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CURRENCIES

	Feb 24	Feb 17
1 USD	2.4671	▼ 2.4641
1 EUR	3.0375	▲ 3.0782
100 RUB	4.3763	▼ 4.3669
1 TRY	0.6517	▲ 0.6572

PricewaterhouseCoopers Calling on Georgian Companies to Adopt Principles of Social Responsibility

David ALEKSIDZE
The FINANCIAL

Lasha Janelidze, Partner at PwC, talked to The FINANCIAL about the inevitability of Georgian businesses getting more involved with social responsibility practices, if they are to succeed in the rapidly-changing realities of today's world.

"PwC Georgia is part of PwC's global network and we are completely in line with our global CSR strat-

egy. We aim to go beyond our measures in catalyzing change in four focus areas: responsible business; diversity and inclusion; community engagement; and environmental stewardship.

PwC Georgia's CSR strategy incorporates various executed projects benefiting business society development in Georgia through leading our client companies on the stock exchange market.

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GAA Holding to Combat Russian Fake News

David ALEKSIDZE
The FINANCIAL

We spoke with Gia Alikhanashvili, CEO and owner of GAA Holding, in order to find out how GAA Holding responds to challenges of the modern day.

In the past century, industries were developing fast in Georgia and their motto was to improve through accumulating the maximum possible

profit. This has changed today; businesses thrive when they are more human-oriented. This new reality is the main challenge of modernity. In the 21st century it's the people, through smart usage of technologies, who improve economies and businesses. More and more companies achieve success through developing and harmonizing human resources, not by using them up.

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LUTECIA Presented EISENBERG Paris perfume line Les Orientaux Latin

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Weekly Market Watch

By Galt & Taggart

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publicity

Georgia's European Perspective, or Badagoni Taken Away from Owners?!

Since the "Georgian Dream" came into power in 2013, Georgia has significantly improved all social and economic parameters. According to the assessments of the World Economic Forum and other international organizations Georgia has been dynamically improving its competitiveness, protection of property rights and independence of the justice system. According to the Economic Freedom Rating of the Fraser Institute, Georgia is on the 5th place in the world.

Taking this into account, it is all the more surprising to witness the events that have taken place during the past weeks with regard to the leader of the Georgian wine industry – Badagoni, number one among the Georgian wine exporter companies.

On the 7th of February, Investigation Service of Ministry of Finance of Georgia, without any preliminary notification, brutally intruded into company Badagoni's office. To many, this reminded the infamous practices widely used by the previous government.

It is worth to note that in 2017 Badagoni was recognized as Georgia's number one industrial and trade brand. According to the National Wine Agency, in 2017 Badagoni exported 6.4 million bottles to 15 countries of the world, while in Georgia there was sold up to 1 mln bottles. Based on this data, Badagoni is on the first place among Georgian wine exporters. Badagoni is also the largest tax payer in the wine sector and



GIORGI SALAKAIA, Owner of Badagoni

it has more than 600 employees.

It is worth to be mentioned Badagoni's success at the various wine international wine contests around the world since the company establishment. And there days, in parallel with the Financial policy invasion into Badagoni, on February 21, 2018, at one of the most prestigious contests - Asian Wine Review, Badagoni's sparkling wine "Badagoni Brut" was awarded with the trophy of the best wine and was listed among the top 12 wines.

<https://www.asianwinereview.com/2018-top-12>

Despite such success, or probably because of it, Badagoni has become a target of unprecedented pursuit by the Georgian Financial Police. It must be noted that the Minister of Finance of Georgia has an image of a reformer and the agency under his control attacked Badagoni at the time when the Minister was abroad. This may mean one of the two things: either there is certain confrontation be-

tween different groups or someone is trying to catch fish in troubled waters before the expected government crisis.

It is interesting to mention that as a result of the Financial Police's vandalistic attack - intrusion into the company's office, the Financial Police took all accounting, financial, commercial and other documents that have nothing to do with the particular case. The official reason given by the Financial Police was the statement made by the Russian citizen Vladimer Janjgava, "representative" of Gracoro Trading Limited, Badagoni's partner company. Mr. Vladimer Janjgava stated that Giorgi Salakaia, current 100% owner of Badagoni's shares allegedly got his hands on Gracoro Trading Limited's share in Badagoni. It seems that the methods of ceasing the title to shares in the 21st century in Georgia are known only to Vladimer Janjgava who has a controversial business-reputation in his resident country Russia, especially taking into account that Vladimer Janjgava's partner in Gracoro Trading Limited – Teimuraz Ubilava who confirms the strange appropriation, absolutely denies any use of violent measures or force by Giorgi Salakaia during the legal transfer of the title to shares.

Even more so, it is strange that the director of the former partner company remembered details of the business transaction that took place in 2015. By the way, before the transfer of the title to shares to Giorgi Salakaia, one million

two hundred thousand dollars had been transferred to Mr. Janjgava's account in February 2018, just before Badagoni was named as Georgia's leader company and when its tax liability balance became positive for the first time.

In parallel with these strange events which have been recently going on around Badagoni an unprecedentedly dirty and false campaign is carried out in the social networks, parliament and government corridors aimed to humiliate and damage the reputation of Giorgi Salakaia, the Badagoni owner and CEO and a popular Georgian singer Liza Bagrationi who to a great extent helped to create Badagoni's charming image.

On the background of a negative information campaign, multi-hour interrogation of Badagoni's ordinary employees takes place at the Financial Police. Naturally all this lead to an adequate response by international organizations. Deputy head of delegation of the **European Union to Georgia Mr. Carlo Natale expressed concern regarding the events going on around Badagoni**, while in its official letter the European Commission stated that it is closely monitoring the development of Badagoni case.

Taking all this into account there is an evident question – why the Georgian Government is not using the civil court for reviewing the dispute between former partners and for whom it is worth to damage Georgia's international reputation in return for Badagoni?!





Quantitative trends in corporate responsibility reporting

The FINANCIAL

Human rights is firmly on the agenda as a global business issue. A clear majority of CR reports now acknowledge the issue of human rights: around three quarters of the N100 (73 percent) and nine out of ten (90 percent) in the G250, according to KPMG survey results.

However, the lack of a public human rights policy at many companies suggests there is still work to do, and only a minority of businesses are yet prepared to align themselves publicly with the UN Guiding Principles on Business & Human Rights.

Linking carbon targets to the global climate goal

A solid majority of reports from the world's largest companies (G250) now disclose targets to cut their carbon emissions: the percentage in 2017 stands at 67%.

Yet, most of these firms do not relate their own targets to the climate goals being set by national governments, regional authorities or the UN, such as The Paris Agreement which commits countries to limit global warming to well below 2°C.

Reporting integration is the new normal

and "non-financial" is the new financial

There was a time when corporate responsibility information was considered strictly "non-financial" and not relevant to include in annual financial reports. The corporate responsibility report as we know it today was born from those beliefs. But times are changing.

As KPMG survey shows, more than three quarters of the world's largest 250 companies now include at least some "non-financial" information in their annual financial reports. And where the largest firms lead, others inevitably follow. We can also see that some countries appear to be enthusiastically adopting the concept of integrated financial and "non-financial" reporting, in many cases nudged along by regulation or stock exchange guidelines.

Furthermore, the conventional lines between "financial" and "non-financial" are not only beginning to blur, but in some examples are breaking down completely. It's important to note that the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) apply to the disclosure of climate risk in annual financial reports not in corporate responsibility reports.

Companies will be expected to be transparent not only about their own performance on these topics, but also about the financial risks and opportunities they face from them and the likely effects on the business's value creation in both the short and long term.

Traditional corporate responsibil-

ity reporting has focused on reporting statistics such as how many cubic meters of water a company has saved, how many tons of carbon it has reduced or how many employees it has sent on training programs. Such statistics increasingly lack real meaning without information on context and impact. The future of corporate responsibility reporting is all about communicating impact, not statistics.

Financial stakeholders - including investors, lenders and insurers - need to know what impacts your business is having on society and the environment, and how this could impact your business performance in the future. They want to see that you understand these impacts and to understand what your business response is. For example, is your company taking action that reduces risks, unlocks opportunities or builds capacity for future value creation?

In the responsible investment space, impact investing is a growth area that will increase pressure on companies to disclose their impacts on society in a measurable and comparable way.

The UN's Sustainable Development Goals (SDGs) are fueling demands for impact data. As this survey highlights, simply linking corporate responsibility activity thematically to the SDGs is not enough. People want to know how companies are contributing to achieving the goals and what the actual impact of those positive contributions is. Similarly, they want to know how company activities are exacerbating the challenges the SDGs seek to solve, and what that negative impact is in real terms. It is not just civil society and NGOs that want this information, we are seeing a number of large institutional investors exploring how they can align their investment

approaches with the SDGs. Such investment strategies will inevitably require impact disclosure from business.

The trend for large companies to include CR information in their annual financial reports continues to grow.

The vast majority (78 percent) of the world's top companies (G250) now do this, indicating that they believe CR data is relevant for their investors. The practice has shown remarkable growth in recent years: in KPMG's 2011 survey only a minority 44 percent of G250 companies included CR data in their annual reports.

Among the N100, the underlying trend is also one of growth, with the rate of companies including CR data in their annual reports up to 60 percent in 2017.

There has been a particularly significant increase in the number of US N100 companies integrating CR information into their financial reporting - 81 of the top 100 US companies now do this compared with only 30 just two years ago in 2015. (For more on this trend see page 23).

Taiwan, France, South Africa, US and Canada lead the world

There are five countries where a majority of the top 100 companies already acknowledge climate change as a financial risk in their annual financial reports. They are: Taiwan (88 companies), France (76 companies), South Africa (61 companies), US (53 companies) and Canada (52

companies).

Taiwan: the Taiwanese Stock Exchange (TWSE) listing requirements and newly introduced Stewardship Principles for Institutional Investors have likely contributed to the high rates in Taiwan.

France: a 2015 amendment to the Energy Transition for Green Growth law has required investors to disclose how they integrate climate considerations into their investment policies, their climate-related financial risk, the greenhouse gas (GHG) implications of their investments and how they contribute to meeting French and international climate objectives. This has likely had a knock-on effect on the number of French companies acknowledging climate risk in their financial reporting.

South Africa: climate change impacts have been high on the business agenda as severe droughts have affected the country in recent years. The South African government is also consulting on introducing a carbon tax as part of its response to The Paris Agreement, which - if passed - is expected to impact companies in the Mining, Utilities and Chemicals sectors in particular.

Canada: many of Canada's largest companies operate in climate impacted sectors such as Oil & Gas, Mining and Forestry & Paper. Also, many of the country's largest pension funds have lent their support to the TCFD recommendations.

US: US Securities & Exchange Commission (SEC) regulation requires disclosure related to climate change in SEC filings. US corporate culture is also focused on efficient management and avoidance of risk in order to prevent charges of negligence and potential litigation. Some of the US's largest investors are also members of the TCFD, so there may also be an informal influence at play here.

CSR



“What Needs to be Understood is that There is a Distinction between Charity and CSR,” David Gorgiladze of m2

David ALEKSIDZE
The FINANCIAL

Ever since its debut on the Georgian market, m2 has become one of the leaders in the Georgian development business. The company has launched 11 residential projects over the course of its 11-year existence, out of which 7 are already completed, housing 2000 families. m2 is defined by expanding its horizons, challenging itself with projects of varying nature – starting with standard residence complexes, all the way to premium housing and hotels – namely, with two Ramada Hotels coming up, one on Kazbegi and the other on Melikishvili St.

m2 is one of the exemplary companies in Georgia in terms of Corporate Social Responsibility. We spoke with David Gorgiladze, Head of the PR Department of m2, who shed light on the principles behind m2's distinctive CSR campaigns.

Q. First of all, can you define for us the general philosophy of m2?

A. The m2 philosophy is simple – we aim to create better living conditions for people all around us. When we first started this company, we were keen to raise the standard of quality on the Georgian market. We wanted our brand name to be associated with comfort, safety, and for our products to be a response to the challenges of today. At the same

time, following the same framework, we aspire to improve the environment beyond our own facilities.

Q. How important is CSR for m2?

A. Corporate Social Responsibility, or, to be more precise – Corporate Sustainability, is one of the postulates of our company's philosophy. It goes directly in line with our company's motto – creating a comfortable, safe environment for people.

We take CSR seriously and focus on more long-term, sustainable projects, which will have lasting, resonating benefits.

Our strategic directions in CSR include environmental protection, helping those in direst need, supporting education, female empowerment and promoting local sports facilities. In each of these fields, we've conducted projects and are continuing to do so. People can already see the benefits of our projects and will be able to observe even more encouraging and tangible results in the future and that's delightful to know.

Q. Can you give some examples of m2's CSR programme?

A. As I have already mentioned, our Corporate Sustainability projects have several main strategic directions. The primary one would be environmental care. In this framework, we are currently conducting two very crucial projects. The first one is restoring the forest on Mtatsminda hill, which was burned down due to a fire breakout in 2017. We took it upon ourselves not only to restore the 26,000 sq.m of forest, but

also to take care of and sustain the new plantations for the next three years, to make sure that they are taken care of when most vulnerable.

Experts and environmental care organizations were unprecedentedly involved in this project. Every step is overseen by specialists with relevant knowledge. We will have a very biodiverse and, what's crucial – self-sustaining forest on Mtatsminda hill. At the same time, we tried to add an educational component to this project, in collaboration with our environmental protection NGO partners. The educational aspect implies raising awareness about fire prevention, risk aversion and adequate response to the disaster.

