US Business in Georgia

GRASS FACTCHECK

Irakli Gharibashvili:

Prime Minister of Georgia

"This (Shah Deniz Stage Two) is a USD 45 billion project of which USD 2 billion will be invested in Georgia."

Giorgi NASRASHVILI
FactCheck

On 20 September 2014, the Prime Minister of Georgia, Irakli Gharibashvili, attended the official opening ceremony of the South Corridor ofthe Sangachli Terminal in Azerbaijan. After the ceremony, Mr Gharibashvili stated: "The project of the 21st century with the name of Shah Deniz Stage Twois starting. This is a USD 45 billion project of which USD 2 billion will be invested in Georgia."

FactCheck took interest in the Prime Minister's statement and verified its accuracy.

The Shah Deniz (King of the Sea) gas field was discovered in 1999. With one trillion cubic meters of gas it is one of the biggest naturalgas condensate deposits in the world. Shah Deniz is locatedon the Caspian Sea shelf from 50 to 500 meters underwater, 70 km southeast of Baku.

The first stage of the Shah Deniz project started in 2006. Its maximum discharge is nine billion cubic meters of gas per annum. The second stage of Shah Deniz (Full Field Development [FFD]) means the transit of an additional 16 billion cubic meters of gas per year. By the calculations of British Petroleum (BP), which is in charge of this project, USD 28 billion of capital investment will be necessary for the production of gas and its transportation to the Georgia-Turkey border. From these 16 billion cubic meters, the transit route known as the South Corridor with its additional pipeline system will provide Turkey with six billion cubic meters (bcma) of gas per year whilst the remaining ten billion cubic meters per year will supply the European market. As a result of Shah Deniz Stage Two, natural gas extracted from the Caspian Sea will reach the European market for the first time.

Shah Deniz Stage Two includes:

Construction of two additional bridge-linked offshore platforms.

Drilling 26 new naturalgas producing wells.

Construction of a 500 km-long underwater pipeline which will connect the wells and the terminal.

Modernisation of the sea-construction vessels.

Expansion of the Sangachli Terminal.

The construction of the South Corridor requires the strengthening of the existing infrastructure and the development of a new pipeline system.

The South Caucasus Pipeline will be widened by a new parallel pipeline crossing Azerbaijan and Georgia.

The new Trans Anatolian Pipeline (TANAP) will transport gas from the Georgia-Turkey border through the territory of Turkey.

Construction of the Trans Adriatic Pipeline (TAP) in Europe.

According to the project, the first supply of gas will reach Georgia and Turkey by the end of 2018 whilst Europe will receive gas one year thereafter.

The expansion of the South Caucasus Pipeline is part of the Shah Deniz Stage Two project.According to BP, the Shah Deniz Stage Two and the South Caucasus Pipeline projects include a total of USD 45 billion in investments and it is expected that USD 2 billion worth of foreign direct investments (FDI) will be made in Georgia. The expansion of the South Caucasus Pipeline will enable Georgia to transit more gas as well. According to BP, the benefits for Georgia resultingfrom the expansion of the Pipeline include:

Spending 20% of the total sum (approximately USD 400 million) on local products and service (with local contractors).

About 2,000 new jobs at the peak of the construction and 125 long-term jobs.

About 350,000 tonnes of material transported using Georgian ports and railway.

The company also says that there already exists a USD 528 million project for supporting the expansion of the South Caucasus Pipeline. It includes the construction of a 16-km access road, two 120 MW compressor stations and a new pressure-measuring and regulating station. The construction work is expected to be finished by the end of 2018.

CONCLUSION

According to BP, the Shah Deniz Stage Two and the South Caucasus Pipeline Expansion projects include a total of USD 45 billion in investments. BP also says that Georgia will benefit both as a recipient of gas from the second stage of the Shah Deniz project and as a recipient of USD 2 billion in investments. In total, 20% of these investments are expected to be spent on local products and service with local contractors.

