FINANCIAL™

15 April, 2019 News Making Money http://www.finchannel.com

# TBC acquires leading Uzbek payment platform Payme


## Red or Blue!

By TAMTA MARIDASHVILI
ISET

Have you ever wondered why the color of the United National Movement (UNM) is red while Georgian Dream (GD) is blue? Why not green and orange? It might be that red and blue offer a contrast, and they also symbolize quite different things.[1] And, contrast is indeed what they each seek. These two parties have dominated Georgian politics since 2012, and it is now difficult to recall the subject they built a consensus around or even one that they have tried to discuss.

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Continued on p. 2

## Retail Banking by 2020

The FINANCIAL

We believe that retail banking will look very different in 2020 than it does today, PwC researchers claim. Company surveyed 560 client executives from leading financial institutions across 17 markets regarding the challenges and opportunities of this evolving marketplace and their plans to respond.

Powerful forces are transforming the retail banking industry.

Growth remains elusive, costs are proving hard to contain and ROEs remain stubbornly low. Regulation is impacting business models and economics. Technology is rapidly morphing from an expensive challenge into a potent enabler of both customer experience and effective operations. Non-traditional players are challenging the established order, leading with customer-centric innovation. New service providers are emerging. Customers are demanding ever higher levels of service and value. Trust is at an all-time low.

Against this background, 70% of global banking executives believe it is very important to form a view of the banking market in 2020 – to understand how these global trends are impacting the banking system in order to develop a winning strategy.

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## Labor Force and Gender in Georgia

Gender operates at all levels of social life and is deeply embedded in the ways work is rewarded, viewed and experienced. The sociological study of gender and work emerged during the 1960s and 1970s, when women's role in workforce increased and the Women's Movement began emphasizing gender inequality at home and at work.

Looking at unemployment statistics in Georgia, more men are unemployed than women, with 11.2% of women being unemployed while 13.9% of men were not employed in 2018.

Continued on p. 8

## Results of the April 2019 euro area bank lending survey

The FINANCIAL

Highlights:

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ECB's asset purchases continue to support bank lending volumes`;

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Continued on p. 4

## In Georgia, SES reach increases to 670,000 TV homes, 355 Million Homes Worldwide

The FINANCIAL -- SES strengthens its position as the world's leading video distributor via satellite as the number of TV households it serves increased by more than 4 million to over 355 million in 2018.

The results from the SES's annual market research highlighted further growth in SES's technical reach and underlined the important role of satellite in delivering video to large audiences directly and indirectly in a reliable and cost-effective manner.

The results showed an increase in SES's technical reach in Europe, Latin America, Asia-Pacific, and Africa. In Africa, this included the addition of Kenya to the survey where more than 2 million TV homes across the country rely on SES for their TV content. In Europe, satellite broadcasting, and especially Direct-to-Home (DTH), remains the leading distribution technology, with SES serving 167 million TV homes across the continent. The SES fleet is also delivering video content to 72 million households across North America, mainly via the important U.S. cable neighbourhoods. Across other markets, SES continues to expand its technical reach, now serving 37 million TV homes in Asia-Pacific.

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|---|---|---|
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| 1 EUR | 3.0408 ▼ | 3.0212 |
| 100 RUB | 4.1865 ▼ | 4.1146 |
| 1 TRY | 0.4705 ▲ | 0.4769 |

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## CURRENT PRICES ON GASOLINE AND DIESEL

15 APRIL, 2019, GEORGIA

Gulf

| | Prices in GEL |
|---|---|
| G-Force Super | 2.57 |
| G-Force Premium | 2.43 |
| G-Force Euro Regular | 2.35 |
| Euro Regular | 2.29 |
| G-Force Euro Diesel | 2.59 |
| Euro Diesel | 2.49 |
| CNG | 1.49 |

| | Prices in GEL |
|---|---|
| **Eko** Super | 2.64 |
| **Eko** Premium | 2.57 |
| **Eko** Diesel | 2.63 |
| Euro Diesel | 2.59 |
| Euro Regular | 2.49 |
| Diesel Energy | 2.53 |

ლუკოილი

| | Prices in GEL |
|---|---|
| Super Ecto 100 | 2.69 |
| Super Ecto | 2.55 |
| Premium Avangard Ecto | 2.44 |
| Euro Regular | 2.29 |
| Euro Deasel | 2.49 |

| | Prices in GEL |
|---|---|
| Nano Super | 2.58 |
| Nano Premium | 2.48 |
| Nano Euro Regular | 2.38 |
| Nano Diesel | 2.40 |
| Nano Euro Diesel | 2.53 |
| GNG | 1.45 |

ROMPETROL

| | Prices in GEL |
|---|---|
| Efix Euro 98 | 2.64 |
| Efix Euro Premium | 2.57 |
| Euro Regular | 2.49 |
| Efix Euro Diesel | 2.59 |
| Euro Diesel | 2.53 |



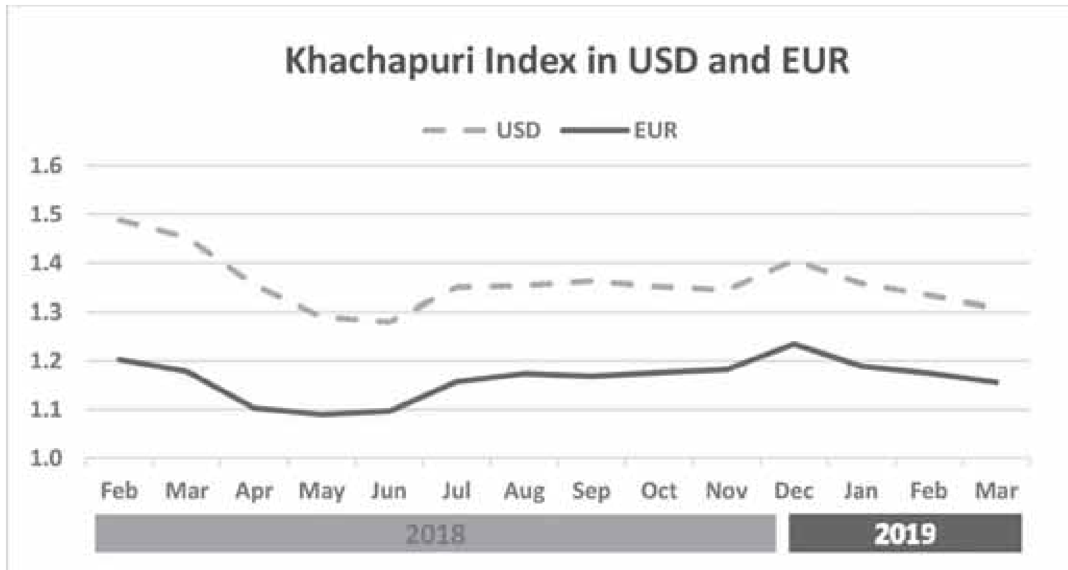
# ISET ECONOMIC INDICATORS

International School of Economics at TSU
KHACHAPURI INDEX
For more: WWW.ISET-PI.GE

## KHACHAPURI INDEX FOR FOREIGN EARNERS

In March 2019, the national average cost of cooking one standard Imeretian khachapuri fell to 3.51 GEL, which is 0.8% lower month-over-month (since February 2019), however it is also 1.1% lower year-over-year (in comparison to March 2018). The main contributors to the MoM deflation within the Khachapuri Index were cheese down by 1.9%, milk by 0.8%, and butter by 1.3%.

For those earning foreign currency, Khachapuri Index prices appear cheaper due to GEL depreciation (MoM and YoY), relative to the USD and EUR over the last month. In March 2019, the GEL/USD exchange rate reached 2.68, 0.24 points higher than the previous year (March 2018). Therefore, the Khachapuri Index lost value in terms of USD, losing 1.9% MoM and 10.0% YoY. The situation appears similar for the monthly price fluctuations expressed in Euro, where the cost of khachapuri, is down by 1.6% MoM and 1.9% YoY.




Consequently, for foreign currencies, this declining trend is further boosted by the seasonal reduction in the price of cheese (the main ingredient) at this time of year, thus making khachapuri cheaper still.

# THE ISET ECONOMIST

A BLOG ABOUT ECONOMICS AND THE SOUTH CAUCASUS
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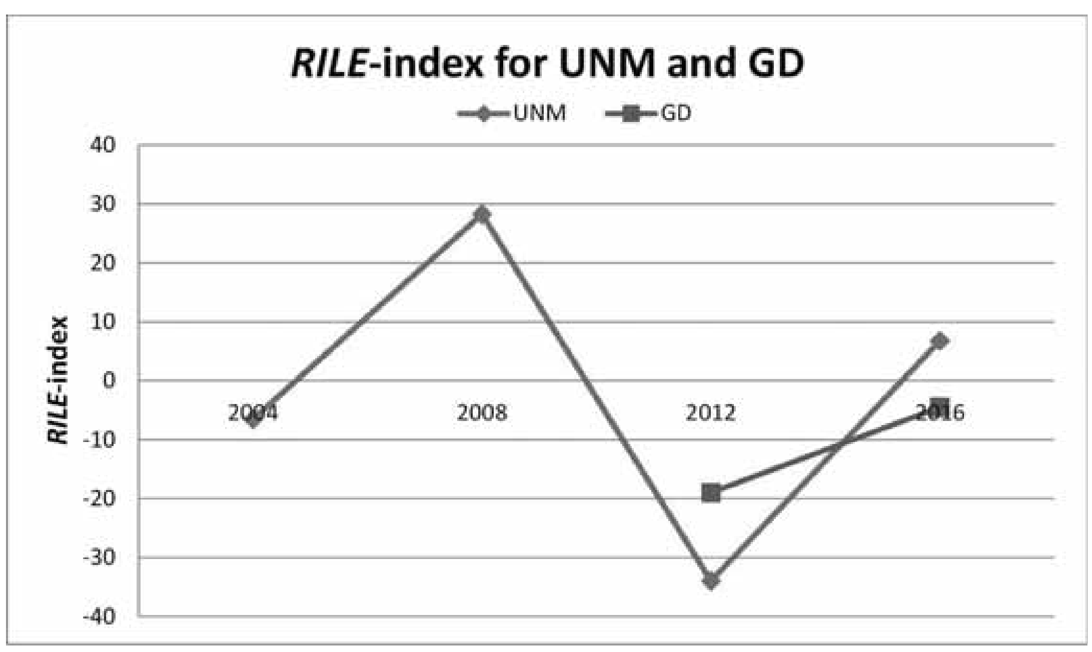
The Organization for Security and Co-operation in Europe (OSCE), in its report on the 2018 Presidential Elections of Georgia, made the following statement: "the campaign was dominated by controversial topics polarizing public opinion, negative campaigning and harsh accusations between the GD and UNM". The organization suggests the depth of polarization went even further after the first round of the elections: "Campaign coverage by the major media outlets became sharper and more polarized. In particular, TV Imedi announced it would actively work to prevent the UNM candidate from winning and used its primetime news and current affairs programmes to strongly condemn the UNM and its candidate."[2]




The OSCE refers to political polarization in Georgia, but exactly what does this term imply? A widely accepted definition notes the vast, aggregated ideological differences between parties and/or the electorate.[3] Thus, to be able to highlight political polarization within Georgian politics, a sharp difference is required between the dominant parties and/or their supporters **ideologically**.

The Manifesto Project collects and analyses parties' electoral programs (manifestos)[4] in over 50 countries worldwide and accordingly determines their right-left position.

The methodology the project employs is the following: the manifestos are parsed into quasi-sentences (statements) and then coded. The codes refer to certain variables (e.g. centralization)[5] and indicate the percentage share of quasi-sentences within a mani-

**Continued on** p. 11

# TBC Buys Top Payment Platform of Uzbekistan – "PayMe"

TBC is entering Uzbekistan by purchasing the leading payment platform "Payme". With this transaction, TBC is increasing its number of customers by 50% and will serve more than 3.5 million people.

The transaction is in line with TBC Bank's international strategy that aims to expand regional operations, and marks an important step made by Uzbekistan by entering a market with a great perspective. Uzbekistan is a very attractive market with a population of 32 million, that increases by approximately 2.0% annually. By the end of 2018 its retail lending ratio was 7.2% of the GDP.