We're also working on improving air quality in the city, together with E-space. m2 is financing the addition of electro filling stations, in order to encourage the import of more eco-friendly cars. We have already added 40 new electric car charging stations and will have a total of 100 by the end of our project. To our delight, results are already tangible – while a total of 32 electric cars were imported in 2016, this number has grown to 575 in only 3 calendar quarters in 2017. Naturally, the count is poised to grow even further.

In line with our goal of helping those in direst need, we are happy to state that we will very soon open a family-style house for kids with special needs who are under governmental protection. It will be located in Tbilisi, on Demetre Tavadzebuli St. Children will grow in an envi-

ronment as closely resembling the warmth of a family environment as possible. They will have ideal opportunities to develop and flourish.

We've taken important steps in terms of female empowerment as well. We officialised the principles of this direction in December of 2016. Throughout this time, every employee of m2 participated in a designed training programme. We launched a confidential complaint mechanism and within the document included special, protective measures. At the same time, in 2017, we achieved complete gender balance in the company's top management.

In line with our educational promotion policy, we will soon launch the Vazha-Pshavela museum-library in the National Library. This will be a space for youth, where they will be able to gather together, read, make presentations and have discussions.

Additionally, we're active in sports as well. Last year, we were happy to announce that we became sponsors of a rugby club with long-standing traditions – the Lelo Saracens. Our aim is to promote Georgian rugby on club level. In several days, we will sign a partnership with football club Telavi and become their general sponsors. Besides financial support, we offer these clubs intellectual resources as well. We hope we can achieve new heights together.

In total, the CSR budget of m2 in 2017 was a million GEL.

Q. Do you have a separate department/personnel dedicated to CSR?

A. In our company, CSR is managed by the Marketing and Public Relations departments. CSR requires daily work and attention, as we're picky in our projects, aiming for long-term sustainable results. Successful CSR projects require marketing and PR components, thorough planning, execution and attentive monitoring. Our employees dedicate significant time and resources to CSR, on a daily basis. It is one of the most enjoyable and creative aspects of work.

Q. What do you think about the CSR activity of Georgian companies in general, are they a little bit behind the trends on the global market?

A. What needs to be understood is that there is a distinction between charity and CSR. While obviously the latter contains elements of charity, it is far more than simple donation or assistance. It should have the ability to sustain itself and if executed well, can give rise to other, even more creative ideas, which will create even more benefit for society.

Q. Do you have plans for any CSR-related activities in the future?

A. We have several important projects currently on the move. Obviously, we will continue working on them until we reach the intended results. When it comes to future projects, we have our own distinct framework on how we approach the subject matter and are always considering next steps.



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CSR

GAA Holding to Combat Russian Fake News

David ALEKSIDZE
The FINANCIAL

We spoke with Gia Alikhanashvili, CEO and owner of GAA Holding, in order to find out how GAA Holding responds to challenges of the modern day.

In the past century, industries were developing fast in Georgia and their motto was to improve through accumulating the maximum possible profit. This has changed today; businesses thrive when they are more human-oriented. This new reality is the main challenge of modernity. In the 21st century it's the people, through smart usage of technologies, who improve economies and businesses. More and more companies achieve success through developing and harmonizing human resources, not by using them up. Therefore, modern businesses should be more staff-oriented and help them develop. GAA Holding has conducted its affairs with this philosophy for the past 15 years – social responsibility towards people and the individual as the basis for business development. For this reason, our companies boast realized professionals, who are leaders in their respective fields.



GIA ALIKHANASHVILI, Gaa holdings

Q. Do you contribute to the development of social enterprises? Can you give your view on the future of social enterprises in Georgia?

A. We're involved in multiple socially-oriented projects. We collaborate with UN Women, on a campaign oriented on combating violence against women, under the umbrella of HeForShe. McCann Tbilisi, which is part of the Holding, was a partner of this project and provided full creative and communication support to them.

In the future, a number of our companies will get involved in the green energy development business and release products which operate on solar energy. We hope that other organizations will join us as well.

Q. How can one change the attitude of Georgian companies towards CSR principles?

A. The changes need to be based on education, refining legislature and raising awareness. Without the combination of these three principles, substantial changes will not be possible.

Q. Can you tell us what the main obstacles are for CSR implementation at Georgian companies?

A. It is a welcoming fact that social responsibility projects are discussed on the public-sector level. Both the common populace and businesses will be able to get involved. For example, according

to the new fiscal law, the import of transportation adapted to the needs of disabled people will not be excised. This, by itself, is a form of social responsibility – where the Government encourages positive behaviour through reward.

Q. What are the main challenges for GAA Holding in terms of CSR development?

A. GAA Holding has announced its plans to work in the direction labelled GAA HOLDING GOING GREEN in 2018. We have maintained stability in this region for 25 years. Our main challenges are to perfect the quality of our products, to have a reasonable approach to new opportunities and to install digital, ecological technologies. Several projects are already underway – these include the import of JAC Motors electric cars, as well as offering electric-car services and solar conditioning technology, which does not use electricity or damage the ozone layer.

Q. From your point of view, which companies or sectors in Georgia could do more in terms of CSR than they do now?

A. Everybody has to step up their social responsibility duties. Development, auto, transport, heating and conditioning companies should be especially active though, as well as large factories, for obvious reasons. Everyone has to contribute to the social responsibility cause, for

example through green projects, air pollution care, or by combating global warming. We welcome the fact that more attention is being dedicated to work safety regulation; this topic is extensively covered on our television channel, STV.

Q. GAA Holding is making its contribution to fighting fake news. Can you tell us about both the importance and challenges of this?

A. We're proud to state that our media platform Stargroup, which includes TV channel STV and radio StarFM, are independent outlets and broadcast only verified and accurate information. This is the first time in Georgia that Russian fake news has been combated by a Russian language channel through special programmes.

We support Georgia's Euro-Atlantic ambitions. For this reason, German national company Deutsche Welle selected us as partners and through our channel combats the propaganda propagated by various Russian sources. STV also broadcasts the reliable and fact-checked Deutsche Welle programmes.

Q. Environmental protection is one of the main focuses of CSR globally. Air pollution in Tbilisi is critical and exceeds the norm by around 100 times, according to WHO. Can you explain why this issue is not being addressed and why

businesses are not interfering in the situation?

A. Unfortunately, most of the Georgian companies operate according to older schemes – maximum profit over a short period of time. This makes them rather indifferent to ecology. The Government does not yet have an effective mechanism or legislature to force the business sector to take on a more sustainable approach. If the obligations put forward by the European Union Association Agreement are followed, this problem will gradually be eliminated.

Today, like never before, we're standing on the brink of an ecological catastrophe, especially in Tbilisi. Sena Auto, a member of GAA Holding, added a green line, becoming one of the first to import fully-electric cars onto the Georgian market, at the same time offering guaranteed and technical services.

JAC Motors, Chinese automotive giant, is our partner and produces all types of vehicles. Our goal is to get more people interested in electric cars. The Government relieved electric cars from customs payment, which was a step in the right direction.

GAA Holding does everything to promote innovative, eco-friendly and renewable energy development. We try to do our best and be an example on the Georgian market.

Few Georgian Companies Follow CSR Principles, but Interest is Growing



Eva BOLKVADZE
The FINANCIAL

In choosing the research topic, the main intended insight was the attitude of companies on the issue of Corporate Social Responsibility. In this regard, it seems that most Georgian companies are delaying adapting to socially responsible principles.

CSR is not an obligation imposed by law. It is a goodwill or ethical act of a company, which can make even a small contribution to solving social, ecological or economic problems in the country.

To understand how Georgian companies are involved in CSR activities, The FINANCIAL conducted a questionnaire survey. The online survey consisted of 8 questions. It asked about CSR projects in the current year; the amount of money spent on their implementation; and future plans.

Out of 100 leading Georgian companies, 26 answered questions in the

2017 survey, and only 10 in the 2018 survey.

The main reason for refusal to participate was the absence of any CSR activities.

The aim of the survey was to find out the benefits currently being created for the community where the individual businesses operate.

Survey analysis

According to the responses, the purpose of CSR, to improve the social situations of employed people, is more or less achieved, or the company cares about improving this issue. More importantly, each of the companies surveyed said they have preliminary plans and budgets for the next year's activities.

The results showed that only 8 have an independent CSR manager (non-compatible) position. In other cases CSR is managed by their HR department, Communications or Marketing manager.

When asked the question "name

a company whose business model, in your opinion, provides the most benefits to society", none of the surveyed companies responded.

The primary goal of the survey was more or less achieved. Participation in the research was based on the interests of the company. The goal of the research was to evaluate awareness of CSR at Georgian companies and the activities fulfilled.

The results showed that out of the 36 participating companies, 98% talked about projects implemented for environmental protection and energy efficiency, and 100% answered that the social conditions of their company's employees had improved.

While company-based research requires much involvement and participation, we believe this particular opportunity was instrumental in making applicable concepts. Having a concrete project with tangible results in data collection made visible the assumptions, logic, and principles.

Study: Corporations can benefit from altruism during a crisis

New research finds that altruism - and social media - can help corporations cultivate trust with consumers on mobile devices during and after natural disasters, such as hurricanes.

"Companies that engage in corporate social responsibility efforts during and after a disaster can build strong relationships with consumers," says Yang Cheng, an assistant professor of communication at North Carolina State University and first author of a paper on the work. "This is particularly true if companies are communicating their efforts through social media aimed at mobile device users - but only if their efforts appear altruistic."

For the study, researchers conducted an online, nationally representative survey of 1,433 U.S. adults. Questions focused on why people use social media during and after a natural disaster; how frequently they've used social media to seek or share information during a crisis; the extent to which they've shared information on crisis-related corporate social responsibility efforts; how they perceive the motives of relevant companies; and how they feel about the companies themselves.

The researchers found a strong link between how social media users



viewed corporate social responsibility motives and how they viewed the companies engaged in those efforts. If users felt the efforts were focused on the public good, they were more likely to trust the company. But if users felt the efforts were profit-driven, they were more skeptical of the company.

The researchers also found that users who frequently used social media to find and share information were more likely to trust companies engaged in corporate social responsibility efforts.

"These findings provide good advice for corporations," Cheng says.

"If companies use their social media presence to provide useful information and resources during crises - with a clear focus on the public good - they can nurture meaningful, authentic relationships with consumers."

"What organizations can do is understand and value public perspectives; utilize the organization's various social/mobile media platforms; show care and empathy; be honest; be open and transparent in providing useful and timely information; and engage in actual dialogue with stakeholders both during and post crisis."



Reported global economic crime hits record levels

The FINANCIAL -- A much wider awareness and understanding of the range, threat and cost of fraud in business has driven reported economic crime to its highest level recorded in PwC's bi-annual survey of business crime.

The Global Economic Crime and Fraud Survey examines over 7200 respondents from 123 countries.

Overall, 49% of respondents, said their companies had suffered fraud in the last two years, up from 36% in 2016. Regionally Africa (62% up from 57%), North America (54% up from 37%) and Latin America (53% up from 28%) reported the highest levels of economic crime.

Asset misappropriation (45%) continues to lead in economic crime experienced by organisations in the last 24 months, cybercrime (31%), consumer fraud (29%) and business misconduct (28%) are close behind.

This year's survey revealed a significant increase (+6% to 52%) in the share of economic crime committed by internal actors. There was also a jump in the percentage of those crimes attributed to senior management (from 16% in 2016 to 24% in 2018). However there are regional variations. In Australia (64%), the UK (55%), Canada (58%); Argentina (44%) and the US (48%), most reported crime was committed by external actors.

The results underline the greater awareness and understanding of the types of fraud, perpetrators, the role of technology, and fraud's potential impacts and costs for a business, comments Kristin Rivera, PwC Global Forensics Leader:

"We can't equate higher levels of reported crime with higher levels of actual crime. What the survey is showing us is that there is far more understanding of what fraud is and where it is taking place. It's particularly true of cybercrime, where there's a much greater understanding of the issues, investigations, analysis, and greater investment in controls and prevention."

"However, despite the progress in understanding and reporting, the fact that just over half (51%) of respondents say they have not, or don't know if they have experienced fraud in the past two years, suggests blind spots still exist in many organisations."

Amongst the key findings:

The top three types of crime reported were asset misappropriation (45%), cybercrime (31%) and consumer fraud (29%).

18 countries reported cybercrime to be more disruptive than the global average (15%), including Ireland (39%), Belgium (38%), South Korea (31%), Canada (29%), the UK (25%), and the US (22%) all reporting higher than the global average.

Employee morale, business relations, damage to reputation and brand strength are the top three impacts reported.

Reports of disruption from con-

sumer credit card and financial fraud were higher than the global average (29%) amongst regions including Africa (36%); Eastern Europe (36%); and North America (32%).

Cybercrime is likely to be the most disruptive economic crime in the next two years, with respondents saying it is twice as likely as any other fraud to be identified to potentially impact organisations. It's also reflected by a rise in the number of people reporting having a cyber prevention and detection plan in place and fully operational (59%, up from 37% in 2016).

Cost of fraud and prevention

As awareness, and the profile of fraud and economic crime has risen, so too have investments to combat it, linked also to the direct financial losses reported in the past two years. In the coming two years, 51% will maintain investment levels, and 44% will increase them.

Nearly two thirds (64%) of respondents said losses from the most disruptive frauds they experienced could reach up to \$US1 million; 16% said between \$US1 million and \$US50 million.

42% (+3%) of respondents indicated their companies increased their financial commitment to combating economic crime over the past two years.

"The funds allocated to crime detection and prevention are increasing, and that has a multiplier effect in terms of understanding and detection of fraud. Put simply, the impact of fraud is no longer an acceptable cost of business," Didier Lavion, Principal, Forensic Services, PwC US comments.

