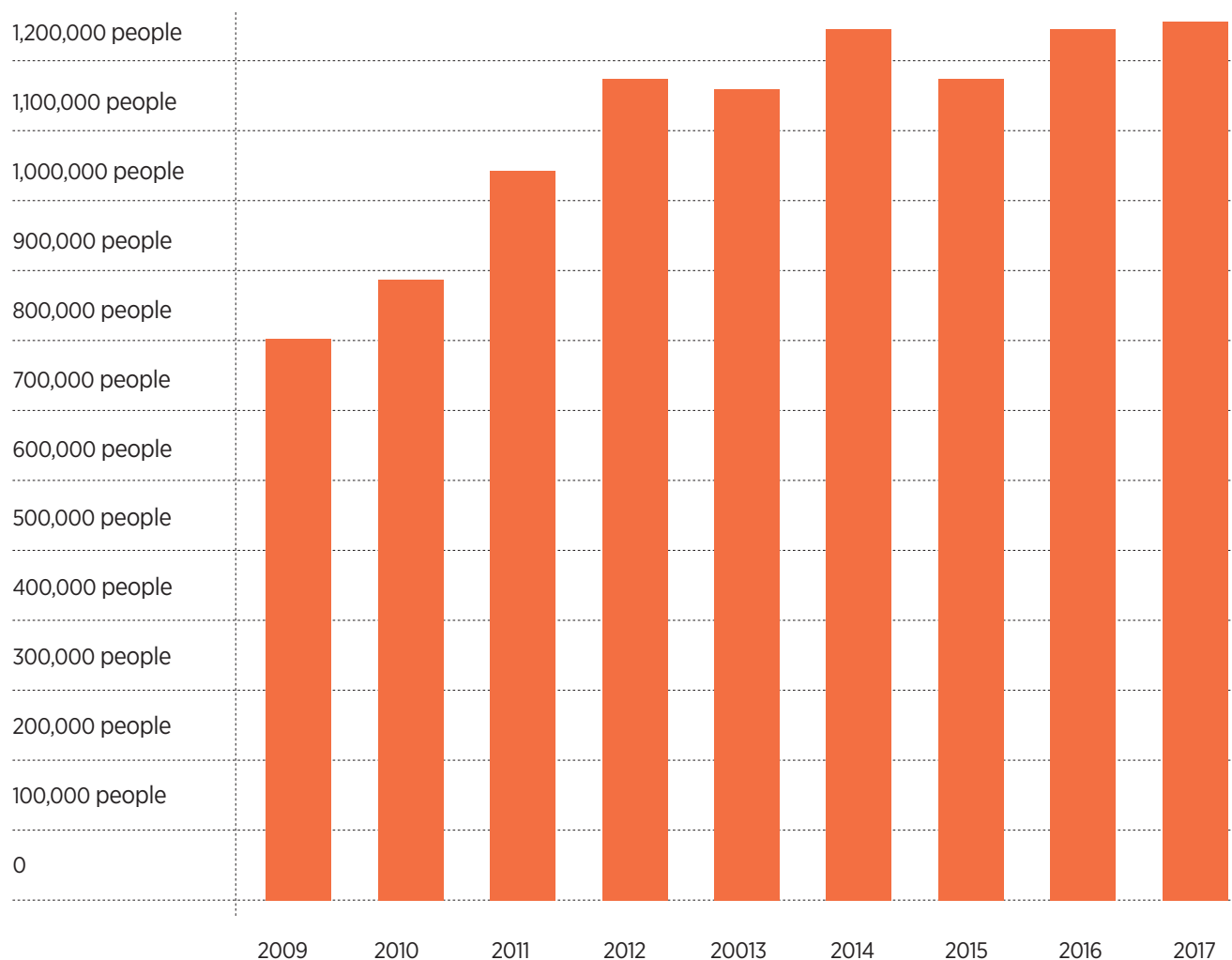
Two-month €200 loans with a 43% annual interest rate, or three-month €250 loans with a 46% annual interest rate, are typical micro-loans issued by the Georgian finance sector today.