The Bank's strategy is to develop new bank ecosystems for retail and business services in Uzbekistan. At present, TBC is developing the main banking system in Uzbekistan based on the total digital bank "Space".

Payme is a leading provider of payments in Uzbekistan, which supplies a high quality payment system to 1.3 million customers. The system provides utility payments, P2P transfers, loan repayments, mPOS remote payments, and e-commerce procurement services based on a QR system.

Payme is also a market platform for some of the Uzbek banks' loans. Payme has been active in recent years; by 2018 the number of system users had increased by about 70%.

**Vakhtang Butskhrikidze, General Director of TBC Bank:**

"The purchase of Payme is another important step taken in Uzbekistan's planned expansion. Thus, the number of our customers has increased to 3.5 million. This will enable us to get direct access to a large number of consumers and by using our digital power make some innovations in the Uzbek market.

With Payme, we plan to expand the payment business and use Payme as a platform for developing a new ecosystem of the country. I'm glad to be collaborating with the successful team of Payme and look forward to starting working together with our partners, in developing and implementing the strategy of the Bank in Uzbekistan."

**Rozmatov Sarvar Nazrulaievich, Founder of Payme:**

"We are pleased to partner with the leading bank in the region, which has developed digital capabilities and interest in Uzbekistan. We are confident that together with our company we will move to the next stage and in the short term we will offer our customers new, modern solutions and services."

During this transaction, TBC Bank's Exclusive Financial Advisor was Grant Thornton; the International Legal Adviser - Baker & McKenzie LLP; and the local juridical counsellor was at Centil Law.

# TV Interview: Ivanishvili on Courts, TBC Bank, Opponents

Civil GEORGIA

Bidzina Ivanishvili gives interview to Imedi TV, April 9, 2019. Photo: screengrab from Imedi TV

Former Prime Minister Bidzina Ivanishvili, who chairs the ruling Georgian Dream party, gave an extensive interview to Imedi TV on April 9, touching upon a range of ongoing political issues.

Civil.georgia has summarized some of the key points for our readers.

## Dissent in the ruling party

Ivanishvili spoke at length on the judicial appointments dispute that ended with eight MPs quitting the ruling party. The GD leader noted that the departure of four lawmakers – Levan Gogichaishvili, Eka Beselia, Gedevan Popkhadze and Zviad Kvachantiradze – had "no [real] reasons."

Ivanishvili stressed the ruling party postponed the appointments process, and signaled that it was ready to deliberate on the selection criteria, as well as on allowing free vote on individual candidates, but the lawmakers "had wanted to leave, and used the process as a pretext."

Ivanishvili added that this was "an artificially-induced hype," and that the lawmakers "in essence, were playing the game of the United National Movement." "For some reasons, they expressed their concerns about the judiciary six years after joining our team; where have the been for all this period of time," he asked.

Ivanishvili said the processes led to "confusion" among the team members, but added that the dispute is "almost over" following his "multiple and lengthy meetings" with GD members. "There are some minor problems remaining, but they will be solved easily," he added.

Ivanishvili spoke about the second group of lawmakers – Beka Natsvlishvili, Gia Zhorzholiani, Mirian Tsiklauri and Koba Narchemashvili, all of them members of the Georgian Dream-Social Democrats faction.

The GD leader underlined that their departure is a textbook example of how parties should be split.

"They tried to convince their teammates to endorse their version of the pensions reform... they warned the party several times [that they would leave unless they obtained support], but the team did not manage to come to agreement and they left the party," Ivanishvili said.

"This is a classic, European version of events, a textbook example of how to quit your team – because you disagree on values and ideology; but how the other group left was absolutely unclear," he added.

## NGOs under opposition control, but courts no longer

Ivanishvili repeated his criticism of the civil society organizations, accusing them of acting under UNM's instructions in its attempts "to regain control over the judiciary."

Ivanishvili pointed specifically at the role of Eka Gigauri, executive director of the Transparency International Georgia. Ivanishvili said in 2013 Gigauri, who – in his words – "is portraying herself as an NGO," was in favor of lifetime appointment of judges, but has changed her position and is now challenging the authorities over the decision.

The GD leader also stressed UNM, with the support of "friendly NGOs," started pedaling on alleged "clan-based" rule in the judiciary, when the party realized that the judges were becoming independent.

"Why is there such an attack against [Levan] Murusidze and [Mikheil] Chinchaladze [now]? Because they were the ones who opposed the UNM first, because they were the ones who freed themselves from UNM's sway and helped other judges follow suit as they had some influence over the judiciary," Ivanishvili stated.

"Over the last five years, our courts have considerably changed; this is a reality and this confirms once again that we have chosen a right path," he added.

## TBC Bank affair, Anaklia project

The ruling party leader touched upon the recent controversy concerning the TBC Bank and Anaklia deep sea port project, a USD 2.5 billion investment project on the Black Sea coast in western Georgia.

Ivanishvili said the dispute between TBC and the National Bank of Georgia concerning the 2008 transaction is over. "There are no unaddressed questions left, but opponents are trying to capitalize on it," he noted.

Ivanishvili stressed the disputed transaction was a "gross" violation of Georgian legislation, and that the opposition was voicing concerns not on the transaction itself, but on the fact that it took place 11 years ago.

He then spoke on the Anaklia project, where the TBC Bank founder, Mamuka Khazaradze, is a leading partner.

Ivanishvili stressed the port project is technically very difficult, and financially not attractive for private investors. "[As a rule,] businesses are trying to make profits in five or six years, 10 years at the latest, [but] much more time is needed in this case, so this is not an attractive project," he noted.

The GD leader added, however, that the authorities would like to see the project completed by private investors, and would continue helping the consortium in the process. "The government is very active and very supportive, be it in fundraising or infrastructure development; we are helping them as much as we can," he said.

"I hope they will manage [to close the deal on funding]... I will only welcome if they are able to complete the project, as the port is very necessary for our country; this is a serious infrastructural project, and if private businesses fail to implement it, the government will want to [bring it to completion]," Ivanishvili added.

## Opponents, Rustavi 2 propagating lies

Ivanishvili repeated his criticism of Rustavi 2 TV, a national

Continued on p. 8

# Results of the April 2019 euro area bank lending survey

The FINANCIAL

**Highlights:**

**Credit standards broadly unchanged for loans to enterprises and tightened for housing loans;**

**Firms' demand for loans stable, while housing loan demand continued to increase;**

**ECB's asset purchases continue to support bank lending volumes`;**

**Credit standards – i.e. banks' internal guidelines or loan approval criteria – for loans to enterprises remained broadly unchanged (with a net percentage of -1%) in the first quarter of 2019, according to the April 2019 bank lending survey (BLS). This was somewhat more favourable than expected by banks in the previous survey round. Credit standards for loans to households for house purchase tightened (with a net percentage of 3%, compared with -1% in the previous round), and credit standards for consumer credit and other lending to households continued to tighten slightly (with a net percentage of 2%, unchanged from the previous round).**

**Banks' cost of funds and balance sheet constraints contributed to a tightening of credit standards across loan categories, while competitive pressures continued to contribute to an easing of credit standards. Risk perceptions had a mixed impact, while banks' risk tolerance had a neutral impact overall. For the second quarter of 2019, banks expect an easing of credit standards for loans to enterprises and consumer credit, and a further tightening of credit standards for housing loans.**

**Banks' overall terms and conditions on new loans to enterprises and housing loans remained broadly unchanged in the first quarter of 2019.**

**Net demand for loans to enterprises remained stable in the first quarter of 2019, after having increased since the second quarter of 2015. This development is broadly in line with banks' expected moderation of demand in the previous survey round. It was supported by the low general level of interest rates and by fixed investment, as well as to a smaller extent by inventories and working capital, merger and acquisition activity and debt refinancing/restructuring. Net demand for housing loans continued to increase in the first quarter of 2019, driven mainly by the low general level of interest rates, while favourable housing market prospects and consumer confidence contributed less than in previous quarters. In addition, the low general level of interest rates and financing needs for spending on durable consumer goods contributed to the slight net increase in demand for consumer credit and other lending to households.**

**As regards the impact of the ECB's asset purchase programme (APP), the euro area banks that were surveyed reported that the APP continued to have a positive impact on their liquidity position and market financing conditions and a negative impact on their profitability over the past six months, which included the Eurosystem's net asset purchases until December 2018. In addition, the APP had an easing impact on banks' credit terms and conditions and a positive impact on their lending volumes over the past six months according to reporting banks. Banks expect this favourable impact on bank lending to continue over the coming six months. In addition, while the ECB's negative deposit facility rate (DFR) had an adverse impact on banks' net interest income, banks continued to indicate a positive impact of the negative DFR on their lending volumes. Finally, euro area banks consider their current level of credit standards, when compared with the range of credit standards since 2010, as broadly similar for loans to enterprises, as somewhat tighter for housing loans and somewhat looser for consumer credit.**

**The bank lending survey, which is conducted four times a year, was developed by the Eurosystem in order to improve its understanding of banks' lending behaviour in the euro area. The results reported in the April 2019 survey relate to changes observed in the first quarter of 2019 and expected changes in the second quarter of 2019, unless otherwise indicated. The April 2019 survey round was conducted between 4 and 19 March 2019. A total of 144 banks were surveyed in this round, with a response rate of 100%.**

# 60 Investors Commit to Manage $250 Billion in Assets in Line with New Impact Principles

The FINANCIAL

A front of European development banks, including FMO, are amongst the 60 investors to adopt the Operating Principles for Impact Management—a market standard for impact investing in which investors seek to generate positive impact for society alongside financial returns in a disciplined and transparent way. The Principles bring greater transparency, credibility, and discipline to the impact investing market. European development banks signing these principles are united in EDFI, the Association of bilateral European Development Finance Institutions.

The organizations adopting the Principles today collectively hold at least $250 billion in assets invested for impact, which they commit to manage in accordance with the Principles. EDFI's share hereof is substantial. The Principles provide a common market standard for what constitutes an impact investment, addressing concerns about "impact-washing." IFC, a member of the World Bank Group, led the development of the Principles, in collaboration with leading asset managers, asset owners, asset allocators, development banks, and financial institutions, following a three-month public stakeholder consultation.

Peter van Mierlo, FMO's Chief Executive Officer: "We're very pleased with this next step towards harmonizing our impact measurement standards. Without a taxonomy, without universally agreed upon definitions, we will not be able to measure the progress we're making on fighting climate change and reducing inequalities. We are proud to be part of a big group of European DFI's who support this strongly and unite with IFC and impact investors in order to make progress on this front"

Impact investing needs to offer investors a transparent basis on which they can invest their money to achieve positive measurable outcomes for society in addition to adequate financial returns. The Principles launched today facilitate this process by creating clarity and consistency regarding what constitutes managing investments for impact, thereby bolstering confidence in the market.

The Principles reflect best practices across a range of public and private institutions. They integrate impact considerations into all phases of the investment lifecycle: strategy, origination and structuring, portfolio management, exit, and independent verification. Critically, they call for annual disclosure as to how signatories implement the principles, including independent verification, which will provide credibility to the adoption of the Principles.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Rose
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We believe that retail banking will look very different in 2020 than it does today, PwC researchers claim. Company surveyed 560 client executives from leading financial institutions across 17 markets regarding the challenges and opportunities of this evolving marketplace and their plans to respond.

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Against this background, 70% of global banking executives believe it is very important to form a view of the banking market in 2020 – to understand how these global trends are impacting the banking system in order to develop a winning strategy.

Executives are divided as to who will be the primary beneficiaries of these trends. Just over half (54%) believe that large banks will be the winners in 2020. The other half (46%) see smaller banks capturing share through increasing differentiation. Executives are also divided as to the threat posed by non- traditional new players: 55% believe they pose a threat to traditional banks, while 31% believe they present innovative partnership opportunities.

Executives also differ in their views by geography. For example, fewer US executives think it important to form a view of the industry in 2020 (61%) than executives in the emerging markets (79%). And many more US executives view non-traditional new market entrants as a threat (71%), than executives in Asia (42%), where more view them as an opportunity (44%) for partnering and prospering together. This divide between developed and emerging market thinking is a theme throughout the survey.

## Today's challenges

Unsurprisingly, nearly all bankers surveyed view attracting new customers as one of their top challenges over the next two years – banks are hungry for growth, and finding new customers is the first response of a good product banker. However, banks also recognise the need to deepen their customer relationships and focus more on specific customer outcomes. Hence, enhancing customer service is the number one investment priority for banks, globally.