68% of external perpetrators (responsible for 40% of fraud) are "frenemies" of the organisation - people the organisation works with, including agents, shared service providers, vendors and customers.

"Fraudsters are more strategic in their goals, and more sophisticated in their methods," continues Lavion. "It's a big business in its own right. It is an enterprise that is tech-enabled, innovative, opportunistic and pervasive - like the biggest competitor you didn't know you had."

Respondents to the survey admitted secondary costs such as investigations and interventions can increase overall costs. 17% of respondents said they had spent the same amount again as they had lost on investigations and/or interventions of their most disruptive fraud and 41% said they spent at least twice as much as they lost to cybercrime on investigations and other interventions.

Fighting fraud

With the public's tolerance for corporate and personal misbehav-

Continued from p. 16

CSR

Crystal, Leader of the Georgian Microfinance Market, Welcomes Growing Competition

David ALEKSIDZE
The FINANCIAL

Crystal has become a dominant microfinance organization on the Georgian market. With all of the polarized opinions surrounding the microfinance business, one thing remains definite - microfinance organizations help remote regions gain access to financial services. The opportunities they provide for small businesses is something to be celebrated; refreshing for regional entrepreneurs who want to start from scratch.

"We serve micro and small entrepreneurs as well as farmers across Georgia. We are proud of and grateful to our entrepreneurial, hard-working and loyal customers, who are the future of Georgia's economy. The success and well-being of micro and small enterprises is a pre-condition for Georgia becoming a successful economy and European democracy," explained Mr. Archil Bakuradze, Executive Chairman of Crystal.

"Crystal is a customer-centric company. We believe that by serving our customers well, we are enabling them to be more productive economically, and stable financially. We do our business in a way to maximize a social and environmental impact," Mr. Bakuradze stated.

"We are active in almost all regions of Georgia, including those bordering conflict zones and high mountainous ones. For example, our branch office in Mestia serves customers in Ushguli, the highest village in Europe. That's why we sometime say Crystal is the 'top microfinance institution' in Europe."

Mr. Bakuradze shed light on how Crystal approaches the issue of responsible business conduct. "We chase social and environmental impact through our core, mainstream activities. We measure the impact of Crystal's loans on customers and households. The way we treat our people is another substantial part of Crystal's corporate social responsibility. We believe by empowering our employees we can empower our customers. Finally,



ARCHIL BAKURADZE, Executive Chairman of Crystal

Crystal conducts a range of structured CSR programmes, including our flagship initiative, which is co-funded by USAID, supporting youth entrepreneurship. The project will be underway for 3 years and we're currently in the third year. In the first and second rounds, we financed 26 young entrepreneurs, out of which 4 are from Abkhazia, a breakaway region of Georgia. The third round is still underway and we will have data on it on March 2nd, following the council meeting of the investment committee."

On the prospect of becoming a bank in the future, Mr. Bakuradze stated that Crystal is happy to be an alternative finance provider and to be occupying a different niche from commercial banks. "This diversity of choice is something which the financial market really needs. However, in the future we shall expand into the areas which enable us to offer a better value proposition to the growing number of customers," he stated.

"We are happy to be the top microfinance organization in Georgia,

but at the same time we need and therefore only welcome healthy competition. As the 'rules of the game' evolve, thanks to a tremendous and consistent effort of the National Bank of Georgia towards bolstering consumer protection, it is becoming a tougher environment to compete in. But there are a number of transparent, well-governed and well-managed players which we think shall make their way to become important contributors towards Georgia's microfinance sector."



About CRYSTAL MFO

JSC MFO Crystal is a dynamically growing local microfinance organization, supporting development of micro and small business sectors in Georgia. Crystal offers a wide range of high quality financial services to the customers including: micro, SME and agro loans for start-ups and operating businesses; housing and consumption loans; currency exchange services; remittances; utility payment service etc. Headquartered in Kutaisi (West Georgia), Crystal is mainly focused on micro entrepreneurs and farmers living and working in regions and remote areas. For 2017 almost 29% of the company's loan portfolio is concentrated in non-urban areas.

Corporate Values

The mission of JSC MFO Crystal is to support micro and small entrepreneurs and farmers in realizing their business potential, reaching financial stability and elevating their living standards. Crystal is seeking for long-term partnerships by offering transparent, innovative and fast financial solutions, tailored to the needs of customers, providing them with knowledge critical to their economic success.

- Responsibility – responsible lending focused on avoiding over – indebtedness; overall social responsibility towards clients, staff, business partners, local community and the environment
- Transparency – clients can compare costs, terms and conditions of the loan and understand consequences of a default. Crystal's relationship with clients, staff, funders and a wider society is based on transparency, frankness and fairness.
- Partnership – a long –term and equitable relationship with clients and funders. The cornerstone of Crystal's approach is care towards partners and consideration of their interests.
- Access –our product design, lending standards, distribution channels and customer interfaces are all about access. We are always accessible to our clients, business partners and each other.
- Innovation - innovation and constant improvement is the way Crystal and its people work. We love technology and encourage creativity. Innovation is life!

Organizational History

In 1995, internally displaced persons from Abkhazia teamed up to set up a local non-profit organization – a charity humanitarian center "Abkhazeti", which launched a pilot micro lending program in August 1998 with starting debt capital of just \$10,000.

Following recommendations by donors and international rating agencies, in 2004 center "Abkhazeti" made spin-off of micro lending programs from other charity and social projects to set up a separate, independent entity. That marks inception of Crystal Fund in April 2004. In line with requirements of the Georgian "Law on Microfinance Organizations", Crystal Fund was transformed into and registered with the National Bank of Georgia as JSC Microfinance Organization "Crystal" in 2007.

In October 2011, a US investment bank "Developing World Markets" (DWM) became the first institutional investor and shareholder of "Crystal".

Key Achievements

The activity launched by "Crystal" in 1998 with just USD 10,000 debt equity has evolved to serve more than 60,000 customers and successfully manage loan portfolio of around GEL 150 million in 2017; The Company operates through a network of 50 regional branches and is represented in 8 regions of Georgia.

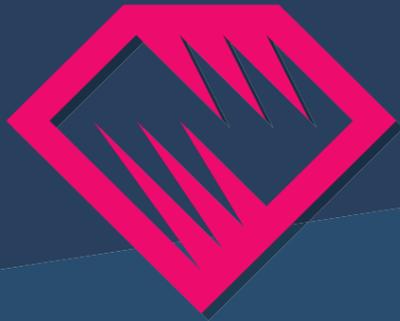
Crystal is the first Georgian microfinance organization, which managed to raise bank funding (2003). Crystal is also the first microfinance institution in Georgia to be awarded an international credit (2003) and social (2010) ratings.

Robust institutional standards, commitment to social responsibility and transparency principles served Crystal to earn international recognition: platinum award (the highest prize) from MIX for social reporting (2012); CGAP award for financial transparency (2006); in 2011, Crystal was announced a winner in the call of Smart Campaign for "plain language loan contract".

Partners and Investors: Financial partners:

Financial partners of Crystal include well-known and reputable international institutions, such as: EBRD, KfW, Commerzbank, IFAD, ResponsAbility SICAV, Developing World Markets, MicroVest, Oikocredit, Incofin, GLS, Rural Impulse Fund, Credit Suisse Microfinance Fund, Symbiotics, Micro Credit Enterprises and other financial companies.

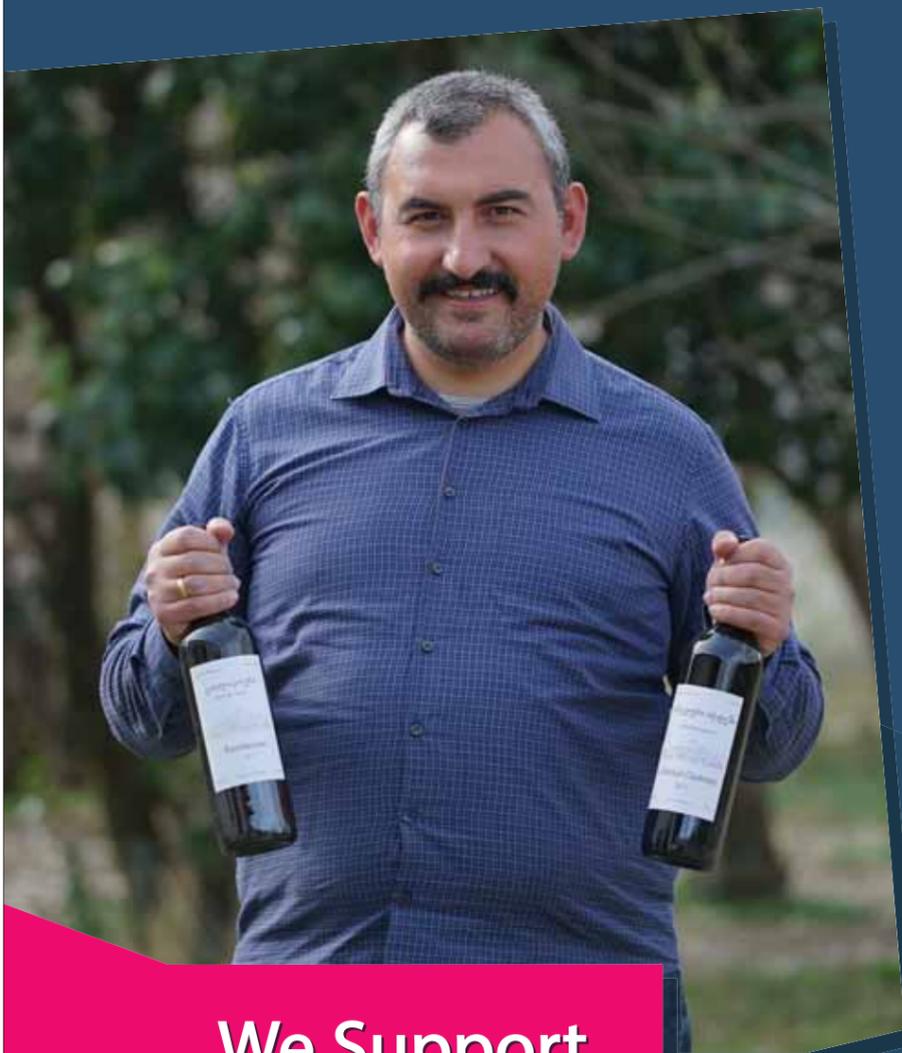
From October 2011 "Developing World Markets" (DWM), a US-based investment bank has become the first institutional investor and shareholder of the company.



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CSR

PricewaterhouseCoopers Calling on Georgian Companies to Adopt Principles of Social Responsibility

David ALEKSIDZE
The FINANCIAL

Lasha Janelidze, Partner at PwC, talked to The FINANCIAL about the inevitability of Georgian businesses getting more involved with social responsibility practices, if they are to succeed in the rapidly-changing realities of today's world.

"PwC Georgia is part of PwC's global network and we are completely in line with our global CSR strategy. We aim to go beyond our measures in catalyzing change in four focus areas: responsible business; diversity and inclusion; community engagement; and environmental stewardship.

PwC Georgia's CSR strategy incorporates various executed projects benefiting business society development in Georgia through leading our client companies on the stock exchange market, supporting them in improving their risk management processes and financial reporting practices in adherence to international standards. This, we believe, eventually leads to the attraction of new investments and further business development," said Lasha Janelidze, Partner at PwC.

"Another strategic CSR approach of our network is the PwC Georgia Academy, which supports youth and senior professionals to develop or enhance their skills in financial management, as well as introducing 'know-how' instruments for further application in their respective businesses. Through the Academy, we are also proud to be supporting small and medium enterprises, increasing their awareness and refining their skills in financial reporting and accounting, in order to ensure their full compliance with the laws and regulations effective in Georgia. People are the main asset for the PwC network; we invest in attracting talented people and offer them rewarding careers once they join.

PwC has recently been named a "Fortune Magazine Best Company to Work For". We share pride in it at PwC Georgia. We are creating environments that help our people grow and develop through integrated needs-oriented programmes, planned career development, and advanced professional trainings and other motivational practices."

Q. Do you contribute to the development of social enterprises?

A. At PwC Georgia, we would like to help increase the impact of social enterprises by offering our knowledge and expertise through pro bono consulting, master classes and workshops. Firms across the PwC network are committed to fostering and encouraging, as part of our focus on building capacity and supporting NGOs and social enterprises to maximize their potential.



LASHA JANELIDZE, Partner at PwC

BESIDES HELPING BUSINESSES RUN THEIR ERRANDS IN ACCORDANCE WITH INTERNATIONAL STANDARDS AND GEORGIAN LAW, THE COMPANY ALSO USES ITS GLOBAL EXPERIENCE IN ORDER TO CONDUCT CSR CAMPAIGNS ON THE LOCAL MARKET. PWC PROVIDES IMPORTANT DATA AND ANALYTIC INFORMATION FOR ANYBODY WHO IS LOOKING TO MAKE THEIR BUSINESSES MORE SUSTAINABLE AND IN LINE WITH MODERN-DAY PRACTICES OF SOCIAL RESPONSIBILITY.

In recent years, Georgian companies' awareness of and literacy in social responsibility increased. The companies need more incentives and need to see good practice not only with long term sustainability goals but also short terms benefits. They need to see that the new generation of young people want to work for companies who don't only care about profits.

The concept of Corporate Responsibility is now on the agenda of most companies in Georgia. Businesses need to see more reliable indicators of progress in the field of CSR, more transparency, publicity of interesting projects to broader society, showcasing projects' positive outcomes, as well as the tangible benefits they bring.

Q. What are the main challenges for PwC in terms of CSR development?

A. The challenge is to correctly assess what matters to our business and concentrate on areas where we can scale our efforts and make a difference. Some initiatives are easy to evaluate, but in most cases the payback is long-term and societal in nature. We want to be a catalyst for change.

