



Sectoral Research of Investment Potential of Tbilisi

2019

Disclaimer

Induction

- The information presented in this document (hereinafter – the “Report”) has been developed by Deloitte (hereinafter – the “Consultant”) within the project of “Sectoral research of investment potential of Tbilisi” for Tbilisi City Hall, Municipal Department of Economic Development (hereinafter – the “Client”).
- The purpose of this report is to provide high-level information to assist in obtaining an overview of development of pre-selected sectors in Tbilisi’s economic. The following list of sectors was provided by Client to be researched: Hospitality, Retail & Entertainment, Pharmaceuticals, Healthcare, Creative (including Advertisement, Film Industry, and Fashion Design). Countries for review were limited by five: two in Eastern Europe, two in CIS and Turkey
- The presentation is not intended to serve as a basis for any investment decisions and may not be considered a recommendation for investment by the Consultant.
- The findings presented in this report are based on the information provided to the Consultant by Client and obtained from publicly available sources.
- Taking an investment decision, investors must rely on their own expertise and take into account the risks common to the investments in Georgia.

Third party disclosure

- This report is provided in an environment that may rapidly change. Furthermore, such an environment may sometimes require us to provide advice in situations where there is ambiguous and/or unclear direction from business perspective. In these situations, our conclusions are based upon our current understanding of the market and due professional judgment.
- The Report is neither a professional advice, nor should be used as a basis for any decision or action that may affect the Third Party or its business. Deloitte accepts no responsibility or liability for any reliance placed on the contents of the Report. Any reliance placed on the Report is at the sole and exclusive risk of the Third Party.



01	Executive Summary	004
02	Investment Environment Overview	006
03	Analysis of Selected Sectors in Tbilisi	024
04	Selected Country Analysis	044
05	Selected City Analysis	084
06	Recommendations	098
07	Annexes	102



Executive Summary

As the largest city, cultural and economic center of the country, Tbilisi plays a major role in the overall development of Georgia.

Tbilisi is responsible for 42% and 31% of national GDP and population respectively and is a key business hub in Georgia. Our research encompasses the analysis of the five pre-selected by the City Hall sectors being strategically paramount for Tbilisi and potentially attractive for investors considering the growth opportunities, including hospitality, retail & entertainment, healthcare, pharmaceutical manufacturing and creative industry. The research is based on the relevant statistical data, various industry reports and forecasts, benchmarking of comparable cities and best practices for the sectoral development and interviews with industry experts and provides for the recommendations and identified opportunities.

Several essential development areas are critical for boosting and supporting growth for all sectors and include the following:

- Cohesive long-term guidance from the City, either a city strategy or

other comprehensive document, that would prioritize and structure the city's development in a predictable manner;

- Further infrastructural improvements, including the street profiles to allow pedestrian and cycle traffic priority and effective automotive traffic and parking management
- Enhanced integration of educational and vocational training programs with subsequent skill refinement through working experience.