The impact of complying with growing and changing regulation remains a top challenge – indeed the number one challenge for US and European banks. Unsurprisingly, this is a top investment priority for banks in these regions. Bankers also tell us informally that they are still struggling to get ahead

of this challenge and develop a proactive stance with their regulators – to stop seeing regulation as a burden and start weaving regulatory compliance into the fabric of their operations.

In the more rapidly developing Asian and emerging markets, where big, established banks have less dominance, bankers report that attracting talent and retaining existing customers in face of fierce competition and new market entrants are also top challenges. R&D, innovation and new product development

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are the top investment priorities in these regions.

Bankers tell PwC they are working harder than ever before to address these challenges, and are consistently being asked to do 'more with less', given the continued cost pressure facing the industry. 'Execution, execution, execution' is the mantra, particularly for banks in the US and Europe.

Despite broad agreement that they are all very or somewhat important, fewer than 20% of executives feel that they are very prepared against these priorities, and only a similar percentage report that they are making significant investments in these areas.

Banks universally agree that they are hindered from addressing these priorities by financial, talent, technology and organisational constraints.

PwC predicts that:

• The playing field shifts from global to local. National and regional institutions will dominate. Developed-world banks, especially in the EU, have been in retreat to their home markets since the crisis,and this will continue. Historical perceived advantages of global banks, such as economies of scale (oft sought, yet rarely captured), will become outweighed by local regulatory constraints. Local lending activities will need to be matched more closely with in-country deposits. Global banks will be forced to compete on a local basis – they will focus and double-down on fewer markets where they can gain scale, and they will exit markets where they are subscale.

• More local markets will close to outsiders. Traditionally restricted markets such as China, India and Korea will be joined by others that limit market share for foreign institutions through local regulation and subtle preferences favouring domestic institutions. This, in turn, will limit the ability of emerging market financial institutions to penetrate markets outside of their home countries. The exception to this will be that regional and bilateral trade pacts concluded over the next five years will drive select opportunities for certain institutions where financial services are included in the scope of the agreements.

• Governments will influence through regulation rather than ownership. They will move to privatise state-owned banks as the impact of politically driven credit decisions in the aftermath of the financial crisis is more fully exposed. Schemes for lending and government-owned financial institutions that channelled credit largely based upon policy objectives will have absorbed significant losses on non-performing loans by 2020, with negative impact on both capital levels and political support for continued aggressive expansion. At the same time, banks will be increasingly pressured on various social responsibility fronts, including fees, affordable housing, and anti-money laundering.

• Regulated banking assets will be significantly smaller than today (adjusted for inflation and GDP), due to the regulatory attempt to significantly reduce 'sovereign risk' through stronger capital requirements. The shadow banking industry – absent changes to the rules – will continue to grow to fill as much of the gap as it can, perhaps merely pushing future problems outside of the regulated industry. The pressure on the regulated industry will be particularly intense in those markets with growing appetites for credit.

• Banking sector size will be more closely correlated to GDP than today. By 2020, smaller countries with large institutions will have shrunk their banking sectors, relative to GDP, through a combination of asset reduction efforts, business sales and subsidiarisation. At the same time, there will be significant growth of domestic banks, particularly in emerging economies.

• Leading institutions will practise proactive regulatory management. Thirteen years after the financial crisis, the relationship between banks and their regulators will have reached a new equilibrium as banks more fully integrate the policy objectives of governments and their regulators into their day-to-day business.

In the last few years technology has rapidly evolved – big data, cloud computing, smartphones and high bandwidth are all now commonplace – and we've reached a tipping point. Analogies with other industries (e.g. music and video distribution, print media) suggest that 'digital' will drive huge shifts in industry value – compressing revenues, enabling new attackers, redefining service and crippling the laggards.

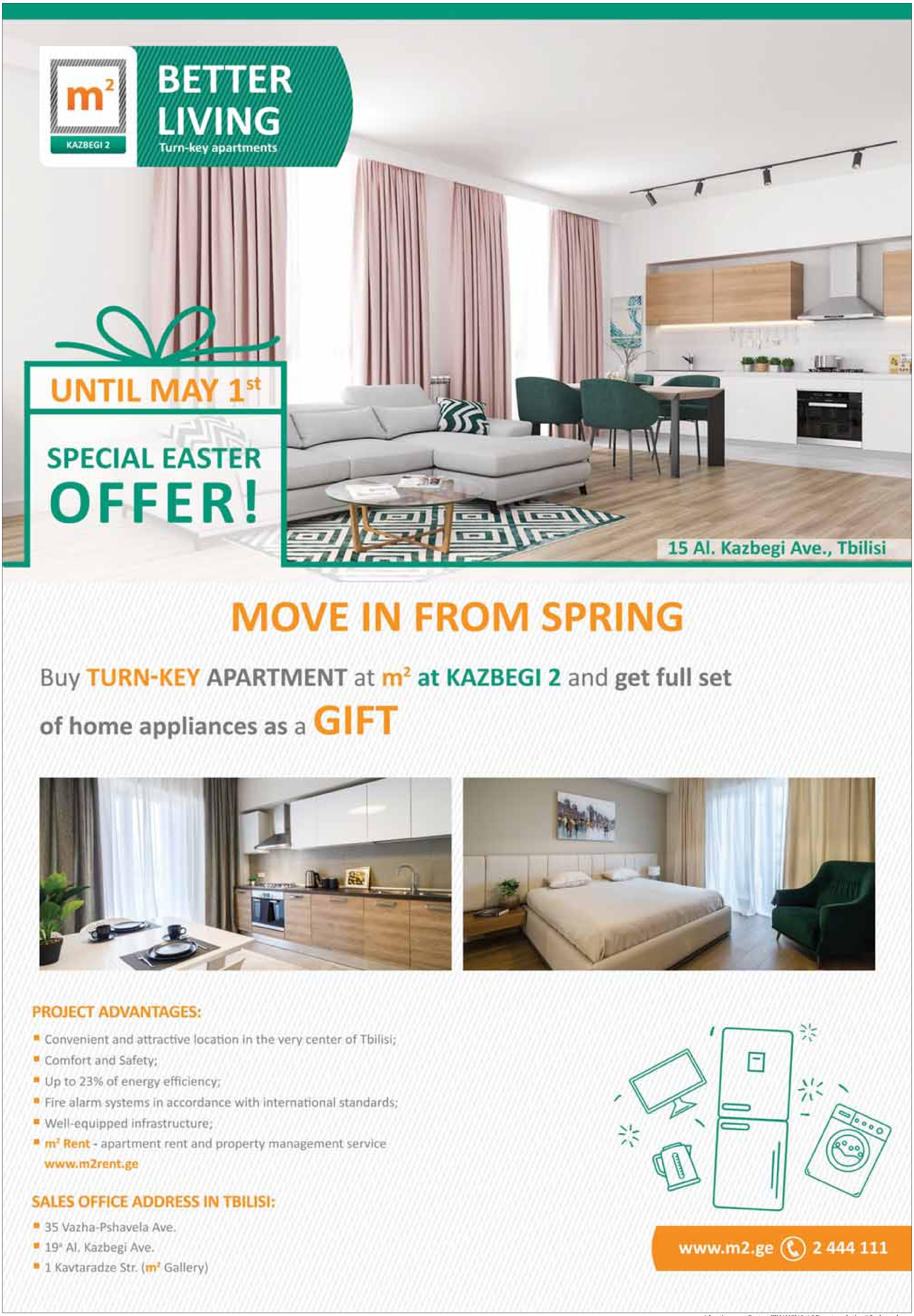
We are in the middle of a multi-wave trend where digital is first focused on optimising current products and services, PwC says. The second wave, where enhanced data capture and analysis drives more targeted customer offerings and improved services is underway. Mobile banking will increasingly disrupt distribution models (e.g. instant videoconferences with product experts) and the payments industry (e.g. P2P mobile payments). Advances in security and verification will enable all aspects of sales, service and delivery to be conducted online. Technology is making it easier for customers to switch banks, making relationships much less sticky. This will drive the third wave, where banks and their partners develop sophisticated profiles on each of their customers.

The pace of innovation will continue to increase, and leading banks will need to enable or leverage this innovation. All of this will accelerate the evolution of leading banks into customer-centric information and risk-management businesses. In 2020, we predict the following:

Every bank will be a direct bank; branch banking will be undergoing a significant transformation. As technology enables every aspect of banking to go online, and as cash usage falls away, traditional branches are no longer necessary. Given their high-fixed cost, branches will need to become dramatically more productive, or significantly less costly. Banks have already reduced staff levels, closed the most uneconomic branches and started experimenting with new branch concepts. We expect these trends to accelerate, as customer expectations and behaviours evolve. Branches will remain, but take many forms, from flagship information, advisory and engagement hubs (offering education, financial advice, full-service capabilities and community offerings) to smart kiosks (offering service, sales, cash and video contact with a range of specialists). Leaders will rapidly improve their footprints, reducing branch size and costs, introducing new models and migrating transactions to low-touch digital channels. Digital capabilities will improve, so that branch service officers and bank customers use the same platforms, with the same look and feel. The human touch will always be available, just much more through digital channels. Banks that are behind this trend will start to struggle, due to structurally uncompetitive economics. In heavily banked markets such as the US, we expect at least 20% fewer branches by 2020, and that this trend will continue to accelerate. Emerging markets will continue to develop their physical footprints, using a growing range of points of presence.

Competitive reach is no longer determined by branch networks, rather by banking licences, technology and advertising budgets. When every aspect of banking can be done online, a bank's target market and competitive arena is no longer defined by its physical footprint, but by its technology, regulatory boundaries and marketing budget. New entrants will no longer have their pace of expansion constrained by the availability of acquisition targets and/or prime retail locations. In developed markets such as the US, for example, top regional banks could become viable national players and ambitious foreign en-

Continued on p. 10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# Labor Force and Gender in Georgia

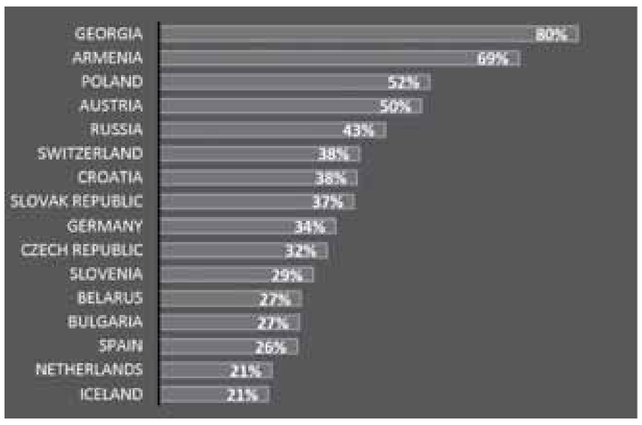
ANI LORTKIPANIDZE, GORBI

Gender operates at all levels of social life and is deeply embedded in the ways work is rewarded, viewed and experienced. The sociological study of gender and work emerged during the 1960s and 1970s, when women's role in workforce increased and the Women's Movement began emphasizing gender inequality at home and at work.

Looking at unemployment statistics in Georgia, more men are unemployed than women, with 11.2% of women being unemployed while 13.9% of men were not employed in 2018. Nevertheless, we see that there is quite a big gender wage gap. On average, according to National Statistics office of Georgia, men's salaries in 2017 were around 1200 GEL, while women's average salary only amounted to 770 GEL, which points at a huge wage gap associated with gender.

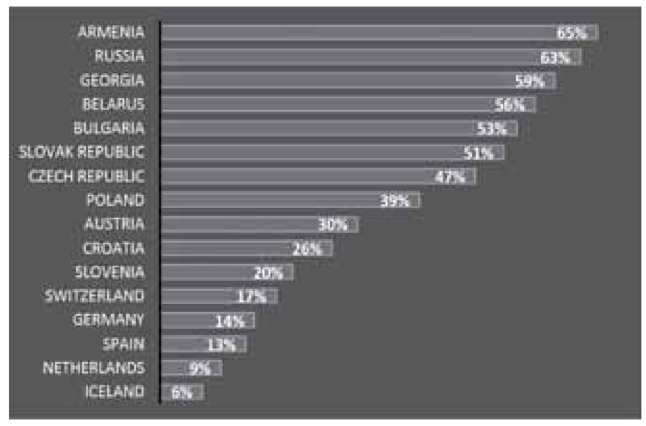
The gender pay gap is the result of many factors, including occupational segregation, bias against working mothers, and other factors. Since bias against working mothers can be one of the factors influencing the wage gap, it is interesting to see how the public views the issue of working mothers.