FactCheck concludes that Irakli Gharibashvili's statement: "The project of the 21st century with the name of Shah Deniz Stage Two is starting. This is a USD 45 billion project of which USD 2 billion will be invested in Georgia," is **TRUE.**

TRUE

Doing Business in Georgia:

Georgia Leads the Ranking in the Region

The FINANCIAL

85 percent of economies in Europe and Central Asia implemented at least one regulatory reform aimed at making it easier for local entrepreneurs to do business in 2013/14, a larger percentage than in any other region, according to a new World Bank Group report. Since 2005, **Georgia** implemented the largest number of reforms in the region, with 36 (second only to Rwanda worldwide), followed by the former Yugoslav Republic of Macedonia with 34. The DB2015 ranking shows no major change for Georgia compared to DB2014.

Economies in Europe and Central Asia further improved the regulatory environment for local entrepreneurs, adding to the gains recorded in the past decade. For example, 10 years ago, starting a new business took a Macedonian entrepreneur 48 days. Today, the process can be completed in 2 days.

Georgia has the region's highest ranking on the ease of doing business, at 15 among 189 economies worldwide:
DB2015 ease of doing business rank: 15
DB2014 back-calculated ease of doing business rank: 14
DB2015 distance to frontier score: 79.46
DB2014 back-calculated distance to frontier score: 79.61; improvement: −0.15

Doing Business finds that Azerbaijan and Tajikistan were among the top improvers worldwide in 2013/14 in the areas of business regulation measured by the report. Challenges continue in both countries, however. For example, obtaining an electricity connection takes longer for entrepreneurs in these two countries than it does for their counterparts in most other economies in Europe and Central Asia.

Challenges persist across the region's economies even as the regulatory framework for entrepreneurs continues to improve, emphasizing the need for further regulatory reforms. This is particularly so in such areas as construction permitting, getting electricity, and trading across borders, all areas in which the region's economies are in the bottom half of the global ranking on average.

This year, for the first time, *Doing Business* collected data for a second city in the 11 economies with a population of more than 100 million. In the Russian Federation, the report now analyzes business regulations in both Moscow and St. Petersburg. Differences between cities are common in indicators measuring the steps, time, and cost to complete regulatory transactions where local agencies play a larger role, finds the report.

The report finds that Singapore tops the global ranking on the ease of doing business. Joining it on the list of the top 10 economies with the most business-friendly regulatory environments are New Zealand; Hong Kong SAR, China; Denmark; the Republic of Korea; Norway; the United States; the United Kingdom; Finland; and Australia.

The annual World Bank Group flagship *Doing Business* report analyzes regulations that apply to an economy's businesses during their life cycle, including start-up and operations, trading across borders, paying taxes, and resolving insolvency. The aggregate ease of doing business rankings are based on the distance to frontier scores for 10 topics and cover 189 economies.

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For the first time this year, *Doing Business* collected data for a second city in the 11 economies with a population of more than 100 million. In the **Russian Federation**, the report analyzes business regulations in both Moscow and St. Petersburg. Globally, **Croatia** improved the most in the area of dealing with construction permits in 2013/14, while **Romania** improved the most in the area of paying taxes and **Kosovo** in the area of enforcing contracts.

ARMENIA

Armenia made starting a business easier by streamlining post-registration procedures.
Areas of business regulatory reform: Starting a business
DB2015 ease of doing business rank: 45
DB2014 back-calculated ease of doing business rank: 49
DB2015 distance to frontier score: 70.6
DB2014 back-calculated distance to frontier score: 69.3; improvement: 1.3

AUSTRIA

Austria made starting a business easier by reducing the minimum capital requirement, which in turn reduced the paid-in minimum capital requirement, and by lowering notary fees.
Areas of business regulatory reform: Starting a business
DB2015 ease of doing business rank: 21
DB2014 back-calculated ease of doing business rank: 19
DB2015 distance to frontier score: 77.4
DB2014 back-calculated distance to frontier score: 77.1; improvement: 0.3