Q. From your point of view, which companies or sectors in Georgia are expected to do more in terms of CSR than they do now?

A. Companies across all sectors should do more in terms of CSR, not only in Georgia but worldwide. There are always fields for improvement.

Q. How has PwC Georgia benefited from CSR activities?

A. The PwC purpose is to build trust and solve problems. Responsible Business Leadership is a shift in our strategy – acknowledgement that doing good for the world can be good for the business, as well. We're creating systems where we put together different tools like charity actions, volunteering, but the main impact we have is through our business – we share knowledge through Thought Leadership and publications. Our experts are pioneers in many fields thanks to knowledge exchange in our network. We focus on assurance (audit) practices and care about ethics & transparency.

Q. Can you evaluate the financial literacy of Georgian businesses, how good are they in financial and non-financial reporting?

A. In the wake of the global financial crisis, financial literacy became more important than ever. PwC Georgia invests in a youth education programme that emphasizes personal finance, in order to improve youth's fiscal competency. PwC Georgia Academy is a knowledge hub, where all levels of professional education are offered in the field of finance.

PwC Georgia improves companies' reporting and complies them with International Financial Reporting Standards. Fortunately, more and more companies see compliance to international standards as important, from the perspective of transparency and risk management. Stakeholders are becoming more curious about the operational performance of business.

Q. What are your suggestions for companies and authorities in terms of environmental protection and green development?

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**Time changes.
Values don't.**

**Our Future -
Our Responsibility**



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CSR

Japan Tobacco International among the Few Georgian Companies with a Dedicated Budget for CSR Activities

David ALEKSIDZE
The FINANCIAL

Japan Tobacco International is a leading international tobacco company with operations in more than 120 countries. Headquartered in Geneva, Switzerland, JTI employs around 27,000 people and was awarded the Global Top Employer for three consecutive years. JTI is a member of the Japan Tobacco Group of companies.

JTI started its business in Georgia in 2000. In 2011, JTI Caucasus LLC (regional hub for Armenia, Azerbaijan and Georgia) was established in Tbilisi. The company currently employs 108 people in Georgia. JTI in Georgia has been recognized as Top Employer for four consecutive years.

Boasting such an impressive résumé, JTI was on our radars when conducting our CSR research on the Georgian market. Anna Skhiladze, Community Investment & Communication Manager at JTI Caucasus LLC, answered our questions regarding the CSR activities of the company, as well as some of the ways JTI ensures its business runs as responsibly as possible.

"We are aware of the health risks associated with smoking and are committed to developing reduced risk products. Our long-term business growth and success depends on being a responsible member of all the communities we operate in," Mrs. Skhiladze stated.

"This is a journey we've already begun; we've been tackling sustainability-related issues across our global business for many years. But, in an ever-changing business landscape, we acknowledge there are still many challenges to understand and achieve – and expectations from employees, governments and wider society are high," she continued.

"We are continuously working on our long-term sustainability, designed to tackle the biggest issues across every aspect of our value chain – from how we work with our farmers and responsibly source raw materials, to the way all our products are distributed and sold. We're also proud



ANNA SKHILADZE, Community Investment & Communication Manager at JTI Caucasus LLC

to be recognized by law enforcement agencies for our strong company integrity in the fight against the illegal tobacco trade."

"The need to secure a sustainable supply chain makes good business sense. But we know that our responsibilities go even further. At the heart of everything we do are our customers, employees, communities and JT Group shareholders. Their contribution and commitment to understanding our approach is just as vital to the continued success and sustainability of our business. That's why our sustainability approach is not solely focused on our supply chain, but extends to our fundamental belief that we must be a responsible member of all the communities we operate in."

Mrs. Skhiladze went into detail concerning JTI's CSR-related policies. The company is one of the leaders on the Georgian market when it comes to its systematic approach to CSR. According to JTI's Global Community Investment Policy, up to 1% of the company's profit of the

previous year is spent on Community Investment projects annually.

The CSR directions at JTI are distributed between Communication and HR departments. Employees' healthcare, safety and welfare (EHS) projects are managed by the HR department, while social projects are managed by the Communications and Community Investment manager.

Not only does the company have a pre-approved budget for CSR projects in 2018, but also for 2019 & 2020.

JTI's CSR Projects in Georgia cover two main directions: Arts & culture, and people.

The company has been carrying out several projects to support the elderly beneficiaries of the charity fund "Caritas Georgia".

All four projects of Caritas are very important for socially vulnerable people. The list goes as follows: Soup Kitchen – it has been 8 years already since JTI started supporting the "Caritas" soup kitchen, where 200 socially-vulnerable elderly people receive hot meals five days per week.

Then there's the socialization day centre "Harmony" – for 4 years already JTI has been supporting Caritas Day Centre Harmony. This is a place where socially-vulnerable, lonely elderly people stay during the day. The Centre is heated during the winter, it is also equipped with hot water; it has a library, a sewing room, TV, a piano, chess, etc. In 2014, due to a lack of funds, Harmony was on the verge of closure. With JTI's support, the Centre continues functioning. From time to time, the management of the company, as well as volunteer employees, visit the Centre, bringing fruit and sweets.

Next in line is the New Year Food Packages for Caritas Beneficiaries programme – for 3 years the company has foregone corporate New Year gifts and instead transfers money to Caritas. This year, 1105 Caritas beneficiaries in Tbilisi, Kutaisi, Batumi and Ozurgeti received New Year food packages.

Finally, there's the Home Care Programme – at the end of 2017, the company financed another project of

Caritas. The home care programme implies medical, rehabilitation and psychological services that are provided in order to stabilize patients' health at home. This service of Caritas is used by 650 (six hundred and fifty) beneficiaries. The company has allocated funds for the purchase of a yearly supply of essential hygiene and medical products for bedridden beneficiaries.

Mrs. Skhiladze pointed out the Home Care Programme as the most important one implemented by JTI in 2017. "This is the field that gets the least attention and there is no organized and complex approach to this problem. At the same time, it was a new programme for JTI, that was not accounted for in the annual budget, although we were able to mobilize additional funds based on the local management's decision," she explained.

As for projects in the cultural field, JTI supports Marjanishvili Theater and the Georgian Programme of Tbilisi International Theatre Festival. The company

also finances the annual educational journal of the National Museum.

JTI ensures environmental awareness of its employees through its eco-driving programme: "There is a motivational programme in the company for employees who drive corporate cars. The cars are monitored through GPS, which allows the assessment of how 'ecologically' (less fuel consumption and less emissions) the employees drive the cars. The results are summarized and the most responsible driver is awarded."

In 2017, in the framework of the aghadine.ge project, "green" boxes were placed in JTI's Tbilisi office to collect waste paper.

On a final note, Mrs. Skhiladze pointed out that JTI does not forget about the well-being of its staff: the improvement in social conditions of the company's employees was reflected in salary increases (salaries of more than 90% of employees were increased by 7% on average in 2017), as well as in annual bonuses.



Seeding new opportunities

We're committed to helping local community initiatives take root. That's why we support more than 340 charitable institutions and arts projects around the world.

Who'd have thought?

Find out more at jti.com



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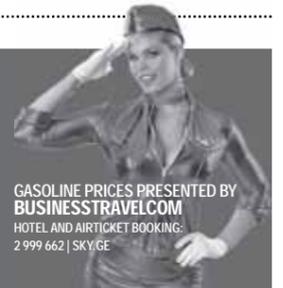
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26 FEBRUARY, 2018, GEORGIA

Gulf		WIND		საქართველო		სტეპ		ROMPETROL	
Prices in GEL		Prices in GEL		Prices in GEL		Prices in GEL		Prices in GEL	
G-Force Super	2.49	Eko Super	2.32	Super Ecto 100	2.55	Nano Super	2.45	Efix Euro 98	2.52
G-Force Premium	2.35	Eko Premium	2.37	Super Ecto	2.39	Nano Premium	2.35	Efix Euro Premium	2.40
G-Force Euro Regular	2.27	Eko Diesel	2.40	Premium Avangard Ecto	2.29	Nano Euro Regular	2.25	Euro Regular	2.28
Euro Regular	2.24	Euro Diesel	2.35	Euro Regular	2.19	Nano Euro Diesel	2.35	Efix Euro Diesel	2.40
G-Force Euro Diesel	2.39	Euro Regular	2.28	Euro Deasel	2.29	Nano Diesel	2.25	Euro Diesel	2.30
Euro Diesel	2.31	Diesel Energy	2.28			GNG	1.53		
CNG	1.55								



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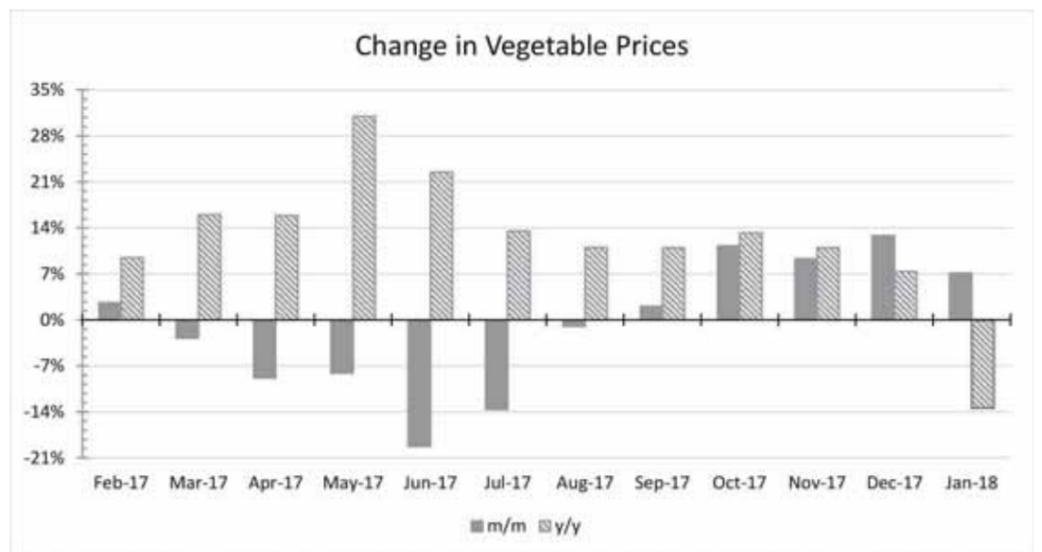
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AGRINDEX: GO VEGAN, IT IS [FINALLY] CHEAP!

In month-to-month terms, domestically produced **VEGETABLE** prices have been increasing since September 2017, and the positive change for January 2018 equaled 7.1%. Nevertheless, for the first time since December 2016, the year-to-year change became negative (-13.4%).

A large share of the decline in year-to-year prices were derived from an 8% drop in cucumber prices, a 17% drop in tomato prices, and an almost 50% drop in eggplant prices, compared to January 2017. The international trade data explains the changes in tomato and eggplant prices fairly well – according to GeoStat, the trade balance (export - import) for tomato and eggplant worsened by 168,900 USD and 52,600 USD, respectively. However, the trade balance is counterintuitive for cucumber, as it improved by 35,900 USD from January 2017 to January 2018.

Unlike the products above, prices of some major vegetables in the Georgian diet have increased since last January. Namely, domestically produced



Data Source: The Ministry of Environment Protection and Agriculture of Georgia

potatoes gained more than one-third of their price in the last 12-month period, while carrots gained almost 15%, and haricot beans, more than 12%. Although

production quantities for the previous year are not available yet, according to GeoStat's express data, the total sown area for potatoes, vegetables, and melons

decreased by 7% in 2017 (2.7 thousand hectares), which possibly led to lower production and, consequentially, higher prices for these products.

THE ISET ECONOMIST

A BLOG ABOUT ECONOMICS AND THE SOUTH CAUCASUS

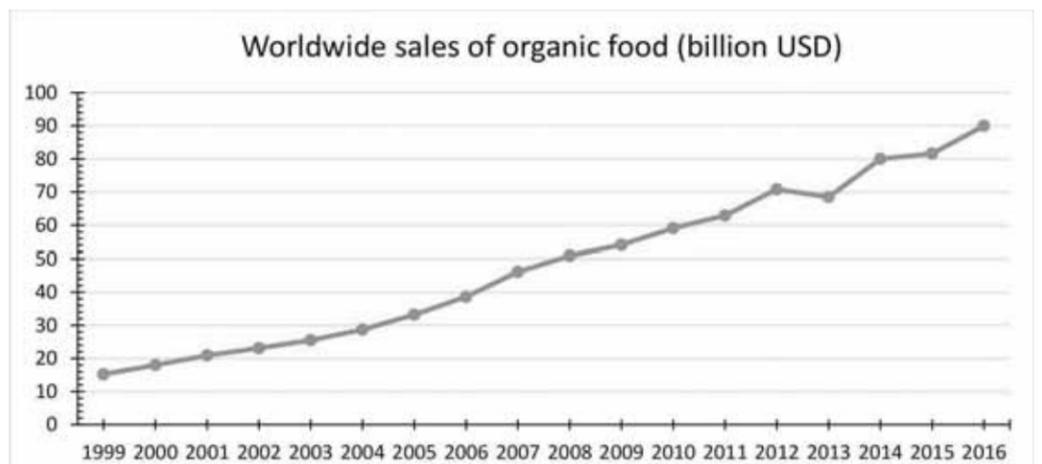
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Organic is the new black!