**Graph1.** Child suffers with working mother (agree, %)




**Source:** European Value Study, 2017-2018

**Graph2.** Man's job is to earn money; woman's job is to look after home and family (agree, %)




**Source:** European Value Study, 2017-2018

The European Values Study (EVS), a large multinational survey research program that has been studying basic human values for almost 40 years, has asked several questions regarding gender and employment. GORBI has been part of the project since 2008 and is the data provider for Georgia and Azerbaijan for the most recent year.

From the 16 countries where the EVS has conducted research, 80% of Georgians agreed with the idea that a child suffers with a working mother. Comparatively, in the Netherlands, only 21% of population share this view. Georgians are also the most firm believers that women really want to be at home and raise children, with 77% of the population agreeing to this statement. Comparatively, in Spain, only 22% of population agrees with this statement. It is noteworthy, that this opinion does not vary a lot by gender in Georgia - nearly an equal number of males and females share this view. There are substantial differences in opinion by age though. If 71% of the Georgian population aged 15-29 believe that child suffers with working mother, 85% of those aged 50 years and more share a similar opinion.

It is also noteworthy that when asked if family life suffers when a woman has a full-time job, 65% of Georgia's population agreed with this statement, which puts Georgia in second place of 16 surveyed countries, after Armenia where 73% of population shares a similar opinion. Comparatively, in Iceland, only 20% of population shares this view.

Additionally, the opinion that Georgia is a patriarchal society is strengthened even more when we look at public opinion about women's role in the job market. When asked if man's job is to earn money while a woman's job is to look after home and family, 59% of Georgians agreed with this statement. Interestingly, for this question the gender of the respondent had a significant effect. 68% of Georgian males think that it is their job is to earn money, while a woman's job is to look after home and family, compared to 54% of Georgian women who share this opinion. Comparatively, in Iceland, only 6% of the population shares this opinion and 9% of the population of the Netherlands. This opinion is also well reflected in the paternal leave statistics, where in Iceland 90 % of Icelandic fathers take leave, while in Georgia according to unofficial statistics, in 2017, only 8 fathers have done the same.

*GORBI is an exclusive member of the Gallup International research network and has more than two decades of experience in survey research (gorbi.com)*

# In Georgia, SES reach increases to 670,000 TV homes, 355 Million Homes Worldwide

The FINANCIAL -- SES strengthens its position as the world's leading video distributor via satellite as the number of TV households it serves increased by more than 4 million to over 355 million in 2018.

The results from the SES's annual market research highlighted further growth in SES's technical reach and underlined the important role of satellite in delivering video to large audiences directly and indirectly in a reliable and cost-effective manner.

The results showed an increase in SES's technical reach in Europe, Latin America, Asia-Pacific, and Africa. In Africa, this included the addition of Kenya to the survey where more than 2 million TV homes across the country rely on SES for their TV content. In Europe, satellite broadcasting, and especially Direct-to-Home (DTH), remains the leading distribution technology, with SES serving 167 million TV homes across the continent. The SES fleet is also delivering video content to 72 million households across North America, mainly via the important U.S. cable neighbourhoods. Across other markets, SES continues to expand its technical reach, now serving 37 million TV homes in Asia-Pacific, 33 million in Latin America, 33 million in Africa, and 13 million TV homes in the Middle East.

The results underscore the essential value proposition of satellite broadcasting as a highly attractive platform for reliable and cost-effective video delivery to large audiences. These qualities make it ideal for distributing HD and UHD programming, and SES is today delivering nearly 2,800 HD TV channels and over 40 commercial UHD TV channels – more than any other satellite service provider.

The Satellite Monitor Study YE2018 results show that satellite is maintaining its lead in the Georgian TV market, reaching 38% of TV homes directly, which is over 410 000 DTH homes. This compares with 11%, 14% and 37% for terrestrial, cable and IPTV reception modes respectively. SES serves two-thirds of Georgian TV homes, counting 670,000 in 2018 compared to 560,000 in 2017. The results of the study also indicate that in Georgia standard definition screens are a minority and there is a growing uptake of HD and Ultra HD, as 44.4% of homes own HD and 15.3% UHD TV screens in YE2018, which compares to 40.5% and 10.6% in YE2017.

2018 was the 25th year that SES has conducted the Satellite Monitor survey. The detailed data it delivers about the reach of SES and video viewing trends has proven to be a valuable tool for SES's customers, supporting SES's position as a trusted partner to the world's leading broadcasters and content owners. Georgia was included into the Satellite Monitor survey 4 years ago and now the comparative data shows the main viewing trends of the Georgian population since 2015.

"At SES, we invest in tools and services to help our customers gather information about markets they operate in so that they can be even more successful in their business. The Satellite Monitor is one such tool that demonstrates the long-term value of SES's core video neighbourhoods and extensive reach to our customers," said Håkan Sjödin, Vice President of Sales for Nordic, Baltic and Eastern Europe. "Regardless of the shift in consumption habits, it is clear that our business remains an essential tool in delivering a high-quality viewing experience to the world's leading broadcasters and content owners. In Georgia the uptake in purchases of HD and Ultra HD TV sets shows us that it is set-up to develop even further."

# Results of the Q2 2019 ECB Survey of Professional Forecasters

The FINANCIAL

**Inflation expectations stable for the longer term at 1.8%, but revised down over 2019-21;**

**Real GDP growth expectations revised down markedly for 2019, but unchanged for 2021;**

**Unemployment rate expectations broadly unchanged; further falls in unemployment expected;**

**Respondents to the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2019 reported point forecasts for annual HICP inflation averaging 1.4%, 1.5% and 1.6% for 2019, 2020 and 2021, respectively. These results represent downward revisions of 0.1 percentage points (p.p.) for each of those years compared with the previous (Q1 2019) survey round. Average longer-term inflation expectations (which, like all other longer-term expectations in this SPF, refer to 2023) were unchanged at 1.8%.**

**SPF respondents' expectations for growth in euro area real GDP averaged 1.2%, 1.4% and 1.4% for 2019, 2020 and 2021, respectively. This represents downward revisions of 0.3 p.p. for 2019 and 0.1 p.p. for 2020, with no change for 2021. Average longer-term expectations for real GDP growth were revised down slightly to 1.4%.**

**Average unemployment rate expectations were broadly unchanged. At 7.8%, 7.6% and 7.5% for 2019, 2020 and 2021, respectively, the latest expectations continued to point to further falls in the unemployment rate over the next three years. Expectations for the unemployment rate in the longer term were revised down slightly to 7.4%.**

# TV Interview: Ivanishvili on Courts, TBC Bank, Opponents

**Continued from** p. 4

broadcaster leaning strongly towards the opposition. He said the TV channel propagates lies and biased information.

He also slammed the United National Movement, saying the opposition party is using "false, groundless accusations" against him and the GD government, and is keeping the people under "mental oppression."

"Our political elite is as poor as our economy... It is our misfortune that the political establishment is so poor it cannot produce a new force; as a result, we still have UNM dominating the opposition spectrum; they have skills, they have a big team, they have their own media and have no decency," Ivanishvili added.

## Ruling party, communication with public

Like in the previous interviews, Ivanishvili touched upon briefly about his reasons for returning to the helm of the ruling party, as well as his plans for strengthening the "vertical of power."

Ivanishvili said over the last few months he spent "a lot of time" addressing the problems of party management and team cohesion in the Parliamentary majority. He also said that the situation has changed for the better "considerably," but added that "the sense of motivation in the team has to be increased further."

He also said PM Bakhtadze's cabinet works "effectively." "There may be some questions about individual ministers, but the Prime Minister is trying his best," Ivanishvili added.

The GD leader also noted that more efforts need to be channeled to public communications. "We need to do everything possible to return our society to reality... the reality is not as grave as it is felt and perceived," he said.

*Civil Georgia*
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# New life of Tsinandali Estate - Radisson Collection, Tsinandali Estate Georgia hosts the Grand Opening Ceremony

The newest addition to the group's premium lifestyle collection – reserved for its most outstanding properties – 'Radisson Collection, Tsinandali Estate' is set in the heart of the country's most popular wine district, 'Kakheti', and offers a truly unique Georgian guest experience.

On April 6th "Radisson Collection, Tsinandali Estate" hosted the Grand Opening Ceremony. The official representatives of brand as well as partners, special guests, international and local media attended the event. Besides the official ceremony of ribbon cutting and celebration reception, hotel also hosted media lunch for international and local journalists from world's well-known media holdings, house tours for guests and special entertainment program.

A Radisson Collection Hotel, Tsinandali Estate features 141 stylish rooms and suits and a range of exceptional hotel facilities. Every room features the elegance to perfectly complement the hotel's stunning location. The concept is incorporated into the winery and the stunning result is a seamless blend of Georgian style with modern elegance, and rooms that form the ultimate template for contemporary living.

A team of internationally well-known architects and designers worked on the property including John Fotiadis, Christina Gabas and Damien Figueras, as well as industrial designer Ingo Maurer and Georgian artist and sculptor Tamara Kvesitadze who have created an outstanding works in the hotel.

The Radisson Collection, Tsinandali Estate will be operated by Radisson Hospitality AB under an international management agreement. The project is developed by Silk Road Group with a financial support of Partnership Fund.

# FactCheck

GRASS FACTCHECK

## Fady Asly:

## STATEMENT:

**"AS COMPARED TO 2006, GEORGIA IMPROVED ITS POSITION IN THE DOING BUSINESS RANKING FROM THE 100TH TO THE 6TH POSITION, INCOME FROM TOURISM INCREASED TENFOLD AND FDI REMAIN THE SAME."**

## VERDICT:

**FACTCHECK CONCLUDES THAT FADY ASLY'S STATEMENT IS MOSTLY TRUE.**

**Table 1:** Georgia in the Doing Business Ranking

| Report | DB2006 | DB2007 | DB2008 | DB2009 | DB2010 | DB2011 | DB2012 |
|---|---|---|---|---|---|---|---|
| Calendar Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Position in the Ranking | 112 | 37 | 21 | 16 | 13 | 17 | 12 |
| Report | DB2013 | DB2014 | DB2015 | DB2016 | DB2017 | DB2018 | DB2019 |
| Calendar Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Position in the Ranking | 9 | 14 | 24 | 23 | 16 | 9 | 6 |

**Source:** World Bank, Ministry of Economy and Sustainable Development of Georgia

**Valeri KVARATSKHELIA**
**FactChek**

## RESUME:

In accordance with the 2006 report of the Doing Business ranking which was based on the performance of 2005, Georgia was in the 112th position. The ranking reflecting the performance of 2006 was published in 2007 where Georgia was in the 37th position. In accordance with the World Bank's latest report for 2019, Georgia is ranked 6th among 190 countries which is the country's best result thus far. Therefore, Fady Asly's emphasis on the country's progress in this direction is correct, although the initial ranking position is named inaccurately.

The figures in Fady Asly's statement do match with official statistical data vis-à-vis tourism revenues. Tourism revenues in 2006 were USD 313 million. As of 2018, this figure increased tenfold and now amounts to USD 3.22 billion.

In contrast with the positive trends in terms of positioning in the Doing Business ranking and changes in tourism revenues, the situation is not so straightforward in terms of FDI. In particular, as of 2018, the volume of FDI in absolute numbers increased by only 5% as compared to 2006 and now equals USD 1.23 billion. As of 2018, the FDI to GDP ratio has dropped substantially, from 15.1% to 7.6%.

## ANALYSIS:

Chairman of the Board of the National Committee of the International Chamber of Commerce, Fady Asly, addressed the Prime Minister of Georgia with an open letter. In his letter, Mr Asly emphasised: "In 2006, Georgia ranked 100 in the World Bank Ease of Doing Business Report and the country improved its ranking over the years becoming number six in 2018; during those 12 years, income from tourism increased about tenfold from USD 360 million in 2006 to USD 3.2 billion in 2018. In contrast to that and very surprisingly, during the same period of time, for the same 12 years, FDI is still about the level of 2006."