AZERBAIJAN

Azerbaijan made starting a business easier by reducing the time to obtain an electronic signature for online tax registration. It made transferring property easier by introducing an online procedure for obtaining the nonencumbrance certificate. And Azerbaijan made paying taxes easier for companies by introducing an electronic system for filing and paying social insurance contributions.
Areas of business regulatory reform: Starting a business, Registering property, Paying taxes
DB2015 ease of doing business rank: 80
DB2014 back-calculated ease of doing business rank: 88
DB2015 distance to frontier score: 64.1
DB2014 back-calculated distance to frontier score: 62.0; improvement: 2.1

BELARUS

Belarus made paying taxes easier for companies by introducing an electronic system for filing and paying contributions for the obligatory insurance for work accidents—and by simplifying the filing requirements for corporate income tax and value added tax. On the other hand, it increased the ecological tax rate and made bad debt provisions nondeductible for purposes of the corporate income tax.
Areas of business regulatory reform: Paying taxes
DB2015 ease of doing business rank: 57
DB2014 back-calculated ease of doing business rank: 57
DB2015 distance to frontier score: 68.3
DB2014 back-calculated distance to frontier score: 67.1; improvement: 1.2

BELGIUM

Belgium made resolving insolvency more difficult by establishing additional requirements for commencing reorganization proceedings, including the submission of documents verified by external parties.
Areas of business regulatory reform: Resolving insolvency (making it more difficult)
DB2015 ease of doing business rank: 42
DB2014 back-calculated ease of doing business rank: 40
DB2015 distance to frontier score: 71.1
DB2014 back-calculated distance to frontier score: 71.1; improvement: 0.0

BULGARIA

Bulgaria made starting a business easier by lowering registration fees.
Areas of business regulatory reform: Starting a business
DB2015 ease of doing business rank: 38
DB2014 back-calculated ease of doing business rank: 36
DB2015 distance to frontier score: 71.8
DB2014 back-calculated distance to frontier score: 71.7; improvement: 0.1

CYPRUS

Cyprus improved its credit information system by adopting a central bank directive eliminating the minimum threshold for loans to be included in credit bureaus' databases. And it made paying taxes easier for companies by reducing the number of provisional tax installments for corporate income tax.
Areas of business regulatory reform: Getting credit (credit information), Paying taxes
DB2015 ease of doing business rank: 64
DB2014 back-calculated ease of doing business rank: 62
DB2015 distance to frontier score: 66.6
DB2014 back-calculated distance to frontier score: 65.9; improvement: 0.7

ESTONIA

DB2015 ease of doing business rank: 17
DB2014 back-calculated ease of doing business rank: 16
DB2015 distance to frontier score: 78.8
DB2014 back-calculated distance to frontier score: 78.5; improvement: 0.3

FRANCE

France made starting a business easier by reducing the time it takes to register a company at the one-stop shop (Centre de Formalités des Entreprises).
Areas of business regulatory reform: Starting a business
DB2015 ease of doing business rank: 31
DB2014 back-calculated ease of doing business rank: 33
DB2015 distance to frontier score: 73.9
DB2014 back-calculated distance to frontier score: 72.2; improvement: 1.7

GERMANY

Germany made starting a business more difficult by increasing notary fees. And it made transferring property more costly by increasing the property transfer tax rate.
Areas of business regulatory reform: Starting a business (making it more difficult), Registering property (making it more difficult)
DB2015 ease of doing business rank: 14
DB2014 back-calculated ease of doing business rank: 13
DB2015 distance to frontier score: 79.7
DB2014 back-calculated distance to frontier score: 80.0; improvement: −0.3

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PASHA Bank a Diamond Sponsor of Business Brilliance Award

PASHA Bank, a full service corporate bank, sponsored annual Business Brilliance Award Ceremony, hosted by London based Global Event and Training Group, BOC (Blue Ocean Consultancy).