By NINO KAKULIA, DAVIT ZHORZHOLIANI and PATI MAMARDASHVILI
ISET

Year by year, interest in the organic market is increasing all over the world. According to STATISTA, worldwide sales of organic food quintupled in the 21st century (18 billion USD in 2000, versus 90 billion USD in 2016), while, according to Tech-Sci Research, the total worth of the market is projected to grow at a compound annual growth rate (CAGR) of 16.15% during the period 2017-2022. In fact, in some developed countries, the growth



Source: <https://www.statista.com/statistics/273090/worldwide-sales-of-organic-foods-since-1999/>

of supply of organic foods cannot keep up with the growth of demand (OCA, 2018), as the transition from conventional to organic farming is a prolonged process.

Why Organic?

The growing interest in organic food can be explained by

people's increased concern with a healthier and safer diet, as well as their desire for a more sustainable environment. In particular, the intensification of agricultural technology has increased skepticism towards conventional farming, which has been increasingly relying on chemical fertilizers and pesticides, with possible negative impacts on hu-

man health and the environment. Notwithstanding, some studies point that conventional farming outperforms organic farming in various environmental ways (GLP, 2016). Moreover, despite some findings that organic food has less pesticide residue and is

Continued on p. 22

Adjara Group Developing Agriculture and Building a Farmhouse

The FINANCIAL

Adjara Group, leading Georgian company in the hospitality business, is developing agriculture. The company has started building a farmhouse in Kakheti, Georgia's wine-growing region. It will also be opening Stamba Hotel and Casino Aviator this year. Valeri Chekheria, Company CEO, said that environmental problems in Georgia are negatively affecting the tourism business.

Q. Have you noticed a positive change in the number of companies adopting CSR principles?

A. To begin with, I would like to say a few words about our company. Adjara Group is a leading Georgian company in hospitality and lifestyle development. We are building a modern Georgian business which holds social responsibility at the heart of the corporate agenda.

Our company is therefore a proud member of Global Compact - the United Nations initiative to encourage businesses worldwide to align their strategies and operations 'with universal principles on human rights, labour, environment and anti-corruption'.

To get back to your question, I am indeed very pleased to see the number of companies in Georgia adopting CSR principles growing every year. In that sense, I've certainly noticed a positive change, but I think there is still room for improvement and more needs to be done to establish a true socially responsible corporate culture in the country.

Q. Can you tell us what the main obstacles are to the implementation of CSR at Georgian companies, including at Adjara Group?

A. I believe the structural change within the company's mindset has been the biggest challenge. Historically speaking, the concept of CSR has not been part of Georgian corporate culture. It is slowly becoming recognized and adopted by various enterprises, although it still remains a new notion.



Image: Daro Sulakauri

Therefore, understanding and implementing the core principles at different stages is the challenge that every company, keen on being socially responsible, is facing. It is a new process which takes time and requires an in-depth understanding, but luckily the need for it is becoming widely recognized in Georgia and the business sector is slowly attempting to overcome those procedural challenges. It is a long-term goal and we all have to try to do what we can to move forward as fast as possible!

Q. From your point of view, which companies or sectors in Georgia are expected to do more in terms of CSR?

A. As I already said, even though I am glad to witness a positive change, there is still room for improvement and the big Georgian companies have to set stronger examples. I also think the issue of communication is crucial here. Big corporations have

to continuously inform and show the importance of being socially responsible. We need to set positive examples and take actions that advance societal goals.

Q. What is your point of view on Tbilisi's urban development?

A. Unfortunately, the distortion of the capital's architectural integrity started in the late Soviet era and continued in the '90s when due to a lack of regulations many distasteful and urbanely-unacceptable constructions were built. Now we are facing the consequences of the years of unlicensed constructions and lack of aesthetic standards which have destroyed the face of, what once was known as, an architectural jewel of the region.

Today we are cooperating with the current government to come up with an urban development plan for the capital, which will set architectural models and new standards.

Q. How do pollution problems in Tbilisi affect your business?

A. Building a healthy environment should be a matter for every citizen of the city. Regrettably, pollution in Tbilisi affects everyone and everything. First and foremost, it affects the population's well-being and in particular children's health. It is a pressing issue which needs to be addressed immediately. In terms of business, it has a negative impact on tourism development. As a company, we are trying as much as possible to be environmentally-friendly and responsible. For instance, the next range of cars we purchase will be electric and we have already set up Electric Vehicle Stations - EVS - in the parking space of Rooms and Stamba Hotels.

Q. What are your suggestions for companies and authorities in terms of environmental protection and green development?

A. I think both the government and the corporate sector have to make drastic changes. Maximum protection of the environment has to be on everyone's agenda. Big corporations have to alter their means of transportation and move to environmentally-friendly cars - just like we intend to do. Certain protective standards also need to exist on construction sites which cause daily pollution. Fighting pollution has to be the number one priority on the government's agenda for us to avoid facing an imminent environmental disaster.

Q. Can you tell us about the planned investments of Adjara Group for 2018?

A. We are soon to open Stamba Hotel and Casino Aviator. With unparalleled architecture and a distinguished interior, Stamba has already become an esteemed member of Design Hotels and presents many unique features including the exceptional style of casino Aviator.

This year will also see the opening of Rooms Hotel in Kokhta-Mitarbi in partnership with Georgian Reconstruction and Development Company - GRDC.

Moreover, we are developing agriculture and building a farmhouse in the wine region Kakheti. Our next focus will be on the black sea region.

Q. Are you satisfied with the airline travel facilities in Georgia?

A. No, I would not say that I am satisfied. I would like to see more direct flights to/from Georgia as well as additional budget airlines entering the market. Wizzair from Kutaisi is a good example of an affordable airline which I believe tourism could benefit from. Indeed, with visa liberalization and tourism development, Georgia has to become more accessible and less challenging to travel to.

Q. Do you know business leaders who are sceptical towards CSR prospects at their companies?

A. I do not know anyone who is deliberately resistant to implementing and establishing CSR practices. All our friends and partners are trying to move towards socially responsible strategies, which is key to establishing a new modern Georgian business!

Q. How can the Government of Georgia contribute to CSR development?

A. When the Association Agreement (AA) was signed by the Georgian Government, it made a commitment to promote and protect labour and human rights, as well as corporate social responsibility in agreement with the internationally recognized principles and guidelines. Today, the Georgian Government strongly encourages and protects responsible ways of doing business. More initiatives are put in place to further endorse the CSR engagements within the Georgian private sector.

For us, equality is the essence of our corporate culture. We promote gender equality, we have initiatives to hire disabled workers as well as victims of domestic violence. We develop employment and priorities for the local populations in the regions where we establish our enterprises. In addition, we try to increase long-term profits and foster the trust of our consumers and stakeholders through implementing positive public relations and high ethical standards aimed at reducing business risks by taking additional social responsibility for our corporate actions.



CSR



Nika Melia:

MEMBER OF THE UNITED NATIONAL MOVEMENT



“In the last five years, lives of poor have become even harder... Every fifth child lives in poverty. Every sixth citizen takes debt to buy food”

Teona ABSANDZE
FactChek

On 1 February 2018, on air on talk-show *Reaktsia*, a member of the United National Movement, Nika Melia, stated: “In the last five years, lives of poor have become even harder... Every fifth child lives in poverty. Every sixth citizen takes debt to buy food”

FactCheck verified the accuracy of Nika Melia’s statement.

UNICEF carries out a research on “The well-being of children and their families in Georgia” in every two years. The last research was published in 2016 and it includes 2015 figures. In accordance with the research, child poverty indicators (extreme poverty and general poverty)

have been decreased. However, child poverty remains as one of the most important challenges. General child poverty is 21.7%, whilst extreme poverty rate is 2.5%.

Social exclusion and subjective poverty levels have been increased as compared to the previous years. Subjective poverty is based on self-assessment of households, which state that they cannot provide themselves with enough food or that they feed themselves so poorly that their health is endangered. In 2013, 24.3% of Georgia’s population stated that they lived in poverty. The share of children living in those households was 22.9%.

In 2016, Oxfam published “National Research on Nutrition in Georgia”. In accordance with the research, half of Georgia’s population has problems in regard to affordability of food. Sixty percent

of the population sometimes takes debt to buy food. Of that amount, 7.1% of households buy everything with the borrowed money, and 13.5% buys almost everything with the borrowed money. Therefore, 20.6% of the population (every fifth person), buys food mostly by the borrowed money. Of note is that the similar research has not been conducted neither before nor afterwards and therefore there is no possibility to identify trends in that regard.

In accordance with the data of the National Statistics Office of Georgia, poverty rate has been dropped considerably under the incumbent government. In 2012 absolute poverty rate was 28.9%, whilst in 2016 that figure decreased to 21.3%. However, of note is that in 2016, level of poverty was increased slightly, by 0.5% as compared to the previous year.

CONCLUSION

IN ACCORDANCE WITH THE UNICEF’S DATA, EVERY FIFTH CHILD (21.7%) IN GEORGIA LIVES IN POVERTY. HOWEVER, CHILD POVERTY RATE HAS BEEN DECREASED SIGNIFICANTLY AS COMPARED TO THE PREVIOUS YEARS.

IN ACCORDANCE WITH OXFAM’S “NATIONAL RESEARCH ON NUTRITION IN GEORGIA”, EVERY FIFTH PERSON (20.6%) IN GEORGIA BUYS FOOD MOSTLY BY THE BORROWED MONEY. THE SIMILAR RESEARCH HAS NOT BEEN PUBLISHED BEFORE 2016 AND WE DO NOT KNOW WHETHER OR NOT THE SITUATION GOT WORSENERD IN THE COUNTRY.

AS COMPARED TO THE PREVIOUS GOVERNMENT’S RULE, POVERTY FIGURES HAVE BEEN DROPPED SIGNIFICANTLY. HOWEVER, IN ACCORDANCE WITH THE UNICEF’S DATA, SUBJECTIVE POVERTY FIGURE HAS INCREASED, MEANING THAT MORE PEOPLE CONSIDER THEMSELVES TO BE POOR.

NIKA MELIA GIVES CORRECT FIGURES. HOWEVER, THE PATHOS OF THE STATEMENT THAT THE POPULATION’S SOCIAL SITUATION HAS WORSENERD IN THE LAST FIVE YEARS, DOES NOT CORRESPOND TO THE TRUTH.

FACTCHECK CONCLUDES THAT NIKA MELIA’S STATEMENT IS **HALF TRUE**.

HALF TRUE

STRENGTHENING TRANSATLANTIC COOPERATION

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Almost 4 in 10 children in the EU receive formal childcare services

The FINANCIAL – In 2016, 39% of children aged 12 or below in the European Union (EU) received formal childcare services, with 29% paying full or reduced price and 10% using cost free services.

The uptake of paid services is similar in urban, suburban and rural areas (about one third of children received paid full or reduced price childcare services in all areas). There is a slight difference with regards to usage of cost free services: 11% for cities, 10% for towns and suburbs and only 6% for rural areas.

68% of EU households with at least one child aged 12 or less are satisfied with the access to formal childcare services. As the main reasons for not making (more) use of these services, EU households report finances (16%), no places available (4%), not suitable opening hours (3%), distance (2%) and unsatisfactory quality of services (1%).

Childcare and support to children is one of the 20 key principles of the European Pillar of Social Rights.

These selected findings, extracted from a special data collection of 2016 on access to social services, such as affordability of formal education, participation in training related to professional activities or hobbies, or use of health care services, are issued by Eurostat, the statistical office of the European Union.

Almost 9 out of 10 children receive formal childcare in Denmark

In eight EU Member States, more than half of the children aged 12 or below received formal childcare services. The highest share was registered in Denmark, where almost 86% of the children received such services. High shares for formal childcare services were also observed in Sweden (70%), the United Kingdom (65%), Germany (64%), followed by Finland (59%), Austria and Luxembourg (both 58%) and the Netherlands (56%). At the opposite end of the scale, the share was below 10% in nine countries: Latvia (1%),

Croatia (2%), Slovakia (3%), Estonia and Spain (both 4%), the Czech Republic (5%), Lithuania (6%), Italy (8%) and Bulgaria (9%).

Only 1 in 10 children use paid formal childcare in Estonia, Latvia and Romania

Eleven countries are above the EU average (29%) for paid formal childcare, and five of them have more than half of the child population receiving such services: Denmark (79%), Sweden (70%), the Netherlands (56%), Germany and Finland (both 52%). The lowest shares are observed in Estonia, Latvia and Romania (all 1%).

In half of the Member States, children in urban areas receive more paid formal childcare than in suburban and rural areas. In urban areas the highest share is noted for Sweden (almost 76%) and Denmark (almost 74%) and the lowest for Latvia and Estonia (both close to 1%). Children in rural areas receive more paid formal childcare than in urban and suburban areas in Denmark, Germany, France, the United Kingdom, the Czech Republic and Slovakia. Children in towns and suburban areas receive more paid formal childcare than in urban and rural areas in Greece, Italy, Malta, Hungary, Spain, Latvia and Estonia.

In the majority of Member States, the uptake for paid services is bigger than cost free, apart from the United Kingdom (28% paid, 37% cost free), Greece (10% paid, 13% cost free), Malta (5% paid, 13% cost free), Romania (1% paid, 13% cost free) and Estonia (1% paid, 4% cost free).

Reported global economic crime hits record levels

Reported rate of economic crime has increased across all territories



© How your organisation experienced any fraud and/or economic crime within the last 24 months? Source: PwC's 2018 Global Economic Crime and Fraud Survey

www.pwc.com/fraudsurvey
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Continued from p. 11

your declining, in addition to beefing up their internal controls, many respondents reported addressing fraud prevention through corporate culture initiatives (via internal or external tip offs or hotlines) through which 27% of frauds were detected.