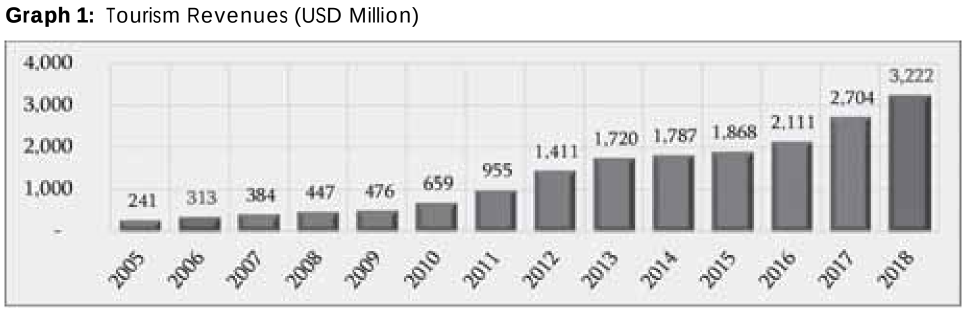
Since 2003, the World Bank has been publishing its Doing Business ranking. Currently, 190 countries are part of the ranking whilst the number of countries was initially 155. Doing Business measures the simplicity of state regulations needed for starting, managing and closing a business which is a significant indicator for assessing a country's business environment. Criteria for granting the ranking points have changed over time which to some extent has stipulated changes in the ranking without changes in the actual performance of a certain country. Of note is that the report is based on the previous year's performance. For instance, the latest report – DB2019 – which was published on 31 October 2018 in fact is based on 2018 performance. In accordance with this document, Georgia is ranked 6th among 190 countries which is the best result thus far.

As illustrated by the table, Georgia was ranked 112th in the DB2006 report which was actually based on the performance for 2005. In DB2007 which reflects the situation in 2006, Georgia was ranked 37th. In 2006-2018, Georgia's position in the ranking had a positive trend of improvement whilst a drop in the ranking in 2015 was stipulated by the changes in the report's methodology. Since that period, including the latest report, Georgia has been improving its position in the ranking.

Incomes from tourism are part of the balance of payments. The National Bank of Georgia publishes respective statistical data. Georgia's tourism income was USD 313 million in 2006. In 2006-2018, this figure increased at a constant pace and reached USD 3.2 billion in 2018 which is ten times higher as compared to same figure in 2006In regard to foreign direct investments (FDI), of important note is that apart from absolute figures it is important to take relative figures into account because a specific amount of investments could be very high for a small economy and very low for a large economy. The FDI to GDP ratio is normally used to get relative figures. The respective statistical data are given in Graph 2.

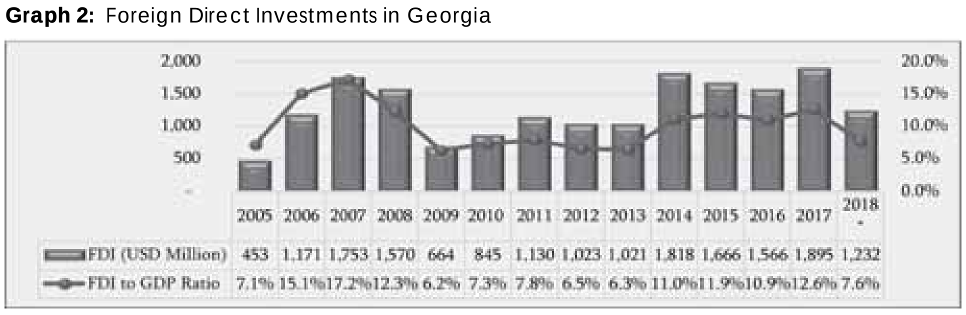
In 2018, the amount of foreign direct investments in Georgia dropped significantly (by 35%) as compared to the previous year and equalled USD 1.23 billion which constitutes 7.6% of the nominal GDP. In 2006, the amount of FDI to Georgia was USD 1.17 billion in absolute numbers. As of 2018, this figure increased by only 5%. However, of note is that Georgia's nominal GDP was GEL 11.6 billion in 2006 whilst its Nominal GDP increased by a factor of 3.5 as of 2018 and now equals GEL 41.1 million. Therefore, the FDI to GDP ratio was 15.1% in 2006 whilst it was only 7.6% in 2018.

**Graph 1:** Tourism Revenues (USD Million)




**Graph 1a Source:** National Bank of Georgia: Tourism Revenues (USD Million)

**Graph 2:** Foreign Direct Investments in Georgia




**Source:** National Statistics Office of Georgia

# Retail Banking by 2020

**Continued from** p. 6

trants with resources but without footprint could finally compete on a larger field. New entrants could grow rapidly, potentially creating dozens of new competitors and refragmenting the landscape. Further, we will see ever-more competition from non- bank players. Branding and marketing will be more important than ever before.

Surviving banks will be low-cost producers, with nearly every product profitable on a stand-alone basis. Conventional wisdom suggests banks that engage certain customer segments holistically with targeted offerings, advice and solutions will maintain high margins. We agree. There is a premium customer segment that will find this holistic approach very valuable. However, new entrants will be offering similar high-value services, unencumbered by the massive legacy cost bases of traditional banks. So, even those banks targeting the highest-value customer segments will need to restructure their cost base, while at the same time investing in areas such as customer analytics and compliance data. And needless to say, those banks targeting mass-market customers with simple products will also be dependent on their ability to compete on cost. As the pain of switching providers continues to decrease, customers will become even more mobile – intensifying competition across all segments. The lowest cost in 2020 will be up to 50% lower on a per transaction basis than today, as banks redesign their processes and systems for the digital age, structurally changing their cost base and instituting more aggressive ongoing cost management processes.

The smart device will grow in importance, and take its place alongside cards as the primary medium for consumer payment. The customer will be able to select between account providers (e.g. credit providers, deposit accounts) or locally stored value. Acceptance will be universal (with common cross-network payment protocols) and value-transfer instant. Multi-currency capabilities will become normal. Customers will be able to make contact payments or send funds to any other unique identifier (e.g. email address, phone number, bank account, credit card number, etc.). Transfers of locally stored value may be both traceable or untraceable, depending on service provider, as a result, removing removing the last powerful incentives to use cash – privacy, tax avoidance, lack of access to banking services. Cards will remain popular, as they are quick, effective, allow easy compartmentalisation of spend and don't run out of power.

Biometrics (e.g. fingerprints, voice recognition) will become commonplace in transaction authorisation, but will remain tied to a replaceable physical device (e.g. smartphone). Biometrics are unique and unchanging, yet can be captured and replicated, so two-factor authentication (e.g. my fingerprint and my phone) will always be required.

Industry utilities will arise in nearly every area of infrastructure (similar to the US 'bank in a box' vendors such as Fiserv), as cost pressures and technological advances force banks to focus on customer service and risk management, rather than the development of undifferentiated and expensive processing and payments infrastructures. A number of large banks with processing scale and efficiency will commercialise all or part of their operations and technology departments and offer services to other banks. Groups of banks might partner to achieve scale and find best practices, combining their infrastructure into joint ventures. Existing technology service providers will significantly expand the services they offer. Likely examples of processes provided by utilities include customer authentication, fraud checking, payments' processing, basic account infrastructure and KYC processing.

Customer expectations are being shaped by their interactions outside of the banking industry – they increasingly want the type and quality of service they receive from industries that place significant focus on customer experience (e.g. the ease of use of Baidu, the seamless integration of Apple products across products and channels).

Customers are also increasingly connected to others across social, geographic and demographic boundaries. This 'social world' augments close friends and family as the primary source of information, opinion and recommendation. The smallest piece of noise can be amplified massively and instantly. Everything from reputation to purchasing decisions to sales channels is impacted.

Further, unprecedented numbers of women are heading households, controlling wealth and spending, and becoming the primary earners. In the US, for example, women control 50% of private wealth, head one- third of households, are the primary breadwinner in 40% of families and are increasingly more educated than men. Globally, women control 65% of consumer discretionary spending, and this is set to rise in the coming years.

Customer trust is at an all-time low, and they want their banks to be more socially responsible. They are also concerned about privacy and security, as more of their personal information and financial life migrates online.

By 2020 PwC expects:

• Banks will organise themselves around customers instead of products or channels. They will offer a seamless customer experience, integrating sales and service across all channels. They will develop the ability to view customers as a 'segment of one', recognising their uniqueness, and tailoring their offerings so that customers view banks as 'meeting their needs' not 'pushing products'.

Banks (in most countries) will evolve their customer experience to be more female-friendly. In one US survey, 73% of women said they were dissatisfied with the financial services industry. Complaints range from a lack of respect, to being given contradictory advice and worse terms than men. Winners tomorrow will address this through a combination of branding, product and service solutions. We expect many more bankers to be women in 2020, and many more banks to publicly state this as an ambition.

Social media will be the media. Today, we view social media as co- existing alongside traditional media. By 2020, social media will be the primary medium to connect, engage, inform and understand your customers (from the mass 'social mind' to the minutiae of each and every individual), as well as the place where customers research and compare banks' offerings. And, as today, information and opinion (good or bad) can be amplified, creating new risks and opportunities. Mastery of social media will be a core competency.

Customer trust will be returning.

Some banks will benefit significantly from taking a leadership role in the public debate. The leading firms will have reclaimed at least some of the high ground they lost in the financial crisis and begin to reshape public opinion. They will inform and educate – from mass offerings on basic financial skills (imagine a bank- led MOOC on finance topics with high school accreditation) to financial history, culture and economics, reminding us of the fundamental benefits of banking to society. All major banks will incorporate consumer education as part of their sales process. For customers to trust their banks they need to feel that banks are acting in their best interests – common practices such as teaser deposit rates that reset after one year go against this, while the ability to design your own mortgage and control the flow and timing of paperwork is in line with this thinking. In any case, we see conduct risk moving from a largely Anglo- Saxon concern to a global requirement from an increasingly educated and empowered customer.

Cyber security is paramount to rebuilding this trust – winners will have invested significantly in this area.

Recent high-profile security breaches and media commentary surrounding cyber attacks have generated fear and uncertainty, further eroding stakeholder trust. There are now higher expectations about security of information and privacy among clients, employees, suppliers and regulators. Risks range from internal misuse of social media to organised cyber-crime (e.g. mass information theft, or denial-of-service attacks). In our recent 17th Annual Global CEO Survey, we found that 71% of banking and capital markets CEOs consider cyber insecurity as a threat to their business prospects, more than any other sector.

Regulation on cyber security is increasing, and regulators are intervening – witness Waking Shark II, the Bank of England-led cyber-attack wargame, simulating an attack on the UK financial system. But simply following regulatory rules won't allow the business to keep pace with the constantly growing and changing cyber threats. The bottom line is that the more agile and innovative institutions will be those best able to navigate any significant disruptors.

THE ISET ECONOMIST
A BLOG ABOUT ECONOMICS AND THE SOUTH CAUCASUS www.iset-pi.ge/blog

# Red or Blue!

**Continued from** p. 2

festo. The graph below has been constructed according to the data provided by the Manifesto Project. The y-axis indicates the left-right leaning position of a party according to the *RILE*-index in which higher positive values indicate a right-wing position and negative values a left-wing position. A left-wing position is defined by the sum of frequency counts in manifestos favoring "State Intervention" and "Peace and Co-Operation", "Democracy", "Welfare State Expansion", "Education", and "Labour Groups". Whereas, a right-wing position on the scale is constructed from the sum of frequency counts supporting "Freedom and Human Rights", "Military", "Capitalist Economy", and "Social Conservatism". The final index is then calculated by subtracting the frequencies of such left items from right items. The x-axis simply indicates the time parliamentary elections were held.

The graph reveals that both UNM and GD political positions, as reflected by election manifestos, are inconsistent over time. The UNM party, in terms of right-left leaning, has changed significantly in every single parliamentary election, while GD has also showed some change, moving gradually right from a more left-wing position.