According to official data, the types of loans that are predominantly issued to people with the lowest income, account for the highest loan arrears figures.

According to NBG data, arrears figures for loans issued to natural persons by amount are as follows:

- Loans of up to €400 - 45%;**
- Loans of €400-1,000 - 25%;**
- Loans of €1,000-2,500 - 23%;**
- Loans of €2,500-5,000 - 20%;**
- Loans of €5,000-10,000 - 17%;**
- Loans of €10,000-20,000 - 13%;**
- Loans of €20,000-100,000 - 8%;**
- Loans of over €100,000 - 5%;**

Population with Income 2009-2017



SOURCE: REVENUE SERVICE

The government's response to the high level of arrears in category of loans up to €400 is to virtually prohibit the issuance of such loans without carrying out detailed background checks of the loanee's income and property. Furthermore, the loan issuer must set an upper limit to the amount that a person with a specific income is able to repay on a monthly basis.

It is likely that this move will limit the access of a sizeable section of the popula-

tion to the legal loan market. It is difficult to predict whether or not this decision will improve the situation for those who are consistently experiencing financial difficulties due to their social background.

According to the Revenue Service of the Ministry of Finance, 230,000 citizens of Georgia had a salary of less than €1,200 per year, or less than €100 per month, in 2017. The total number of people with a declared income of less than €400 per

month exceeds 537,000.

The aforementioned section of the population finds it difficult to support themselves and their families. It is likely that the NBG's new rules for the commercial banks and the financial sector will mean that these people will lose access to a key source of funds to supplement their seasonal and low income.

The size of the issued loans also indicates that they are mostly used as a means

to resolve short-term liquidity problems. Three-month €200 loans or six-month €350 loans are needed by thousands of people with no savings to cover unexpected or urgent expenses.

The provincial regions account for the largest share of the informal sector of the economy. Up to one million persons are self-employed in agriculture. Due to the lack of sustainable income, cash shortages are particularly problematic for them.

Due to the risks associated with issuing loans to individuals without a stable income, such loans usually come with high interest rates. High risks are one of the reasons why arrears figures are so high in this section of the credit market. People on low income struggle to service their existing debts, or even worse – they are dragged into the spiral of taking on new debt, which worsens their financial situation even further.

Overdue loans also present another problem: to avoid automatic enforcement, hundreds of people are shying away from finding employment in the formal sector.

With or without debt, it is clear that a sizeable section of the Georgian population lives in poverty. Excessive debt is only one aspect of this problem.

Against the background of the ongoing public discussion on the topics, we must ask whether ‘excessive debt’ is a repackaged equivalent of poverty, and whether tackling debt, rather than poverty, can produce any results.

If excessive debt is a consequence of poverty, then it is unclear what can be achieved by fighting the effect, rather than the cause. Or what will happen when the lowest-income sections of society realize that they are unable to take out loans as a result of the new regulations?

It is politically convenient for the government to claim that these planned

measures will prevent people from ruining themselves through loans. However, no studies of the socio-economic effects of these regulations have been presented.

The National Bank of Georgia admits that these regulations will have a negative effect on the economy in the short-term. However, the NBG insists that the long-term results will be positive.

Georgia has one of the lowest figures of non-performing loans among the European countries, which is a key criterion for measuring the health of the financial sector.

Another indicator of market health is the so-called ‘percentage spread,’ which is calculated by subtracting the interest on bank deposits from the interest on loans issued by the bank.

The percentage spread shows that banks used to retain a higher percentage from their operations in the past than they do now. The higher the difference between the interest rates on loans and deposits, the more money is retained by the commercial bank for profit and for insuring its operations and credit risks. The lower the spread between loans and deposits, the less money is retained by the bank for its operations.

The growth/decrease of the percentage spread is also an indicator of general expectations of the banking sector. If there is high uncertainty, then the percentage spread will increase to act as a buffer in the financial sector. On the other hand, lower risks will lead to a decrease in the percentage spread.