Respondents also reporting using technologies like artificial intelligence (AI) and advanced analytics as part of their efforts to combat and monitor fraud. The survey shows that companies in emerging markets are currently investing in advanced technologies at a faster rate than their counterparts developed nations: 27% of or-

ganisations in developing markets currently use or plan to implement AI to combat fraud, versus 22% in developed markets.

Despite higher levels of understanding and reporting of fraud, blind spots still prevail. 46% of respondents globally said their organisation have still not conducted any kind of risk assessment for fraud or economic crime. Additionally, the percentage of respondents who indicated they have a formal business ethics and compliance programme has dropped from 82% to 77%.

“Fraud is the product of a complex mix of conditions and motivations, only some of which can be tackled by machines,” comments Kristin

Rivera, PwC Global Forensics Leader.

“While technology has a strong role to play in monitoring and detection, when it comes to blocking that ‘last mile’ to fraud, the returns from people initiatives are likely to far exceed those from investing in another piece of technology.”

“It’s particularly relevant when you consider a sizable percentage of the ‘external’ perpetrators is made up of third-parties with whom companies have regular relationships: agents, vendors, shared service providers, customers and more. Everyone in the business must be vigilant about who it allows in to access its systems and processes.”



Heineken Said Its Goal is to Reach Use of Renewable Energy up to 70%

The FINANCIAL

Heineken N.V. Last week published its combined financial and sustainability Annual Report 2017. HEINEKEN firmly believes in integrating sustainability in its business, therefore the company's sustainability strategy 'Brewing a Better World' is one of its four business priorities.

The company aims to grow its share of renewable thermal energy and electricity in production from the current level of 14% to 70% by 2030. To drive a real change towards renewable energy the brewer will not purchase unbundled certificates to meet its reduction targets. Beyond production, in the next two years new science based reduction

targets will be set for distribution, cooling and, for the first time, packaging.

HEINEKEN'S 2017 sustainability highlights include the following:

HEINEKEN has surpassed its 2020 target for CO2 emissions in production by reaching 6.1 kg CO2 e/hl, down from 6.5 kg CO2 e/hl in 2016 (a 41% decline since 2008). Emissions decreased in absolute terms as well: even though production volumes were 57% higher in 2017 than in 2008, emissions were 7% lower.

Average water consumption in water-stressed areas decreased to 3.2 litres of wa-

ter per litre of beer (2014: 3.8). Global average water consumption remained stable compared to last year, and decreased 29% compared to 2008, the baseline year for the 2020 commitments.

28% of main raw materials came from sustainable sources (2016: 17%) with 42% of our agricultural raw materials used in Africa and the Middle East sourced locally. However, there is more to be done in sourcing agricultural raw materials used in Africa after challenging economic conditions impacted the ability to source locally within the continent.

10% of total Heineken media spend was dedicated to responsible consumption campaigns, in more than 70% of operating companies in scope.

PricewaterhouseCoopers Calling on Georgian Companies to Adopt Principles of Social Responsibility

Continued from p. 10

A. Without the planet, there is no business. That is why we actively track the impact of our business and help our clients make the transition to a green economy, placing real value on natural capital.

Our firms are guided by our Network Environmental Statement. Our efforts are focused on reducing energy and paper usage from our offices. We support the new global economy, sustainable finance and are here to help you put the right strategies in place.

Q. How can the Government of Georgia contribute to CSR development?

A. In the PwC network, we serve the public sector and have extensive successful experience with central and local governments in terms of social responsibility.

The new EU Directive about non-financial reporting, effective since January 2017, requires large companies to publish reports on the policies regarding environmental protection, social responsibil-

ity, treatment of employees, respect for human rights, anti-corruption and bribery, as well as diversity on company boards in terms of age, gender, educational and professional background. This facilitates evaluation of the non-financial performance of large companies and encourages them to develop a responsible approach to business.

Q. Environmental protection is one of the main focuses of CSR globally. Air pollution in Tbilisi is critical and exceeds norms by 100 times according to WHO. Can you explain why these issues are not being well addressed and why businesses are not interfering in the situation?

A. The situation requires coordinated cooperation between businesses, local administration, NGOs etc. PwC actively works to make cities Smart and Sustainable through the PwC Smart City model – a mechanism practiced in Georgia as well.

Fundamental changes such as climate change, technologi-

cal advances, increasing societal demands, demographic changes and consequences of the financial crisis are changing the playing field of cities worldwide. At PwC, we are committed to helping cities understand their challenges and design integrated solutions tailored to their needs. We assist the City Managers in creating a roadmap for city intelligence and excellence.

We assist our clients in the areas of corporate governance and business ethics, climate change and emission reductions, environmental health and safety management, corporate social responsibility, strategy and economics, responsible supply-chain management, and reporting of non-financial information. For companies looking to improve business performance and create long-term shareholder value, we can help develop a corporate responsibility / sustainability strategy that focuses on key issues for clients' business and enhances relationships with key stakeholder groups.



Zaal Udumashvili:

FORMER UNITED NATIONAL MOVEMENT MAYORAL CANDIDATE FOR TBILISI

“GEL 1,900 000 was paid to the budget from the selling of construction coefficients (the right to add to the number of floors of a building) in 2013 whilst GEL 19,000,000 is estimated for 2018.”

Veriko SUKHIASHVILI
FactCheck

Former United National Movement mayoral candidate for Tbilisi, Zaal Udumashvili, spoke about the chaotic construction situation in Tbilisi which has been ongoing for many years already. Mr Udumashvili emphasised that nothing has really changed in this regard under the Georgian Dream with one possible way out, albeit not the only one, in adopting a general development plan for the city.

Zaal Udumashvili also underscored the high velocity of ongoing construction in Tbilisi and added that selling the construction intensity coefficient still vigorously continues. Mr Udumashvili stated: “GEL 1,900,000 was paid to the Tbilisi budget from the selling of construction coefficients in 2013 whilst the estimated amount of money which the budget is supposed to receive from selling coefficients in 2018 is GEL 19 million.”

FactCheck took interest in the accuracy of the statement.

The so-called K2 construction intensity coefficient is the ratio of the overall area of the floors of a building on a given plot of land to the overall area of the plot. The fee for increasing the construction intensity coefficient has been im-

posed since 2007. On 13 April 2007, a change was made to Article 5 of the Law of Georgia on Local Fees with the fees for issuing special (zonal) agreements added. This amendment stipulated that a developer was able to pay the fee in order to increase the number of floors of a building under construction on the basis of a respective zonal agreement.

In accordance with a Tbilisi City Council ordinance issued on 12 December 2014, fee rate for special (zonal) agreements upon the territory of the Municipality of Tbilisi as well as rules for their payment were approved.

In accordance with the aforementioned ordinance, the fee per one square metre of added area should not exceed GEL 400 (the fee has been kept at the same level since 2007).

On 24 May 2016, in accordance with Tbilisi City Council's ordinance, increasing the K2 coefficient in the central parts of Tbilisi was temporarily suspended.

FactCheck took interest in the amount of money paid to the Tbilisi city budget over the years in which a fee was imposed for increasing the K2 coefficient.

As illustrated by the table, the fee for increasing the K2 coefficient has been on the rise from 2013 with the actual income received from the fee exceeding the planned

amount in the last years. In 2013, the total amount of fees for increasing the K2 coefficient reached GEL 1,929,000 whilst GEL 19 million will be paid to the Tbilisi City budget from the fees based on the draft for 2018.

The former Mayor of Tbilisi, Davit Narmania, thought that the selling of K2 construction intensity coefficients was a flawed practice introduced by the United National Movement. However, under his tenure as mayor, 1,037 agreements were issued over a period of two years with the number of issued agreements reaching 1,948 between 2009-2014. Therefore, under the United National Movement's rule (from 2009 to August 2014), 336 permits were issued by the Municipality of Tbilisi for the purposes of increasing the K2 coefficient whilst an average of 518 permits were issued from August 2014 to August 2016. As a result, the “flawed practice” was continued even more actively under the Georgian Dream.

Of additional note is that 39,776 construction permits were issued in Tbilisi between 2006-2017 comprising a total area of 36,234,214 square metres. In the last years; more precisely, in 2015-2017, construction permits were issued for the construction of residential premises amounting to 7,303,568 square metres in area.

Table 1: Amount of Money Paid to Tbilisi City Budget from Fees for Increasing the K2 Coefficient (Plan/Fact) in GEL

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Plan	750	1,832	1,745	1,745	4,200	6,500	6,500	10,794	10,000
Fact	823.5	1,990	1,563	1,929	8,577	7,157	11,988	-	-

Source: Tbilisi City Hall

CONCLUSION

THE K2 CONSTRUCTION INTENSITY COEFFICIENT FEE (THE FEE FOR ISSUING SPECIAL ZONAL AGREEMENTS) ADDED GEL 1,929,000 TO THE TBILISI CITY BUDGET WITH GEL 10 MILLION ESTIMATED TO BE PAID TO THE BUDGET IN 2018. UNDOUBTEDLY, THE GROWTH OF INCOME FOR THE MUNICIPAL BUDGET IS A WELCOMING FACT. IT IS ALSO OBVIOUS THAT THE CONSTRUCTION BUSINESS CONTRIBUTES SIGNIFICANTLY TO GEORGIA'S ECONOMIC GROWTH. HOWEVER, THE PRACTISE OF ADDING FLOORS IN THE PROCESS OF BUILDING CONSTRUCTION NEEDS TO BE REGULATED BY APPROPRIATE MEANS. IN SPITE OF THE FACTUAL INNACCURACY IN REGARD TO THE FIGURE REGARDING 2018 BUT TAKING THE FULL CONTEXT OF THE STATEMENT INTO CONSIDERATION, ZAAL UDUMASHVILI'S STATEMENT IS MOSTLY TRUE.

MOSTLY TRUE



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CSR

Study proposes practical solution to challenges faced by bilingual children

The FINANCIAL -- Researchers have made a major breakthrough in the assessment of language development among bilingual families and in the identification of those children who require extra support to improve their language skills.

During a three-year study involving nine UK universities, including the University of Liverpool, academics interviewed almost 400 families with two-year-old children learning English and another of 13 common additional languages, according to University of Liverpool.

They were able to demonstrate for the first time that those learning English and a phonetically or grammatically close language (such as Dutch or German) knew more words in their other language than those learning more distant languages such as Mandarin or Greek.

The team used the findings to create and test the first toolkit for health professionals to accurately assess how bilingual children's language skills are developing.

Improving prospects

Led by the University of Plymouth, the research was funded by the Economic and Social Research Council (ESRC) as part of a collaboration including the universities of Bangor, Birmingham, Kent, Liverpool, and Oxford. Academics at Coventry, East Anglia and Essex were also involved.

With figures suggesting that almost 20% of children of school age in the UK are bilingual, its findings could have major implications for young people's personal and professional prospects, as well as



national health and education systems.

Professor Caroline Rowland, Director of the Language Development Department at the MPI for Psycho-linguistics at the University of Liverpool, and co-Director of the ESRC LuCiD Centre, said: "This work couldn't come at a better time. The Department for Education has just published its national plan to improve social mobility in young people; at the heart of their strategy is the ambition to close the language gap

that develops between the most and the least disadvantaged children in our society. This new study, and associated resources, will provide practitioners, parents and researchers with an invaluable resource in the crucial work that they are doing to improve the life chances of young children in the UK."

The project leader Dr Caroline Floccia, Associate Professor (Reader) in Psychology at the University of Plymouth and Head of the Plymouth Babylab, said: "Language is

a foundation for harmonious development in a child and being bilingual is now a norm across the world. In the majority of cases, their development in each language is slightly delayed compared to that of monolingual children, which can have knock-on effects both for them and (when they get to school) their peers. We are proposing the first practical solution to the problems faced by bilingual children, because the earlier we identify and tackle these potential issues, the more likely

a positive outcome for the children and their prospects."

New toolkit

Currently, all two-year-olds are required to have a health assessment to monitor their development, and the researchers hope their UK Bilingual Toddler Assessment Toolkit (UKBTAT) can become a standard component in that assessment. It can also be used by a wide range of health practitioners, includ-

ing speech and language therapists, social workers, educational psychologists, and GPs.

The UKBTAT includes a list of familiar English words that parents tick off if their child recognises or can say them, and a similar list of familiar words in their additional language.

It also features a Language Exposure Questionnaire (LEQ) that a health practitioner can complete with the help of the parents. The LEQ assesses the proportion of time the child spends engaged in an English-speaking setting compared with their additional language.

These answers are processed through the toolkit's statistical model to produce a result which shows where the child is situated in terms of the average level of proficiency across the UK. This will allow practitioners to identify bilingual toddlers who may need additional support with their language development, not possible until now.

Professor Kim Plunkett, Professor of Cognitive Science at the University of Oxford, and a collaborator on the project, said: "Tapping into a parent's knowledge of their own child's development has become an invaluable component in the developmental psychologist's assessment toolkit in recent years. This research extends the method into the realm of bilingual development and provides parents and practitioners with invaluable assessment tools (UKBTAT and LEQ) that are easy to use and capable of identifying potential language delays in bilingual two-year olds. The work also provides researchers in the field of bilingual development with important new insights into the development of the bilingual mind."

Over 175 million Europeans ready to pay with wearable devices

The FINANCIAL

One quarter (24%) of Europeans expect to start using "tap and go" contactless payments with a smartwatch, bracelet, keyring or other forms of wearable payments, according to new figures from Mastercard.

Contactless spend on Mastercard and Maestro grew by 145% in the last year, and the huge success of contactless has seen many Europeans willing to explore new ways to pay. The figures come as The Netherlands embarks on a wearable payments trial for leading Dutch bank ABN AMRO. Alongside this continued growth, barriers to using contactless have also decreased. Concerns around fraud see the greatest decrease (-24%), with the Neth-



erlands (-41%), Spain (-33%) and the UK (-31%) seeing the biggest drop in fraud concerns across local markets, building trust in Mastercard

contactless technology.