It is difficult to judge based only on two observations, however it is still worthwhile noting the similarity in trends: in 2012, both parties tended to be more left-wing, while by 2016 they had both started to move towards the right. Thus, it seems that they actively try to converge with each other, which could be a predictor of the Median Voters Theorem, a phenomenon described by Duncan Black.[6] According to the theorem, in order to maximize the number of votes, dominant parties will opt for a program favored by the median voter. Why the median? Targeting the median voter ensures the least relative distance to other voters, on average, in both directions along the left-to-right ideological spectrum, which therefore maximizes their number of potential votes. This, subsequently, offers an incentive for parties to converge on the median, and hence with each other.

To be able to apply this theorem to Georgia, the median voter should also be fluctuating quite a lot, which might well be true for the post-Soviet transitional country, where little political and economic experience has yet accumulated, and the electorate is still uncertain of which direction the state should take.

Thus, if not ideology, what tool remains to win elections in Georgia? The OSCE in its report characterizes the 2018 elections by its negative campaigning and the harsh accusations between the UNM and GD. Instead of focusing on their own innovative ideas and policies during their campaigns, both UNM and GD chose to portray each other as national enemies. What then can be the rationale behind this decision?

Certain academic works have claimed that creating enemy figures, and their images, are instrumental at the group level for increasing in-group cohesion.[7] It has also been found that bonds are stronger when there is a shared dislike, rather than a fondness.[8] Moreover, when fighting an enemy, the means are more easily justified than in other cases, simplifying the rules of the game. Thus, in order to mobilize the electorate, political parties may be more inclined to create enemies out of their opponents, rather than find ideological divisions.

We must ask of Georgian politics, is it political polarization we should discuss or just the lack of political culture? It seems the later statement is more convincing, as the tool of winning elections is how well one can organize a negative campaign and not the fresh ideas and policies presented to the electorate. Consequently, we have one of the lowest voter turnout rates (53.88% on average) across post-Soviet countries.[9]

*1 Although, those same colors may have different associations across cultures. See Mehta, R. and Zhu, R.J., (2009). Blue or red? Exploring the effect of color on cognitive task performances. Science, 323(5918), pp.1226-1229.*
*2 https://www.osce.org/odihr/elections/georgia/412724?download=true*
*3 Schmitt, J., (2016). How to Measure Ideological Polarization in Party Systems. ECPR Graduate Student Conference.*
*4 A manifesto is a published verbal declaration of the intentions, motives, or views of the issuer.*
*5 The higher the number of statements in favor of political decision-making at higher political levels, the higher the score of the centralization variable.*
*6 Black, D., (1948). On the rationale of group decision-making. Journal of political economy, 56(1), pp.23-34.*
*7 Allport, G. W., (1979). The nature of prejudice. Cambridge, MA: Perseus Books; Silverstein, B., (1992). The psychology of enemy images. In S. Staub & P. Green (Eds.), Psychology and social responsibility (pp. 145–164). New York: New York University Press.*
*8 https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1475-6811.2006.00109*
*9 See: http://www.election-guide.org/countries/id/81/*

# Global venture capital investment drops in Q1 2019

**The FINANCIAL – Overall venture capital (VC) investment dropped from record heights of US$71 billion* in Q4'18 to $53 billion in Q1'19, due to a decline in Chinese investment, among other factors. While US and European investment remained relatively robust quarter over quarter, Chinese VC fell from $10.1 billion in Q4'18 to $5.8 billion in Q1'19, as megadeals took a pause, according to the Q1'19 edition of KPMG Enterprise's Venture Pulse report.**

**Globally, VC deal volume declined for the fourth consecutive quarter with only 2,657 deals - representing the lowest number in 31 quarters - since Q2'11. The continued decline in deal volume was felt in every region, but was particularly pronounced in Europe - which saw deal volume drop from 882 deals in Q4'18 to 487 deals in Q1'19.**

**"We saw a number of distinct trends in the VC market during the first quarter of 2019," said Arik Speier, Head of Technology, KPMG Somekh Chaikin in Israel. "On one hand, deal value remained robust in the US and Europe - powered in large part by big investments in later stage deals. Europe for example had 10 deals at or over $125 million this quarter, compared to only 6 during Q4'18. However, the big question is if we are facing a turning point in the volume of investment, yet to be seen."**

**Global VC investment dropped from $71 billion in Q4'18 to $53 billion in Q1'19. The largest deals for the quarter included a $5 billion investment in New York-based The We Company and a $4.5 billion investment in Singapore's Grab Taxi.**

**In Q1'19, the United States saw continued strength in deal value, reaching $32.6 billion - the second highest quarterly total in the past 7 years. Venture investment in the Americas also remained strong.**

**VC investment in Asia fell dramatically this quarter, from $16.9 billion in Q4'18 to only $13 billion in Q1'19 - representing the lowest quarterly total since Q1'17. Deal volume also continued a downward spiral that began in Q3'18.**

**European VC investment remained strong, powered by 10 deals at or over $125 million in value. However, deal volume plummeted from 882 deals in Q4'18 to only 487 in Q1'19.**

GRASS FACTCHECK

"Ivane Machavariani:

## STATEMENT:
**"THE SHARE OF SIMPLIFIED PROCUREMENT HAS DROPPED FROM 37% TO 24%."**

## VERDICT:
**FACTCHECK CONCLUDES THAT IVANE MACHAVARIANI'S STATEMENT IS TRUE.**

**Egnate SHAMUGIA**
**FactChek**

## RESUME:

The aim of the Law of Georgia on State Procurement is to ensure the rational spending of money and the transparency of this process. In order to have an efficient spending, it is important to have a procurement process carried out publicly, in a non-discriminatory and transparent environment, when all potential suppliers can enjoy the equal opportunity to participate in the process.

In accordance with the aforementioned law, state procurement can be conducted by both electronic procurement (open tender) and in exceptional cases by simplified procurement (direct procurement). As compared to electronic procurement, simplified procurement is carried out in a less competitive environment and under less transparency. Therefore, it is associated with increased risks both in terms of spending efficiency and corruption. Accordingly, reducing the share of simplified procurement in the amount of total procurement is recommended.

As of 2017, the share of simplified procurement decreased by 12.8 percentage points, from 37% to 24.2% as compared to the previous year, from within the total cost of procurement as prescribed by the Law of Georgia on State Procurement. These figures do match with those named by the Minister of Finance, Ivane Machavariani. In 2014-2015, this figure was 32% and 33%, respectively.

## ANALYSIS

The Minister of Finance of Georgia, Ivane Machavariani, in his speech before the Parliament of Georgia, spoke about state procurements. As stated by the Minister, the share of simplified procurement has dropped from 37% to 24%.

The Law of Georgia on State Procurement governs the part of public finances which are spent by the spending institutions, budget organisations and state/municipal enterprises. In other words, the law governs the spending of a specific part of public finances to ensure spending efficiency, competition and non-discrimination in procurement. The law does not govern other parts of the spending of public finances. For instance, the labour remuneration of individuals employed under administrative and labour contracts, procurements related to state secrets, etc., are beyond the scope of this law.

State procurement can be conducted in two ways: simplified procurement and electronic procurement.

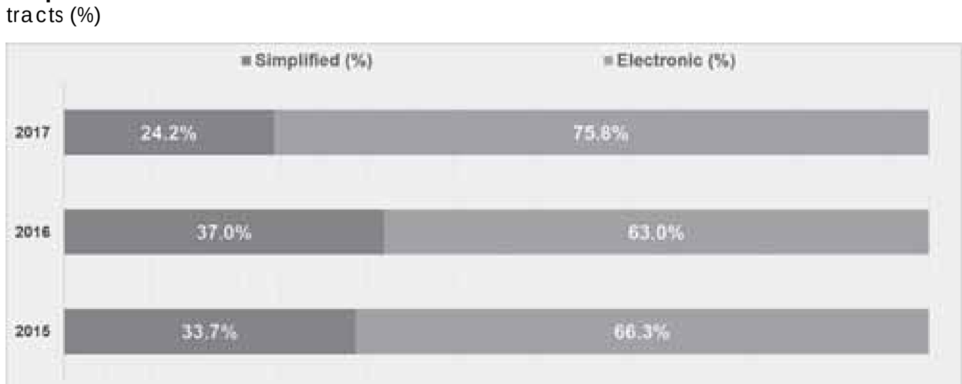
Simplified Procurement – it possible to conduct state procurement by simplified procurement when the value of homogenous objects of procurement does not exceed GEL 5,000 or when there are cases prescribed the law. In those cases prescribed by the law, this implies that there is only one procuring entity for the goods and services, procurement is of urgent necessity or urgent procurement is needed to ensure that events of state and public importance are held without hindrance within a limited timeframe, there is a danger that the quality of the goods will deteriorate or representative expenses are incurred, etc. In these particular cases, the state does not make procurement through electronic trade and this is called direct procurement. Here, the customer organisation concludes a contract without a tender and by negotiating with only one individual. In most cases, direct procurement is conducted under less competition and it is believed that it is associated with high risks of corruption.

Electronic Procurement – State procurement by electronic procurement is carried out by electronic tender, consolidated tender and competition. The customer organisation, in accordance with the law and procedures as prescribed by sub-legislative acts, places a tender/competition announcement in the procurement electronic system. The procuring entities submit tender proposals electronically and electronic trade takes place between them. The tender commission makes decisions based on the results of the electronic trade and this decision serves as the basis to conclude a contract on state procurement. Given the fact that electronic procurement is based on electronic trade, this method ensures the spending of public funds allocated to the budget and spending institutions in a competitive environment. In addition, electronic procurement means are instruments of the transparent spending of public finances and risks of corruption are less as compared to simplified procurement.

The State Procurement Agency publishes an annual report on state procurement. The Agency has published its report for 2017; the report for 2018 report is not available yet although the deadline to submit it to the Government of Georgia is 15 May. Therefore, the Minister's statement refers to the figures for 2017. In 2017, the total value of state procurement was GEL 3,664.6 million. Of this amount, GEL 881.2 million in goods and services were purchased by simplified procurement and GEL 2,762.4 million[1] in goods and services were purchased by electronic procurement. These figures are reflected in the total value of state procurement as follows: the share of simplified procurement in the total procurement is 24.2% and the share of electronic procurement is 75.8%. In 2016, the share of simplified procurement was 37% and this figure decreased by 12.8 percentage points by 2017.

*1 This does not include financial data of special procurement (including secret procurement) and procurements carried out with donor money.*

**Graph 1:** Share of Procurement Methods in the Total Amount of State Procurement Contracts (%)




**Source:** State Procurement Agency

# WINE PALACE HOTEL

# Trust is the most important ingredient in successful blockchain implementations, says PwC report

The FIANNCIAL

What the aerospace industry doesn't know about its planes is costing it serious money. And what it could do with all that knowledge has the potential to create new streams of value.

The aerospace industry is vast, complex and interconnected. Its recent performance has been strong (2018 revenues: US$838bn) and it is poised for further growth. Yet, despite the technological sophistication of modern commercial aircraft, much of the data that's crucial to keeping any aircraft airborne is collected manually, according to the latest report from PwC.


With technologies such as 3d printing and artificial intelligence being crucial to transforming different industries, there's one innovation the aerospace industry should consider and that is blockchain. Implementing Blockchain's decentralized and considerably more secure technology makes it a perfect fit to help overcome challenges the industry faces.

Blockchain has the power of creating a digital 'birth certificate' for every part that's installed in a plane and update it every time the plane is serviced or inspected by a technician, along with capturing many other details that will give an accurate view of the plane's history.

PwC analysis has found that efficiency gains enabled by blockchain could increase the aerospace industry revenue by as much as 4%, or US$40bn, while cutting Maintenance, Repair and Operations (MRO) costs by about 5%, or US$3.5bn.

It's worth noting that, blockchain won't revolutionise the aerospace industry overnight. Rather, it will supercharge other innovations that companies are already adopting, like the Internet of Things (IoT), cloud computing and data analytics.

Our Global Blockchain Survey showed that across industries, 54% of executives with blockchain projects say the effort sometimes or often hasn't been worth the result. That's why a successful blockchain data record for the life of an aircraft will necessarily start small with one system or process — not with an entire airplane.

The transformative potential of blockchain technology, can improve visibility across multiple parties (suppliers, vendors and customers), while safeguarding their data from competitors; hence building trust among participants, which is an important ingredient in successful blockchain implementations.