In October 2014, BOC Global Events Group was back to Tbilisi for the 2nd year running, hosting the annual Business Brilliance Award Ceremony with an exclusive Business Development Forum for progressive Leaders, Marketing and Communications Seniors of Georgia, and its neighboring countries, to find the tools to work smarter and keep up with the fast changing marketplace.

Participants were given an opportunity to attend the master classes of world popular marketing and public relations specialists. They were introduced to coming trends at marketing fields.

Presentations of world leading brands: Microsoft, Greenwich Village PR, Bupa, UNICEF were featured during the conference.

This International Conference was packed with insights from World-class Speakers and some of the leading innovators, who put a fresh perspective on the current drivers of the dynamic business world.

The Business Brilliance Award, together with local leading Media and Press has celebrated some of the most innovative Businesses, as well as Personal achievements across various industries and sectors.

"Georgian economy continues to grow. We are observing the continuing entrance of international companies. The volume of foreign investments also increases. So the local resources require the expertise and information that the speakers and invited quests of the ceremony can share with them" said Shahin Mammadov, CEO at PASHA Bank Georgia.

In Mammadov's words, it is a big honor for him that PASHA Bank Georgia was a sponsor of such a reputable ceremony. "PASHA Bank has joined Georgian business community and we feel responsibility for supporting its further development," Mammadov told.

"I would like to congratulate the winners of the award. Business Brilliance Award is one of the highest profile awards and winning this Trophy says a lot about the quality of organization and the strength of its management team. Winners had one thing in common - being truly excellent at what they do and have proved this by winning a Business Brilliance Award," said Mammadov.

Smart Supermarket launches the German Product Festival

Smart supermarket chain launches the German Product Festival. From the 1st to the 10th of November, customers will have a unique opportunity to purchase high-quality German products discounted by up to 20%, including world-renowned brands like G&G, EDEKA, ELKOS, GOURMET, WESERGOLD, KUCHENMEISTER and many others in supermarkets located all across Georgia.

In addition to all this, loyal customers of Smart will be able to buy various German product gift bundles at a discounted rate and taste selected German dishes. A special guest from KUCHENMEISTER, Tamara Melih, attended the festival opening ceremony in Smart Vake.

"For our 'Quality in Details' approach to be evident in every new offer from Smart, we have decided to significantly increase the leading European brands' presence in our Everyday Product assortment. Products from Germany are distinguished by their quality and they constitute the biggest part of our imports from Europe. By launching the German Product Festival in Smart, we want to introduce our loyal customers to German production and by offering various promotional deals, make the highest quality products accessible for everyone. Special environment present throughout this festival will enhance our unique Smart shopping experience, making it more pleasant and enjoyable." - states Wissol Group President, Soso Pkhakadze.

Smart is distinguished on the Georgian market by a wide range of consumer goods, offering up to 25 000 diverse products and European service standards. Wissol Group started the development of Smart supermarket chain in 2010. At present, Smart supermarkets operate successfully in Tbilisi, 13th km. of Aghmashenebeli Alley, Rustaveli Avenue, Vake, Vazisubani, Kakheti Highway, Batumi, Gudauri, Zugdidi, Marneuli, Akhaltsikhe, Kvareli and Gori Autobahn.

GRASS FACTCHECK

Zurab Japaridze:

"According to the 2013 economic forecast of the Ministry of Finance of Georgia, the economy should have reached GEL 32 billion in 2014. According to the current forecast, we will be losing GEL 3 billion. We have lost more than USD half a billion in currency reserves from the end of 2013 to the beginning of 2014. You have planned a GEL 1,631 million loan which you are not able to implement."

Mariam CHACHUA
FactCheck

FactCheck took interest in the economic processes in the country and verified the accuracy of the given statement.