Banks across Europe are also working with Mastercard to deliver this new wave in contactless payments. ABN

AMRO is one of the first banks to enable worldwide payments with a wearable that's linked to a current account, with a pilot for 500 custom-

ers of different age groups, who will be experiencing what it's like to make contactless payments with a ring, watch, bracelet or keyring.

"Europe leads the world in contactless payments and its overwhelming success has created a demand for even greater convenience," said Paolo Battiston, Executive Vice President Digital Payments & Labs Europe at Mastercard. "Shoppers trust in contactless is greater than ever, and in turn it seems they are ready to take this one stage further by trying contactless through connected devices. Pilots like the one we're involved with in The Netherlands will empower consumers in the digital economy."

Mastercard continues to work with retailers to help meet expectations surrounding wearable payments, with 42% growth in the number

of retail locations accepting contactless across Europe. As a result, 38% of all in-store transactions are contactless. The Netherlands provides the perfect test bed for wearable payments because 80% of terminals in the country already accept contactless payments. More than 50% of payments in the Netherlands are also made with contactless according to ABN AMRO.

"With customer expectations clear and the new technology available today, the time has come to drop cumbersome methods of payment and embrace a better consumer experience through wearable payments," said Yvonne Duits, Product Owner Payments at ABN AMRO. "We care about making things convenient for consumers and offering everyone a payment method that suits their preferences and this pilot is testament to that."

Weekly Market Watch

GALT & TAGGART
CREATING OPPORTUNITIES
WEEKLY MARKET WATCH EXCLUSIVELY PROVIDED TO THE FINANCIAL BY GALT & TAGGART

ECONOMY

Exports up 26.0% y/y in January 2018

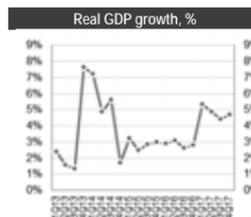
In January 2018, exports increased 26.0% y/y to US\$ 222.7mn, imports were up 18.2% y/y to US\$ 593.9mn and the trade deficit widened 13.9% y/y to US\$ 371.2mn, according to GeoStat.

In January 2018, copper (+2.9% y/y), ferro-alloys (+15.5% y/y), cars (+45.1% y/y), wine (+30.1% y/y) and petroleum (20.7x Higher) were the top 5 exported commodities; A 28.8% of exports were directed to the EU (+21.4% y/y), 36.3% were directed to the CIS (+23.5% y/y) and 34.9% to other countries (+32.9% y/y).

Petroleum (+143.6% y/y), gases (-8.2% y/y), cars (-2.6% y/y), copper (+18.8% y/y) and pharmaceuticals

Key macro indicators			
	1M18	2017	2016
GDP (% change)	4.8%	2.8%	
GDP per capita (ppp)	10,644	10,043	
GDP per capita (US\$)	3,865		
Population (mn)	3.7	3.7	3.7
Inflation (cop)	4.3%	6.7%	1.8%
Gross reserves (US\$ bn)	3.1	3.0	2.8
CAD (% of GDP)	7.1%	12.8%	
Fiscal deficit (% of GDP)	3.9%	4.1%	
Total public debt (% of GDP)	44.7%	44.6%	

Source: Official data, IMF
(1) As of 9M17



Source: GeoStat
Note: Rapid estimate for 4Q17

Georgia sovereign credit ratings

STANDARD & POORS BB- Stable Affirmed May-2017	MOODY'S INVESTORS SERVICE Ba2 Stable Affirmed Sep-2017	FitchRatings BB- Stable Affirmed Mar-2017
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Source: Rating agencies

International ranking, 2017

- Ease of Doing Business s# 9 (Top 10)
- Economic Freedom Index # 16 (mostly free)
- Global Competitiveness Index # 59 (improving trend)

Source: World Bank, Heritage Foundation and World Economic Forum

(-60.2% y/y) represented the top 5 imported commodities in January 2018.

Producer price index

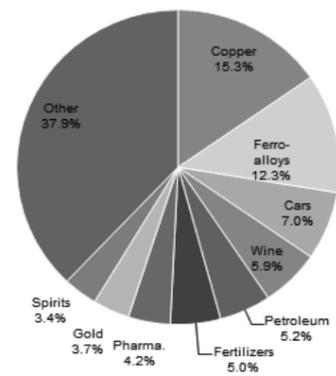
up 1.6% m/m and up 8.0% y/y in January 2018

up 1.6% m/m and up 8.0% y/y in January 2018

PPI for industrial goods was up 1.6% m/m in January 2018, according to GeoStat. A 14.3% price increase for electrical energy, gas, steam and hot water contributed the most to the overall index change. Prices were also up for products from mining and quarrying (+1.6% m/m), while prices were down (-0.5% m/m) for manufactured products.

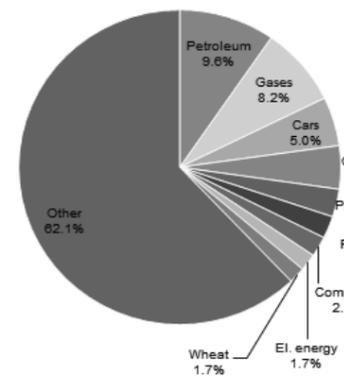
Annual PPI was up 8.0% in January 2018. Rising prices in manufacturing (+6.9% y/y) contributed the most to the overall index change. Prices were also up for supply of electricity, gas and water (+14.0% y/y) and for mining and quarrying (+9.4% y/y).

Exports by commodities, 1M18

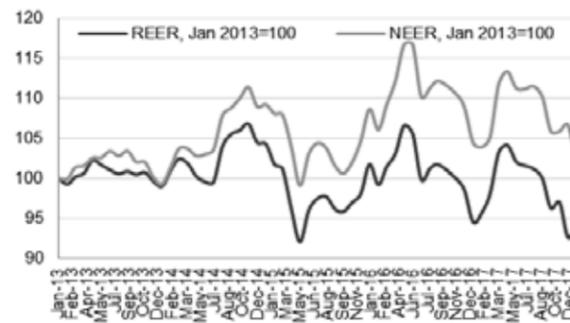


Source: GeoStat

Imports by commodities, 1M18



Nominal Effective Exchange Rate and Real Effective Exchange Rate

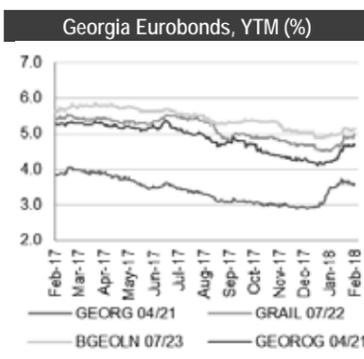


Source: NBS
Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate.

FIXED INCOME

Corporate Eurobonds: BGEO Group Eurobonds (BGEOLN) closed at 5.1% yield, trading at 104.1 (-0.1% w/w). Bank of Georgia GEL-denominated Eurobonds (GEBGG) were trading at 100.5 (unchanged w/w), yielding 10.7%. GOGC Eurobonds (GEORG) were trading at 105.9 (-0.2% w/w), yielding 4.7%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 110.8 (-0.3% w/w), yielding 5.0%.

Georgian Sovereign Eurobonds (GEORG) closed at 109.6 (+0.1% w/w) at 3.6% yield to maturity.



Source: Bloomberg

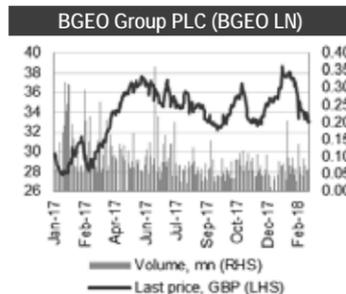
	Local bonds				Eurobonds						
	GWP 12/21	M2RE 10/19	Nikora 03/18	Nikora 06/19	GLC 08/20	GEBGG 06/20	GEORG 04/21	BGEOLN 07/23	GEORG 04/21	GRAIL 07/22	
Amount, US\$ mn	30*	25.0	5.0	10.0	10.0	500*	250	350	500	500	
Issue date	12/16	10/16	03/16	08/17	8/17	06-17	04/16	07/16	04/11	07/12	
Maturity date	12/21	10/19	03/18	06/19	8/20	06-20	04/21	07/23	04/21	07/22	
Coupon, %	10.50**	7.5	11.0	9.0	7.00	11.0	6.750	6.000	6.875	7.750	
Fitch/S&P/Moody's	BB-/A-	-/-	-/-	-/-	n/a	BB-/Ba2	BB-/B+	BB-/B1	BB-/Ba2	B+/B+	
Mid price, US\$	n/a	103.1	101.3	101.3	101.15	100.5	105.9	104.1	109.6	110.8	
Mid yield, %	n/a	5.5%	8.5%	3.8%	6.50%	10.7	4.7	5.1	3.6	5.0	
Z-spread, bps	n/a	n/a	n/a	n/a	n/a	346.1	209.8	237.7	97.0	228.8	

* Source: Bloomberg
**GWP 12/21 bonds and GEBGG 06/20 bonds are in Georgian lari
**Coupon rate 3.5% over the NBG's refinancing rate

Eastern European sovereign 10-year bond performance					
Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid yield, %
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba2	3.6
Azerbaijan	1,250	4.750%	18/03/2024	BB+/BB+/Ba1	4.5
Bulgaria	323	5.000%	19/07/2021	BBB-/BB+/Baa2	0.1
Croatia	1,250	3.875%	30/05/2022	BB/BB/Ba2	1.2
Hungary	3,000	6.375%	29/03/2021	BBB-/BBB-/Baa3	3.2
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	3.5
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Ba1	3.0
Turkey	2,000	5.625%	30/03/2021	BB+/BB/Ba1	4.1

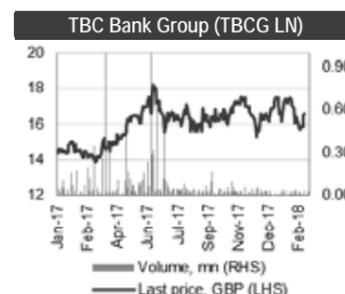
Source: Bloomberg

EQUITIES



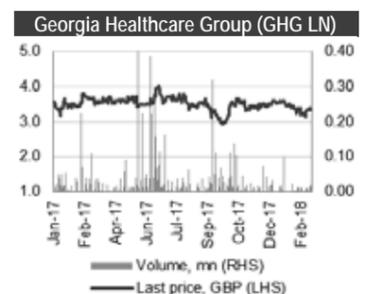
Source: Bloomberg

BGEOLN Group PLC (BGEOLN) shares closed at GBP 33.12/share (-0.42% w/w and -12.70% m/m). More than 390k shares traded in the range of GBP 32.88 – 34.44/share. Average daily traded volume was 68k in the last 4 weeks. FTSE 250 Index, of



Source: Bloomberg

which BGEOLN is a constituent, gained 0.34% w/w and lost 4.21% m/m. The volume of BGEOLN shares traded was at 0.99% of its capitalization. **TBC Bank Group (TBCG LN)** closed the week at GBP 16.66 (+0.36% w/w and -4.58% m/m). More than 72k shares changed hands in the range of GBP 16.20 – 16.98 share. Averaged daily traded



Source: Bloomberg

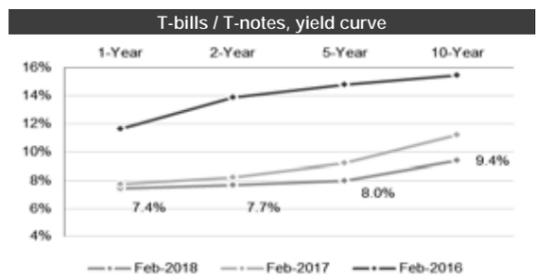
volume was 14k in the last 4 weeks. **Georgia Healthcare Group (GHG LN)** shares closed at GBP 3.36/share (+0.08% w/w and -2.75% m/m). More than 53k shares were traded in the range of GBP 3.35 – 3.50/share. Average daily traded volume was 7k in the last 4 weeks. The volume of GHG shares traded was at 0.04% of its capitalization.

MONEY MARKET

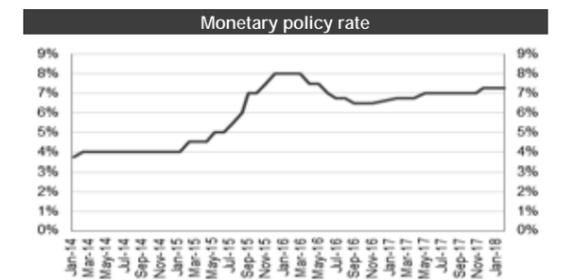
Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 970.0mn (US\$ 392.9mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.1mn) certificates of deposit, with an aver-

age yield of 7.34% (down 0.04ppts from previous issue). **Ministry of Finance Treasury Notes:** 5-year GEL 30.0mn (US\$ 12.1mn) T-Notes of Ministry of Finance were sold at the auction held at NBG on February 21, 2018. The weighted average yield was fixed at 7.963%. The nearest treasury security auction is scheduled for March 7, 2018, where GEL 40.0mn nominal value 1-year T-Bills will be sold.



Source: NBG
*Note: As of latest auction.



Source: NBG

WEEKLY MARKET WATCH EXCLUSIVELY PROVIDED TO THE FINANCIAL BY GALT & TAGGART

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The readers of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

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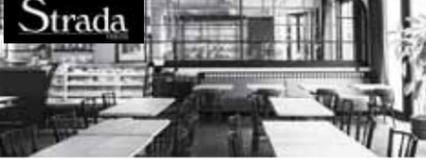
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Organic is the new black!