# European IPO market particularly quiet in Q1 as companies wait for uncertainty to lift

**The FINANCIAL – Value of IPOs in Europe totalled €0.7bn in the first quarter of 2019, compared to €13.1bn in the same quarter last year**

**Despite the UK IPO market being 58% down by value on the same period last year, London retains its position as an international listing venue of choice. Volatile markets in the last quarter of 2018 cast a shadow into the start of 2019 and, despite positive indices, IPO activity across Europe has been low during Q1 2019 as uncertainty drove caution for companies, issuers and investors. In the UK, five IPOs raised £0.5bn in Q1 2019 vs 16 IPOs raising £1.2bn in Q1 2018. The figures for European IPOs during this first quarter, which include the UK, look particularly stark in comparison to Q1 2018, which saw two mega-IPOs buck the trend for what is traditionally a quiet quarter in the market.**

**London retains its position as an international listing venue of choice, with companies such as the Middle Eastern payments business Network International choosing to float in the UK capital and Rustranscom, the specialist rail freight transportation company, having recently announced its intention to float in London.**

**IPO activity globally has slowed in the first quarter of 2019, but pipelines for future activity remain strong, with unicorns and mega deals, particularly in the US, lining up to take place later in the year. The recent IPO of ride-hailing firm Lyft, which raised $2.3bn on Nasdaq and was the largest IPO of Q1 2019, was the first of a number of US technology IPOs expected to make their debuts on the public markets. These include big names such as Slack, Uber, Pinterest and Airbnb. There is a high level of focus on the Lyft transaction as a potential bellwether and there will be continued interest following its mixed performance in the initial market place.**

# UK: High Street exits remain at historic high as openings slump to lowest levels on record- What now for retailers?

The FINANCIAL -- Largest full year net decline in stores as deficit breaches 2,400 for the first time 16 stores a day closing, as increasing cost of occupancy, shift to online and subdued consumer spending take their toll. Store openings drop to 9 a day - almost half the levels of 5 years ago - due to structural change in consumer habits.

A record net 2,481 stores disappeared from Great Britain's top 500 high streets in 2018. In total, 3,372 shops opened, compared to 5,833 closures. (2017 net loss: -1,772 stores), according to PwC research compiled by the Local Data Company (LDC).

The number of store openings by multiple retailers* on Great Britain's top 500 high streets has dropped by 17.4% year on year with the current rate of openings at nine stores per day. This also represents a 44% decrease from the 16 stores per day opening in 2013.

Relative to 2017, the rate of store closures in 2018 remained at 16 stores a day. However, the shortfall between openings and closures reached its highest level since the beginning of the decade, as withdrawals from the high street were further dented by a historic low number of store openings.

# House prices up by 4.2% in both the euro area and the EU

The FINANCIAL-- House prices, as measured by the House Price Index, rose by 4.2% in both the euro area and the EU in the fourth quarter of 2018 compared with the same quarter of the previous year. These figures come from Eurostat, the statistical office of the European Union.

Compared with the third quarter of 2018, house prices rose by 0.7% in the euro area and by 0.6% in the EU in the fourth quarter of 2018.

## House price developments in the EU Member States

Among the Member States for which data are available, the highest annual increases in house prices in the fourth quarter of 2018 were recorded in Slovenia (+18.2%), Latvia (+11.8%) and Czechia (+9.9%), while prices fell in Italy (-0.6%).

Compared with the previous quarter, the highest increases were recorded in Slovenia (+6.5%), Latvia (+4.3%) and Malta (+3.8%), while decreases were observed in Denmark (-1.7%), Belgium (-0.5%), United Kingdom (-0.4%), Sweden (-0.2%), Italy (-0.2%) and France (-0.2%).

# labour costs Lowest in Bulgaria and Romania, highest in Denmark, Luxembourg and Belgium

## Labour costs ranged from €5.4 to €43.5 across the EU Member States in 2018

THE FINANCIAL

In 2018, average hourly labour costs in the whole economy (excluding agriculture and public administration) were estimated to be €27.4 in the European Union (EU) and €30.6 in the euro area. However, the average masks significant gaps between EU Member States, with the lowest hourly labour costs recorded in Bulgaria (€5.4), Romania (€6.9), Lithuania (€9.0), Hungary (€9.2) and Latvia (€9.3), and the highest in Denmark (€43.5), Luxembourg (€40.6), Belgium (€39.7), Sweden (€36.6), the Netherlands (€35.9) and France (€35.8).

Hourly labour costs in industry were €27.4 in the EU and €33.2 in the euro area. In services, they were €27.0 and €29.6, respectively. In construction, hourly labour costs were €25.0 in the EU and €27.6 in the euro area. In the mainly non-business economy (excluding public administration), they were €28.5 and €30.8, respectively.

Labour costs consist of wages & salaries and non-wage costs (e.g. employers' social contributions). The share of non-wage costs in total labour costs for the whole economy was 23.7% in the EU and 25.6% in the euro area. It ranged from 6.1% in Malta to 32.6% in France.

## Hourly labour costs increased most in Romania, least in Malta

In 2018, compared with previous year, hourly labour costs in the whole economy expressed in € rose by 2.7% in the EU and by 2.2% in the euro area.

Within the euro area, the largest increases were recorded in Latvia (+12.9%), Lithuania (+10.4%), Estonia and Slovakia (both +6.8%). Hourly labour costs increased least in Malta (+0.4%), Finland (+1.2%), Spain (+1.3%) and Portugal (+1.4%).

When comparing labour cost estimates over time, levels expressed in national currency should be used to eliminate the influence of exchange rate movements. For Member States outside the euro area in 2018, the largest increases in hourly labour costs in the whole economy, expressed in national currency, were observed in Romania (+13.3%) and Hungary (+9.8%). They increased least in Denmark (+1.9%), Sweden (+2.3%) and the United Kingdom (+3.3%).

# publicity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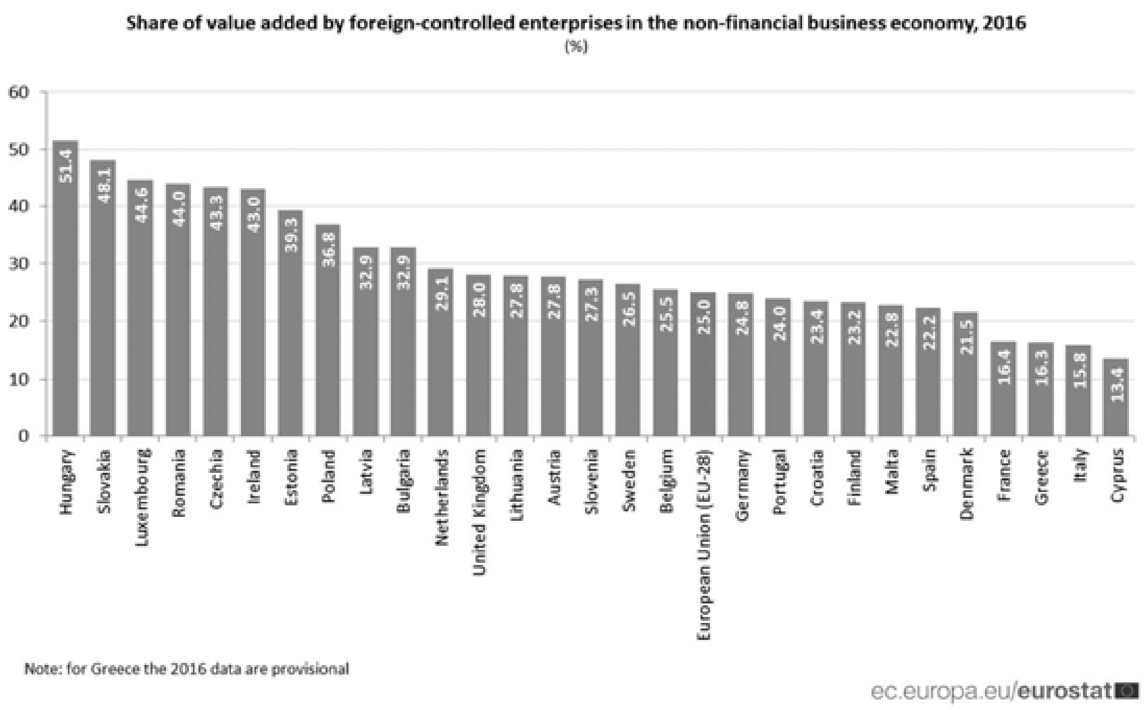
# Foreign-controlled enterprises in EU: value added




The FINANCIAL – In 2016, 1.2 % of enterprises in the European Union (EU) were foreign-controlled. They accounted for 15.3 % of EU employment and 25.0 % of the value added in the non-financial business economy. Between 2010 and 2016, the share of value added by foreign-controlled enterprises in the EU rose by 2.3 percentage points.

At the level of individual EU Member States, the countries with the highest shares of value added by foreign-controlled enterprises in 2016 were Hungary (51.4 %), Slovakia (48.1 %) and Luxembourg (44.6 %). In contrast, four EU Member States had shares under 20 %: Cyprus (13.4 %), Italy (15.8 %), Greece (16.3 %) and France (16.4 %).

# EU-China trade in goods: €185 billion deficit in 2018

The FINANCIAL – In 2008 the EU had a trade deficit with China of € 171 billion. There was a deficit throughout the period between 2008 and 2018, reaching € 185 billion in 2018. During this time, EU exports to China were highest in 2018 (€ 210 billion) and lowest in 2008 (€ 78 billion). EU imports from China were highest in 2018 (€ 395 billion) and lowest in 2009 (€ 215 billion).

China is the top trading partner with the EU and accounted for 20 % of EU imports in 2018. In terms of EU exports, China was the second largest export partner (11 % of EU exports) in 2018, preceded by the United States (21 % of EU exports).


# EU food and drink exports: US is main destination

**The FINANCIAL – European Union (EU) trade in food and drink as primary goods (commodities) has been growing since 2009, with exports growing stronger than imports. The EU was traditionally a net importer, but has recorded a trade surplus since 2012.**

**The United States was the main destination for EU exports of food and drink with a 16 % share. It was followed by China (8 %), Switzerland (6 %) and Japan (5 %). The two largest suppliers of EU imports were Brazil and the United States, each with an 8 % share.**

# Rating-Agentur Expert RA assigned 'BB' ratings to Georgia

The FINANCIAL -- The government debt structure remains favorable in terms of maturity as short-term obligations were as low as 8% of total government debt and 3,6% of GDP as of 3Q 2018;

additionally, this type of debt is covered by international reserves by 5x. However, the currency structure in not fully ideal as external debt was 81,7% of total debt as of end2018; despite this, only 9,5% is from the Eurobond issue while the rest is bilateral and multilateral mostly in concessional terms;

Georgia's GDP per capita indicator in PPP terms for 2018 stood at USD 11 600 and is at an acceptable relative to its peers3;

The banking system in Georgia is highly concentrated as the top three banks (TBC Bank, Bank of Georgia and Liberty bank) account for about 77% of the total banking system's assets, which carries negative effects for the competition level in the country. Moreover, the sector is 90% foreign-owned;

Institutional development in Georgia is acceptable. The country has a Human Development Index (HDI) adjusted for inequality score of 0,680 and favourable governance indicators. Moreover, it is ranked 41st out of 180 in the Corruption Perceptions Index, 66th out of 140 countries in the Competitiveness index from the World Economic Forum and 6th out of 190 countries in the Doing Business ranking published by the World Bank in 2019.

Negative factors:

External vulnerabilities are the main threat to the sovereign's creditworthiness. The trade deficit for products and services, as well as the current account deficit, was substantially wide at 11,5% and 8% respectively in 2018 reflecting large external financing needs. Georgia depends heavily on imports (69% of GDP in 2018), mainly oil and gas, as well as remittances and FDI. In addition, the economy's external debt is wide and buffers, albeit increasing, remain insufficient to weather a potential external shock which would exert pressure on the GEL;

The amount of contingent liabilities in Georgia is high. According to the fiscal law, the amount of such liabilities related to SOEs was equivalent to around 20% of GDP in 2018 for risky companies. This, combined with the unprofitability and lack of productivity of these types of enterprises, increases the risk of the materialization of these liabilities.