According to the Ministry of Finance of Georgia, the 2013 forecast set the 2014 nominal GDP of Georgia at GEL 32.4 billion which corresponds to the numbers stated by the MP. The forecast changed in 2014 and reduced to GEL 29.4 billion. Hence, the difference is, indeed, GEL 3 billion.

As for the foreign currency reserves, according to the National Bank of Georgia, they have been reducing since October 2013. **FactCheck** wrote about this issue earlier in the year as well. The reduction of currency reserves from November 2013 to February 2014 was due to the depreciation of the national currency. Georgia has a floating exchange rate to foreign currencies. Thus, the exchange rate of the GEL is determined by demand and supply and the National Bank does not intervene in this. However, in the case of sharp changes in the exchange rates of the GEL, the National Bank is authorised to resort to exchange rate stabilising operations which it did last year – in order to stabilise the exchange rate of the GEL, the National Bank sold USD 440 million in reserves on a foreign exchange auction.

In total, the foreign currency reserves reduced by USD 545 million from November 2013 to February 2014. The trend continued until July 2014, causing a total reduction of USD 611 million. However, the foreign currency reserves increased by USD 213 million in August 2014 and amounted to USD 2,489. In total, the foreign currency reserves reduced by USD 400 million from October 2013 to September 2014.

International reserves, 92% of which consists of currency reserves, are one of the indicators of the economic stability of a country. Hence, keeping the reserves at an adequate level is very important. It should be noted that according to the recommendations of international credit organisations, the amount of international reserves should be able to cover the expenses of three months of import in order to ensure the currency safety of the country. The average monthly import of Georgia in 2014 equalled GEL 688 million. The international reserves amounted to USD 2,489 at the end of August 2014. Hence, the ratio of reserves to import was 3.6 which means that the reserves are 3.6 times more than the monthly import of the country.

As for the planned loan, the 2014 forecast of the loan set its amount at GEL 1,631 million. **FactCheck** also wrote about this topic earlier in the year. It should be noted that the 2014 annual budget allocates GEL 598 million for servicing the debts of the previous years. Thus, the net increase of the public debt (increase - decrease) amounts to GEL 1,038 million. According to the Budget Implementation Report, the increase of the public debt happens mainly by increasing the domestic debt. As for the external debt (mainly used for the implementation of targeted investment projects) its actual increase is significantly lower than initially planned. Specifically, according to the Budget Implementation Report of the first six months, the growth of the external debt is GEL 147 million instead of GEL 276 million as planned, constituting 53.2% of the six-month plan. According to the data of the first eight months, the growth of the external debt amounted to GEL 247 million as opposed to the initial plan of GEL 629 million, constituting 39.3% of the nine-month plan. According to the Budget Implementation Report of the first six months, the plan for servicing the public debts of the previous years was implemented by 96.8% (GEL 281 million). As the public debt of the country is being serviced successfully and the growth of the debt is lower than expected, we can assume that the growth of the public debt will be lower than the planned amount of GEL 1,038 million at the end of the year as well.

CONCLUSION

The economic growth forecast of the beginning of 2014 did indeed change as compared to the similar forecast of 2013. Specifically, the forecast amount of the GDP reduced from GEL 32,450 million to GEL 29,352 million which means that it reduced by GEL 3 billion as stated by the MP.

The foreign currency reserves reduced by USD 545 million in the period mentioned by the MP whilst the planned amount of debt for 2014 – GEL 1,631 million is not being fully implemented.

FactCheck concludes that Zurab Japaridze's statement: "According to the 2013 economic forecast of the Ministry of Finance of Georgia, the economy should have reached GEL 32 billion in 2014. According to the current forecast, we will be losing GEL 3 billion. We have lost more than USD half a billion in currency reserves from the end of 2013 to the beginning of 2014. You have planned a GEL 1,631 million loan which you are not able to implement," is **TRUE.**

TRUE