Continued from p. 14

more nutritious, the health-related benefits of organic produce remain a highly debated topic. All this controversy, however, does not prevent the organic food market from attracting an increasing number of high-income consumers, especially from North America and Western Europe, where the population better understands the benefits of consuming organic food, and people are willing to pay the accompanying price premium.

Organic food price premiums, by the way, are not trivial and may exceed 100% for dairy or meat products in some regions. The Food and Agriculture Organization of the United Nations (FAO) lists various factors that increase the costs of organic farming, and partly explains the resulting high prices. High prices are considered to be the main constraint for further expansion of the [organic food] market, but there is additional constraint that should not be understated; that is, most consumers do not understand what is really meant by the label "organic," as the label is still being standardized and differs across countries. These constraints explain why consumers are not willing to pay even more for organic products, despite the increasing interest in these products.

Organic Production in Georgia - The "Shiraki" Example

Interest in organic food is also increasing in Georgia. During workshops, forums, or discussions about agriculture, you will frequently hear that Georgian agriculture has huge potential for supplying organic products, and thus should target this high-value market segment. Not using chemical fertilizers or pesticides for a long time in traditional, small-scaled farming in Georgia, as well as rapidly increasing demand for organic products throughout the world, are among the frequently used arguments for expanding organic production in the country.

Some Georgian producers have already decided to try their fortune in organic farming. "Shiraki," which in December 2017 obtained an organic certificate for producing raw cow milk, is one of them. Actually, this is the first case in the Caucasus that a farm has received an organic certificate for animal produce.

The founder of Shiraki, Nikoloz Benianidze (whom we interviewed recently), says that he became interested in organic farming after hearing about it at various national and international seminars, as well as visiting organic farms abroad. He thinks that Georgia should focus on producing healthy and environmentally friendly products. According to Nikoloz, because of the intensification of agriculture (mainly the increased use of fertilizers and pesticides) associated with negative impacts on human health and the environment, the developed world is increasingly switching to safer and more environmentally friendly farming practices (one of which is organic farming). Developing countries like Georgia could skip the step of such intensive input use, and focus on the sustainable intensification of agriculture from the very

beginning. "The aim of the company is to produce the amount of organic raw cow milk that will be enough to substitute for milk powder in the country," Nikoloz says.

Four years of hard work

Nikoloz's farm is located in Dedoplistskaro (Kakheti) and employs 100 workers (plus 100-150 additional workers during the high season). The company brought 200 Dutch breed cows (Holshtein Friesian Cattle) from Estonia, which cost them around EUR 2,500 per cow. This gave them a capacity of producing over four tons of raw milk per day.

It took four years for "Shiraki" to get their organic certificate. The specific requirements for organic milk production can be grouped as follows.

First, everything starts from the animal's diet. Cows should be fed with organic feed. Shiraki has its own land plots for production of organic cereals (wheat, maize and barley), and makes silos for their cows. Because the cereal production process must also follow organic standards, the farm does not use any mineral fertilizers, chemical pesticides or herbicides. Use of hybrid seeds is not allowed either. Therefore, Shiraki only uses organic fertilizers (manure) and compost, which is also produced on the farm. Large groups of workers are hired during the season for weeding. According to Nikoloz, this doubles the costs usually needed for fighting weeds. Overall, on a modern farm with improved breeds, daily feed cost per cow is 25-30 GEL in organic farming, while it is only 12-15 GEL in conventional production. Animal premixes are also not used on Nikoloz's farm, and this reduces the milk yields.

Second, the use of medical drugs is also restricted in organic animal production. According to these rules, alternative treatments (such as homeopathy or phytotherapy) are preferred over conventional drugs. The focus is on preventive measures such as better rearing conditions, adding acids to the water, or probiotics to the feed, as well as following a recommended vaccination schedule. Only in cases when such alternatives are not effective will antibiotic use be allowed. However, after using antibiotics, the milk cannot be used for the next two weeks, while in the conventional production the waiting period is only one week.

Third, cattle housing must meet specific requirements. Large indoor and outdoor areas must be allocated per animal (6 m² and 4.5 m² per cow, respectively). Also, the height of the stable should follow specific rules. In organic production, it is not allowed to hitch an animal. Nikoloz estimated that overall, the stable with all above-mentioned requirements, as well as the specific equipment (milking, etc.), require around \$5,000 per cow.

These and other rules (e.g., specific breeding requirements) in the organic farm system are related to animal welfare, a better environment, and a safer final product. According to Nikoloz, these requirements compromise milk yields, which are 20-22 liters a day in organic farming, while the conventional farming provides 30-35 liters a day (on farms with modern breeds and practices).

The projected selling price of one-liter raw milk is between 4.5 and 5 GEL (about 1.4 times higher than non-organic milk), and one kg cheese price made from this

milk will be sold at around 28 GEL (about 2.4 times higher than non-organic cheese). Shiraki's main selling market is Tbilisi; they already sell their conventional dairy products to Carrefour, Fresco, Nikora, etc. The company is also going to sell milk to Natural + (the latter also obtained an organic certificate this month) that will sell it under its own label.

Nikoloz is sure that there eventually will be demand for his organic dairy products. However, the segment is in the early stages of development, and will require a lot of effort from all the value chain actors and supporting bodies. "Time is needed to increase awareness of organic production in Georgia. Neither consumers nor managers of supermarkets are well aware of all the benefits of such products," Nikoloz says. Moreover, problems such as fake labels and expensive laboratory services are also quite severe.

How Many Are There?

In Georgia, a certificate for organic production is issued by Caucasert. Their certificate is legally recognized in Georgia, as well as in all EU countries and Switzerland. They are issuing certificates for four different groups of products: (i) Unprocessed plant products (plant production and wild plant collection), (ii) live animals or unprocessed animal products (including honey), (iii) processed agricultural products for use as food (including organic wine), and (iv) vegetative propagating material and seeds for cultivation. According to Caucasert's latest (20/02/2018) information, in Georgia, 28 producers have gained organic certificates, among which four are concentrated on producing agricultural inputs. Moreover, 40 producers are "in conversion," which that means that they are at the preparation/control stage for receiving an organic certificate.

These numbers indicate a rather small supply base of organic products in Georgian agriculture. But the interest is gradually increasing, and Shiraki is one good example. While it not yet obvious in Nikoloz's case, a well-managed organic business might come with several economic advantages related to reduced production costs and/or higher returns (e.g., Delate, et al, 2003; Chase et al., 2008). Superior profitability of organic farming over conventional farming is less clear in animal production (e.g., Butler, 2002), though some research (e.g., McBride and Green, 2008) points out that entering the industry at a large scale, or utilizing pasture as the primary source of feeding, makes organic dairy production highly profitable.

Developing organic value chains requires even more coordination (e.g., communicating and controlling many specific rules) than other value chains. Targeting this high-value food segment, however, has potential to contribute to employment and the incomes of poor farm households. That's why our farmers and agribusinesses should keep their eyes open for this fast-growing food market segment in developed countries. Moreover, more holistic movements, such as biodynamic agriculture, has already received a substantial following in Europe and the United States (See our previous blog on biodynamic viticulture). Georgia, with its long traditions, can surely gain some share in special niche markets such as organic and biodynamic production.

Most Adults Fail To Understand That Nicotine Does Not Cause Cancer



The FINANCIAL

A new study reveals that most adults hold beliefs about the harms from nicotine that are opposite from what scientists have concluded. Among all adults, 52.9% incorrectly believed that nicotine is the substance causing most of the cancer caused by smoking, and an additional 21.2% did not know whether nicotine causes most cancer caused by smoking.

The findings, presented at the Society for Research on Nicotine and Tobacco 24th Annual Meeting in Baltimore, Maryland, highlight the need to correct misperceptions about the harmfulness of nicotine so that adults can make informed decisions about use of nicotine-containing and lower risk tobacco products.

Nicotine is present in combustible cigarettes, e-cigarettes and FDA-approved nicotine replacement therapies used to help smokers stop smoking. The FDA[1] and other authorities have concluded that there is a continuum of risk for nicotine and tobacco products, with combustible cigarettes by far the most hazardous and nicotine replacement therapies as the least hazardous. To examine adults' knowledge of tobacco and nicotine harmfulness, researchers analyzed data from 1,736 US adults in the government-run 2017 Health Information National Trends Survey (HINTS-FDA Cycle 2).

Adults' beliefs about nicotine and tobacco products are not completely wrong. For example, a majority of adults (84.7%) correctly knew that nicotine is the substance that makes people want to smoke, and 96.2% knew that cigarettes are harmful. On the other hand, other results revealed important misunderstandings that may have critical consequences for health.

Among all adults, 52.9% incorrectly believed that nicotine is the substance causing most of the cancer caused by smoking, and an additional 21.2% did not know whether nicotine causes most cancer caused by smoking. Cigarette smokers were significantly more likely than e-cigarette users to incorrectly believe that nicotine causes most of the cancer caused by smoking (52.5% vs. 14.6%). In addition, while experts

continue to debate the magnitude of the difference in risk between e-cigarettes and cigarettes, just 31.6% of smokers agreed that e-cigarettes are less harmful than cigarettes—including only 3.4% who are plausibly "correct" in believing they are much less harmful than combustible cigarettes.

"That adults' misperceptions about the health effects of nicotine persist despite the long-term availability of FDA-approved over-the-counter nicotine replacement products is troubling and needs to be addressed with clear communications to the public—especially smokers—that nicotine is not what is causing smoking-related disease," said Karen K. Gerlach Ph.D., M.P.H., the lead author on the study. "Leading public health experts[2] have called for trusted authorities to communicate clearly about nicotine to smokers, which should help them understand that there is a continuum of risk across nicotine-containing products and use that understanding to help them reduce risks to their health."

PinneyAssociates is a pharmaceutical and consumer healthcare consulting company that helps their clients to reduce their regulatory risk and enhance the commercial and public health value of their life sciences products. PinneyAssociates consults with pharmaceutical companies that market a wide variety of prescription and over-the-counter medications. PinneyAssociates' experts have extensive expertise in abuse-deterrent drug formulation evaluation, abuse potential assessment, as well as pharmaceutical risk management, Rx-to-OTC switch, and tobacco harm reduction.

All authors are employees of PinneyAssociates, Inc. PinneyAssociates provides consulting services on tobacco harm minimization (including nicotine replacement therapy and vapor products) to Nicovum USA, Inc., R.J. Reynolds Vapor Company, and RAI Services Company, all subsidiaries of Reynolds American Inc. Reynolds American was purchased by British American Tobacco in July 2017. Mr. Gitchell co-holds a patent for a novel nicotine medication that has not been developed or commercialized. RAIS had no role in the conception of this research, or the analysis or interpretation of the findings.



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LUTECLIA Presented EISENBERG Paris perfume line Les Orientaux Latin



The FINANCIAL

Lutecia, Perfumery trade network presented niche perfume line of brand EISENBERG PARIS. Press conference was held at Museum Hotel. Official representatives of EISENBERG PARIS, Jean-Luc Trognon and Natalia Trognon, presented to journalists new perfume line LES ORIENTAUX LATIN. The founder of the perfumery trade network LUTECLIA, Vakhtang Pkhakadze, promised the guests that Lutecia will continue to offer surprises to its customers from EISENBERG PARIS. LUTECLIA offered its customers EISENBERG PARIS exclusively in 2015. According to LUTECLIA officials, José Eisenberg only after 15 years of scientific research and clinical tests, was finally able to market his first products under his own cosmetic, perfume and make-up brand: EISENBERG. A subtle and perfect balance between two perfumery traditions, the Latin Orientals combine the sophisticated discretion, finesse of the French floral tradition with the power and opulence of the oriental culture, a fertile source of in-

spiration, where spices, wood, resins and balmy notes recall culinary habits and ways of perfuming. The Occident first encountered the Orient through trade, and discovered that their expertise in perfumery had been elevated to an Art. Between the Middle Ages to the Renaissance, especially around the 18th century, customs evolved. The Europeans, fascinated by the art of fragrance, began to create lighter, fresher scents with dominant yet subtle floral notes, very distinct from the heady oriental perfumes. The Collection is a day-dream where one can stroll around the harmonies and vibrations of colours and perfumes of an oriental garden, or choose to breathe under the starry nights of Paris or the desert. Mysterious, delicate, powerful but always subtle, these perfumes represent the ultimate poetry and ultimate feminine and masculine sensuality, the perfect marriage between Orient and Occident. The Latin Orientals come in 12 Eaux de Parfum, each in three sizes. They are rich in messages and symbols, making them unique and precious. The warm, orange-hued colours of oriental spices sur-

round the delicate mashrabiya lattice weave of the doors drawn on the boxes, alternating with black, depending on whether it is a perfume for men or for women. The lock at the top expresses mystery, temptation and a forbidden world. The finely crafted key, tied around the neck of the bottle, lies on transparent glass, opening the doors to a world of delights and pleasures. The Roman numerals intrigue: from I to VI, they represent a secret, a semblance of mystery... José Eisenberg chose raw materials that give his perfumes an opulent, persistent note, all tempered by lighter notes of French perfumery tradition: From Rose, the Queen of Flowers, or Jasmine, the King of the Night; to spices such as Cardamom, Pink Pepper, Saffron, Cumin or even Pepper, to Oud wood, Sandalwood, Cedar, Patchouli and Palisander wood; not to mention resins and balmy notes brought by the Labdanum, the Frankincense, the Myrrh, the Benzoin, the Amber, as well as soft and velvety Musk notes. Long-lasting, the Latin Orientals mark the personality and the trail of those who will set out to discover the secret they will make theirs.



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