According to NBG data, as of the fourth quarter of 2017, the average percentage difference between the loans and the deposits was only 5.1%. The percentage spread was higher in 2011 (7.2%), meaning that banks were retaining more funds for profit and operations than they do today. This indicates that unlike the National Bank, the banking sector does not

perceive overdue microloans of natural persons as a fundamental risk.

Nevertheless, the government is supporting changes which will slow the country’s economic growth. Private business representatives have stated that these regulations “will endanger the process of forming a stable business environment in Georgia and reduce economic growth, which will have an equal impact upon each citizen.”

Slow economic growth will create obstacles to job creation. This, in turn, will hinder the efforts to eliminate poverty in the country.

On the other hand, excessive debt is not the only source of criticism of the financial sector by politicians. Figures of authority also lament the high interest rates and point out that expensive loans create major obstacles to the development of business in Georgia.

In reality, however, loans are much cheaper in Georgia than in other countries in the region. This is against the background of stricter monetary policies that make it virtually impossible to issue loans in national currency with interest rates below 7%. According to World Bank data, the average interest rate on loans in national currency is 11.5% in Georgia, 14.4% in Armenia, 16.4% in Ukraine, 16.5% in Azerbaijan and 9.7% in Belarus.

The country’s credit risk is a key factor that determines the interest rates in the country. The credit risk is calculated by neutral international rating agencies like Moody’s, Fitch and S&P based on objective criteria. Fitch assigns a BB- rating to Georgia. Although this score is higher than that of the poorest developing countries, it still falls in the junk category. A credit rating can be improved precisely through high economic growth, political stability and lower poverty levels. If that is achieved, then Georgia can come closer to attaining European interest rate values. F

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HISTORY

WINE

Georgian Winemaking in Numbers

How 19th-century Russian bureaucracy introduced European diseases in Georgian winemaking

BY EMIL AVDALIANI



The economic growth of the Russian Empire did not benefit all areas of the economy equally, but its general background enabled the gradual development of manufacturing in Georgia. It is also true that by removing the direct threat of Ottoman and Persian invasions, Russia played a key role in establishing the kind of stable political environment that is necessary for the development of economic ties.

Georgia's proximity to Persia and the Ottoman Empire was an economic asset: the Russian Empire was keen to increase its economic cooperation with these two great states and effectively compete on a commercial level with European (French and British) goods. Therefore, Georgia's geographic location would have an impact on growth in trade and other economic activities.

It must also be pointed out, however, that some areas of the economy developed in the opposite direction under the Russian Empire. Let us look at the example of winemaking: to be clear, the Romanovs were generally interested in developing viticulture in Georgia. However, the Russian imperial government doubted the ability of the local population to develop agriculture, while also having a low opinion of the Georgian vine species.

Already during the times of Prince Vorontsov, and on his personal orders, numerous European species of vine were introduced in Georgia. This had little impact on wine production and quality, as there was no real need for importing the European varieties. The reason was simple: the local (Georgian) species were of superior quality.

The fetishization of European grape varieties by Russian bureaucrats greatly damaged Georgian winemaking. It was precisely through the European species brought in from Crimea during the 1850s that the vine disease oidium was introduced in Georgia, followed by mildew and phylloxera.

The warm and humid climate in Georgia's Guria and Samegrelo regions ensured that oidium spread quickly. The high-trained vine could no longer be treated, and the yield decreased dramatically. The ancient varieties of Ojaleshi and Chkhaveri were virtually wiped out and gradually replaced by the lower-quality Isabella. Winemaking lost its significance in the Gurian and Mingrelian economic life. Fungal diseases also affected viticulture in Imereti and Racha-Lechkhumi, but the prevalence of low-trained vine enabled the preservation of winemaking in these regions.