Moreover, contingent liabilities for the government also arise from existing power purchasing agreements (PPAs) which have attached government guarantees as well as public-private partnerships (PPPs);

The level of unemployment rate remains high at 12,7% as of the end of 2018;

The stock and bond markets remain largely underdeveloped. The stock market capitalization was as low as 4,7% of GDP and there are only 16 corporate bonds trading in the Georgia stock exchange. However, there are plans in place in order to further develop the non-bank financial system.

Stress factors:

Financial dollarization is high in Georgia; loans and deposits in FX were equivalent to 56% and 63% of total portfolio as of February 2019 (moderately weak stress factor);

Political risk stemming from the unresolved conflict in South Ossetia and Abkhazia with Russia (moderately weak stress factor).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

Decrease of external and FX exposure by reducing external debt, advancing dedollarization measures, increasing national savings, buffering-up international reserves and further developing productive sectors of the economy;

A substantial reduction in the amount of contingent liabilities which would reduce the overall government debt level;

The following developments could lead to a downgrade:

Unexpected negative external developments which would hit the exchange rate causing asset deterioration in the financial system and reduction in international reserves as well as economic volatility;

Deterioration of the fiscal position by widening the fiscal deficit and increasing government debt including contingent liabilities' materialization.

"The 'BB' sovereign government credit ratings assigned to Georgia reflect solid public finances with controlled budget balances and public debt, efficient monetary policy, sound banking system metrics and lingering solid macroeconomic growth with low levels of inflation.

However, it also reflects the economy's external vulnerabilities as a result of its wide open economy, high levels of dollarization, substantial dependence on imports, FDI and remittances as well as elevated levels of external public and private debt.

The stable outlook reflects that in the mid-term perspective we anticipate with a high probability that all underlying factors affecting creditworthiness will behave according to our base forecastscenario." – Clarified Hector Alvarez, Associate Director of Rating-Agentur Expert RA.

# Practical Tips for Effectively Conducting an Arbitration

Ketevan BETANELI, Timothy MORGAN

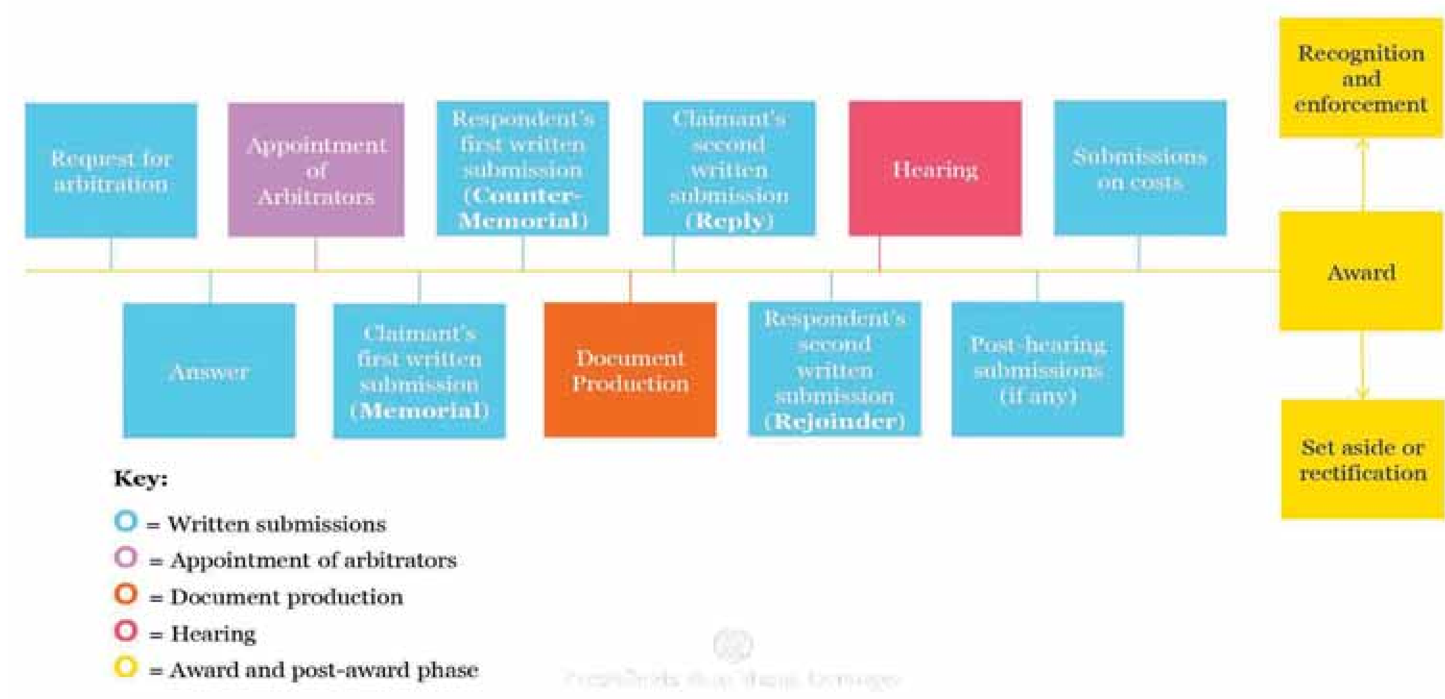
## Introduction

The basic steps in an arbitration broadly resemble those in litigation. However, arbitration offers substantially more flexibility when it comes to the process. This adaptability is one of the key advantages of arbitration. In order to harness those benefits, it is necessary to first understand the basic elements of arbitration. Once they are comprehended, specific components may then be tailored to suit the case and client at hand.

## Overview of the process

Arbitration begins when one side files a request for arbitration. The other side answers that request and may also file any counterclaims which it may wish to bring. Following this, key procedural stages include the appointment of the tribunal who will decide the case, document production, pre- and possibly post-hearing written submissions and oral hearing(s). Once the award is rendered, the post-award period may include actions for recognition and enforcement and/or setting aside of an award.

A demonstrative chart below sets out the most common form of the arbitration procedure (referred to as "memorial style", which involves the submission of written pleadings, supported by evidence):




This is explained in further detail below, following the same color-coding as the chart.

The arbitration process may be split into two or, occasionally, three separate phases: jurisdiction (where the tribunal assesses whether it has the power to hear the case); merits (where issues of liability are decided) and damages (where the amount of compensation is determined). Splitting proceedings like this is known as "bifurcation". This can happen by agreement of the parties (which is rare in practice) or more commonly, by a decision of the tribunal at the request of a party. A default procedure is usually provided in the applicable arbitration rules.

Bifurcation between jurisdiction and merits can be advantageous – especially for the respondent who is interested in having the case dismissed – if there are strong arguments that the tribunal lacks jurisdiction. In those instances, it will make sense to address the issue of jurisdiction first, so that a lengthy and costly merits phase may be avoided. Further bifurcation between merits and damages usually only makes sense in complex cases where extensive analysis is necessary (often with the assistance of expert witnesses) to ascertain the appropriate level of compensation.

## Appointment of arbitrators

As a general rule, the parties agree how many arbitrators will sit on the tribunal. In the absence of agreement, the responsible arbitral institution usually fixes the number.

Where there are three arbitrators, the normal procedure is for each side to nominate one arbitrator and then for those two arbitrators to agree together on a third presiding appointee. However, in the absence of the party agreement, it is common for the arbitral institution to appoint any arbitrator which the parties have failed to select, including the president of the tribunal. When the choice is in the hands of the parties, it can offer a key strategic advantage. It enables parties to take into account the background, expertise and language capabilities of potential arbitrators and ensure that they entrust their dispute to the right hands.

## Written submissions

The hearing is preceded by an exchange of written submissions, in which the parties set out their respective claims, counter-claims and defenses. The purpose of written submissions is to enable the parties to clearly identify the issues in dispute, distill their arguments on those issues, and present evidence in support of their positions.

Usually, there are two rounds of pre-hearing submissions, and sometimes the hearing is also followed by extra round(s) of post-hearing submissions.

The fact that each submission increases the length and cost of arbitration should be taken into account when considering how many rounds are appropriate in a particular case.

## Document production

Usually after the first round of written submissions, parties engage in the document production process, through which each party asks the opposing party to produce documents relevant to the case. If a party does not comply with the request voluntarily, the tribunal will then decide which documents a party is required to produce.

As a general rule, the tribunal will order disclosure if the following conditions with regard to the request are met: it is sufficiently defined; it is relevant and material to the outcome of the case; and, the requested document is not in possession, custody or control of the requesting party.

From the outset of the dispute – even before commencing arbitration – a party should keep in mind that in the course of the arbitration, it might be required to disclose the documents it possesses provided such documents are relevant to the other party's case, even if detrimental to its own. Therefore, a party must exercise caution with regard to the documents it internally creates and possesses and/or controls, the production of which might become necessary.

## Hearing

Not every arbitration has (or needs) a hearing. However, when a hearing occurs, it is very much a focal point of the entire arbitration process. This is because it affords unique opportunities to advance a party's case that no other step in the process can provide.

For example, hearings are the only venue for oral examination of witnesses (whether factual or expert), which can be crucial in establishing or undermining credibility. Cross examination affords counsel the opportunity to question the opposing side's witnesses in front of the tribunal.

Additionally, there is direct, unscripted engagement between the tribunal and the parties at the hearing. These exchanges can be valuable, as they provide insight into which arguments and factual narratives the tribunal finds convincing, or whether there needs to be strategic recalibration.

Arbitration hearings, unlike court proceedings, are almost always completely closed to the public.

Again, there is a high degree of variability in what procedural elements a hearing will include. The hearing usually includes opening and closing statements where each party presents its case orally (increasingly with the support of technology). However, the manner and extent to which the witnesses are examined is largely a matter of procedural discretion.

## Post hearing period

It has become more and more common to submit written post-hearing submissions, which present another opportunity to emphasize the decisive points established at the hearing, usually as a result of cross-examination of witnesses.

Importantly, parties also make submissions as to who should bear the costs of the arbitration. It is common, but by no means uniform, that the prevailing party recovers costs of arbitration by virtue of the "costs follow the event" approach. Under this approach, the costs are allocated by the tribunal in proportion of each party's degree of success.

Once an award is handed down by the tribunal, a party can make a petition to the court(s) of the country(ies) where the losing party has assets, seeking the recognition and enforcement of the award. At the same time, the dissatisfied party may seek to challenge the award before the national courts of the country in which the award was rendered. Most countries will refuse to enforce an award that has been set-aside by a court in the arbitration seat; therefore, choosing an appropriate seat is a key strategic consideration in this context.

***A separate article on recognition and enforcement of awards as well as setting aside procedure will follow in the coming months.***

## Conclusion

Arbitration is highly customisable. This provides an opportunity for parties to ensure that the procedure by which their dispute will be resolved caters to their particular needs. However, it also represents a risk that the procedure itself will be used to obfuscate the real issues and prolong resolution of the dispute. An awareness of the basic procedural architecture of an arbitration should aid parties to maximise the opportunity that arbitration offers and eliminate the risk of misuse.

Additional helpful guidance on how to conduct arbitration is provided by the ICC (the International Court of Arbitration of the International Chamber of Commerce, based in Paris, France): "Effective Management of Arbitration – A Guide for In-House Counsel and Other Party Representative", available here: https://iccwbo.org/publication/effective-management-of-arbitration-a-guide-for-in-house-counsel-and-other-party-representatives/

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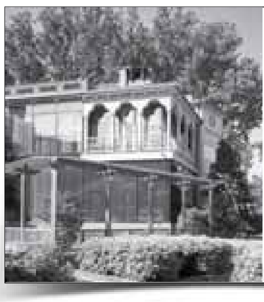

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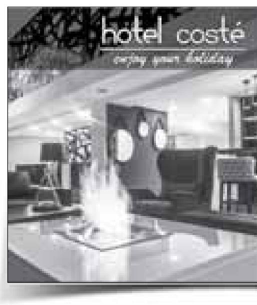

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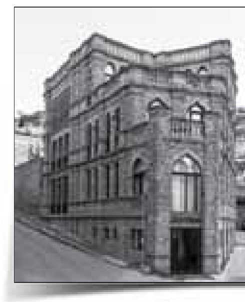

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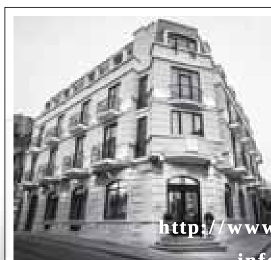

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