In the 1870s, vineyards in western Georgia (excluding Adjara and Abkhazia) covered an area of 38,144 dessiatinas (Russian unit of measurement equal to 1.08 hectares). The Imereti region accounted for 19,570 dessiatinas, Lechkhumi for 1,800 dessiatinas, Racha for 1,274 dessiatinas and the Guria-Samegrelo regions-

15,500 dessiatinas. On average, Imereti produced 1,907,000 buckets of wine each year, Racha-Lechkhumi 767,800 buckets and Guria-Samegrelo 250,100 buckets. The governor of Kutaisi wrote in 1878 that winemaking had declined in Guria-Samegrelo, but was developing fast in Imereti and Racha-Lechkhumi.

The Kakheti region in eastern Georgia was the country's most significant center of viticulture, but the popularity of winemaking also rose in Kartli following the reforms. In the 1870s, vineyards covered a total area of 12,000 dessiatinas in Inner Kakheti and 6,252 dessiatinas in Outer Kakheti and Kartli. Eastern Georgia produced an average of 2,500,000 buckets of wine each year.

Between the 1870s and 1890s, we can observe certain changes in the geographic distribution of winemaking and viticulture in Georgia. Vine disease had a devastating effect on this activity in Guria-Samegrelo, while in Imereti and Kartli, the development of winemaking was aided by the railway. Reduced transportation costs allowed winemakers in Imereti and Kartli to enter new markets and successfully compete with their Kakhetian counterparts. The main railway line did not pass through Kakheti, nor was the road network developed in the region. Consequently, the high transportation costs increased the price of Kakhetian wine and affected its competitiveness.

Nevertheless, winemaking remained one of the main areas of employment for the local population, involving all layers of society. According to 1898 data, 120,347 households in Georgia owned a total of 46,497 dessiatinas of vineyard, producing 5-6 million buckets of wine each year.

In spite of the vine diseases, viticulture and winemaking continued to develop in Georgia. Productivity was on the rise, reaching 55%-60% by the end of the 19th century. Exports were also growing. In 1894, 2.3 million buckets of wine were exported from western Georgia - 660,000 from Inner Kartli, 590,000 from the Tbilisi-Borchalo markets and 1,500,000 from Kakheti.

The largest share of exports went to Russia. Approximately half a million buckets of wine were taken annually to Russia between 1883 and 1893. By the turn of the 20th century, annual exports to the Russian market had already exceeded 1 million buckets.

Georgian winemaking took a painful hit during the 19th century. The introduction of diseases reduced the amount of suitable land for viticulture, and the popularity of winemaking in Georgian culture declined as a whole. Against this background, we must show particular appreciation for the activities of the most prominent Georgian winemakers from this period - Ivane Mukhranbatoni and Alexander Chavchavadze - who established renowned Georgian wine brands by fusing traditional Georgian grape varieties with European technologies at a factory level. **F**

The Georgian Wine Industry

Although Georgia is the homeland of winemaking, wine production on an industrial scale didn't come about until the second half of the 19th century. Ivane Mukhranbatoni and Alexander Chavchavadze were renowned pioneers who played a big role in this development.

BY EMIL AVDALIANI



Alexander Chavchavadze

While winemaking was far from a novelty in 19th century Georgia, wine production on an industrial scale constituted an innovation, and the names of several famous Georgians are tightly connected with this novelty. Chief among them were Ivane Bagration of Mukhrani (Mukhranbatoni) and Alexander Chavchavadze.

Chavchavadze became involved in winemaking earlier than Mukhranbatoni, as he began introducing new vine species in Tsinandali, Mukuzani and Napareuli. In 1835, he took out a bank loan of 1 million roubles to carry out improvements on his lands, including the establishment of distilleries and the opening of wine cellars in Tbilisi. He also conducted negotiations with the Alaverdi copper factory regarding the purchase of 6,000 pounds of copper for his distillery.

Prince Chavchavadze's vineyards in Tsinandali and the surrounding areas covered an area of 90 hectares. Each vineyard had its own small wine cellar and vine-grower's house attached to it. Prince Chavchavadze also operated 15 water mills and a brick factory. He produced exquisite wine from the Georgian grape varieties Rkatsiteli, Saperavi, Mtsvane and Khikhvi. The value of his yield exceeded 6,000 roubles, and he invested large amounts into expanding and developing his business.

Following the death of Alexander and his wife in 1846-47, the Tsinandali estate was managed by their daughter Nino, and later by son David. On July 4, 1854, the palace in Tsinandali was ransacked by Shamil's troops. David Chavchavadze tried to develop the Tsinandali estate by taking out a bank loan, but he could not emulate his father's success and accumulated debts. The Tsinandali estate was taken over by the Russian government, while the Chavchavadze family lands were sold off.

Ivane Mukhranbatoni was quite a wealthy man. He owned a large

house on the corner of Golovin Avenue (today's Rustaveli Avenue) and Lesya Ukrainka Street. A French merchant named Jean Faget is known to have opened a large store on the ground floor of the house, and a hotel was later established in the same building.

The building was well known to everyone in Tbilisi at the time, which testifies to Mukhranbatoni's wealth. The Council of Nobles of Tbilisi was also based inside the building. After Jean Faget left, the house was converted into Hotel Mukhrani. Notably, the publishing team of Ilia Chavchavadze's journal *The Georgian Herald* (the first of its kind in the country) established its office in the building.

The house was expanded considerably during the 1880s. As was the case with similar buildings, there were shops located on the ground floor, while Hotel Mukhrani continued functioning.

After the death of Ivane Mukhranbatoni in 1895, his son Constantine quickly squandered the family fortune. Thus, we learn that Ivane Mukhranbatoni's house was bought by the prominent industrialist Alexander Mantashev. All attempts to preserve the building for the Nobles' Bank proved unsuccessful. Hotel Mukhrani continued functioning, but changed its name to Universal in 1912. The building was destroyed by fire in 1921.

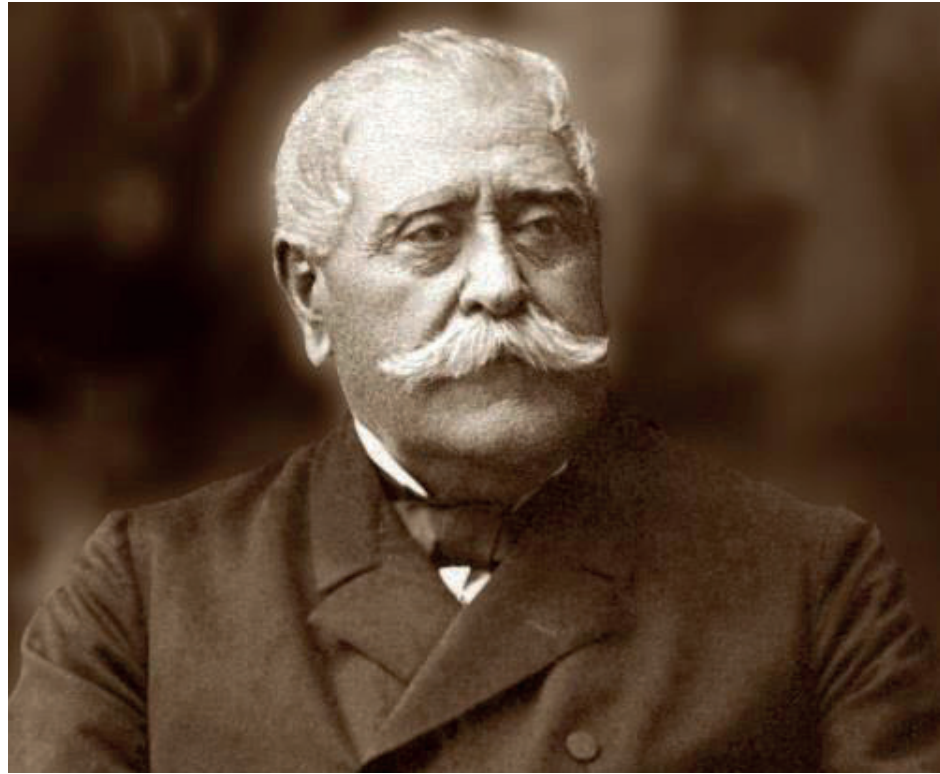
Ivane Mukhranbatoni wrote his name into Georgian history as a renowned innovator and manufacturer of premium-standard wine.

The House of Mukhrani was a branch of the royal dynasty of Bagrationi. In 1512, King David X of Kartli made his brother Bagrat a hereditary lord of Mukhrani, located in the valleys of the Ksani and Aragvi Rivers. Bagrat's descendants contributed to the political, economic and cultural life in Georgia.

Ivane Mukhranbatoni was born on February 7, 1812, the son of the distinguished general Constantine Mukhranbatoni. Young Ivane decided to pursue a military career, and rose to the rank of major general by 1850.

It was thanks to Ivane Mukhranbatoni's efforts that the wine produced by the House of Mukhrani in Kartli first became popular across Georgia, and later all over the world. Ivane owned 25,000 desiatinas of land. He was one of the leading rationalizers among the landowners, and achieved great success by adapting his business to the market economy.

Ivane Mukhranbatoni established his own



Ivane Mukhranbatoni

company in 1863. His wines were almost instantly acclaimed at the agricultural fair in Tbilisi. His winery became fully operational in 1876, producing 12 varieties of wine. The annual income in 1844 was 244,700 roubles, while turnover reached its peak in 1896 at 300,000 roubles.

Ivane Mukhranbatoni's interest in agriculture was aroused whilst visiting France in 1875. He travelled to the Bordeaux and Champagne regions, where the standard of wine production was exceptional. Upon his return to Georgia, Ivane decided to use his familial lands to produce the best wine in the country.

In 1876, Mukhranbatoni invited French wine specialists to Georgia, and supplemented their expertise with help from the renowned Georgian winemaker Zakaria Jorjadze to construct a factory on his familial estate in Mukhrani. The plant had a capacity of approximately 1.2 million litres and employed the European production method.

The first Mukhranbatoni wine was bottled in 1878. The name of Chateau Mukhrani's restaurant Royal Winery 1878 refers to this historic date.

Ivane Mukhranbatoni's wine won the Grand Prix at the 1882 Moscow wine exhibition, and picked up the gold medal at the agricultural exhibition in Odessa the same year. Wines produced by the House of Mukhrani were also acclaimed at the 1884 Yalta agricultural exhibition, with the Mukhrani #5 brand proving particularly popular. ^F

The Cost Of Mobile Internet Around The World

by Niall McCarthy

FOR SMARTPHONE USERS fond of heavy streaming, mobile data doesn't always come cheap. In fact, the cost of a gigabyte of mobile data varies hugely between countries. UK-based price comparison website cable.co.uk recently released an extensive analysis of mobile data pricing across the globe which focused on 6,313 data plans across 230 countries. India was named the cheapest country for one gigabyte of data with the average cost in U.S. dollars only coming to \$0.26. Kyrgyzstan came second with \$0.27 while Kazakhstan rounded off the top-three with \$0.49.

Zimbabwe is the most expensive country for data where a gigabyte averages \$75.20, 289 times as much as in India. The following infographic provides an overview of pricing in 15 selected countries with noticeable differences immediately apparent in Europe. While a gigabyte of data would set Italian smartphone users back \$1.73, the same amount would cost \$2.99 in France, \$6.66 in the United Kingdom and \$6.96 in Germany. Costs are even higher in North America where they average \$12.02 in Canada and \$12.38 in the United States.

Even though South Korea has been a trailblazer in exceptional mobile infrastructure and lightning fast internet for years, its prices are still quite hefty at around \$15 for a gigabyte of mobile data. Smartphone users in Seoul are still better off than those in Switzerland where costs are in excess of \$20. Commenting on the worldwide rankings, Dan Howdle, a consumer telecoms analyst at cable.co.uk, said that many of the cheapest countries have excellent mobile and fixed broadband infrastructure so providers can offer large amounts of data at cheap prices. In many cases, the economy dictates that prices must be low, as that's what people can afford.

Average cost of 1 GB of mobile data in selected countries in 2019 (U.S. dollars)