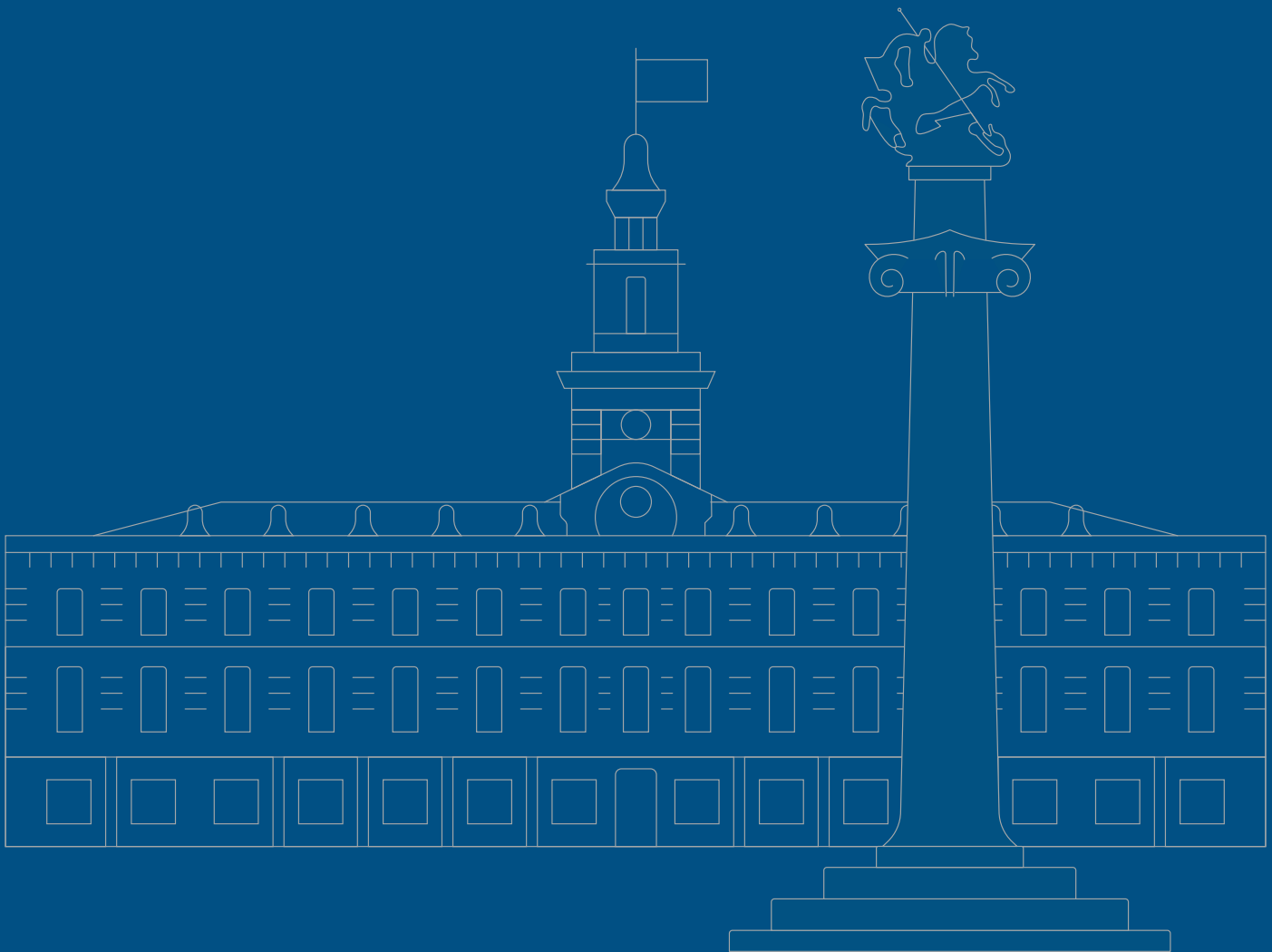
The following sectoral observations and potential development areas were identified for the below sectors:

Hospitality. The sector is mature in its key offerings and has started to suffer from over saturation in the historical part of town. It is essential to promote actions that will draw tourists to other parts of the City and focus on the increased amount of tourist spending rather than number of visitors. Higher marginality of the offerings can be achieved by

focusing on key tourism demographics. Further growth could be achieved by diversification of offerings in niches, such as spa & wellness, medical, active, family, MICE and gastronomical tourism.

Healthcare. The sector is currently in active development and the long-term success is hinged on achieving regional competitiveness. Presently there are strong opportunities to assist the sector in promoting medical tourism for services such as orthodontistry, invitro-fertilization and others. A unified approach to medical tourism can support in leveraging or developing hospitality and travel services. By introducing a package approach, including airfare, accommodation and rehabilitation, Tbilisi could compete on the lower cost medical services.

Retail & Entertainment. While retail is actively developing on its own, subject to market size and infrastructure concerns, the entertainment sector shows significant growth opportunities.



By targeting the tourism flows for various entertainment activities, rather than focusing purely on the local population, the sector can see significant growth and contribute to attraction of more visitors to non-central parts of Tbilisi.

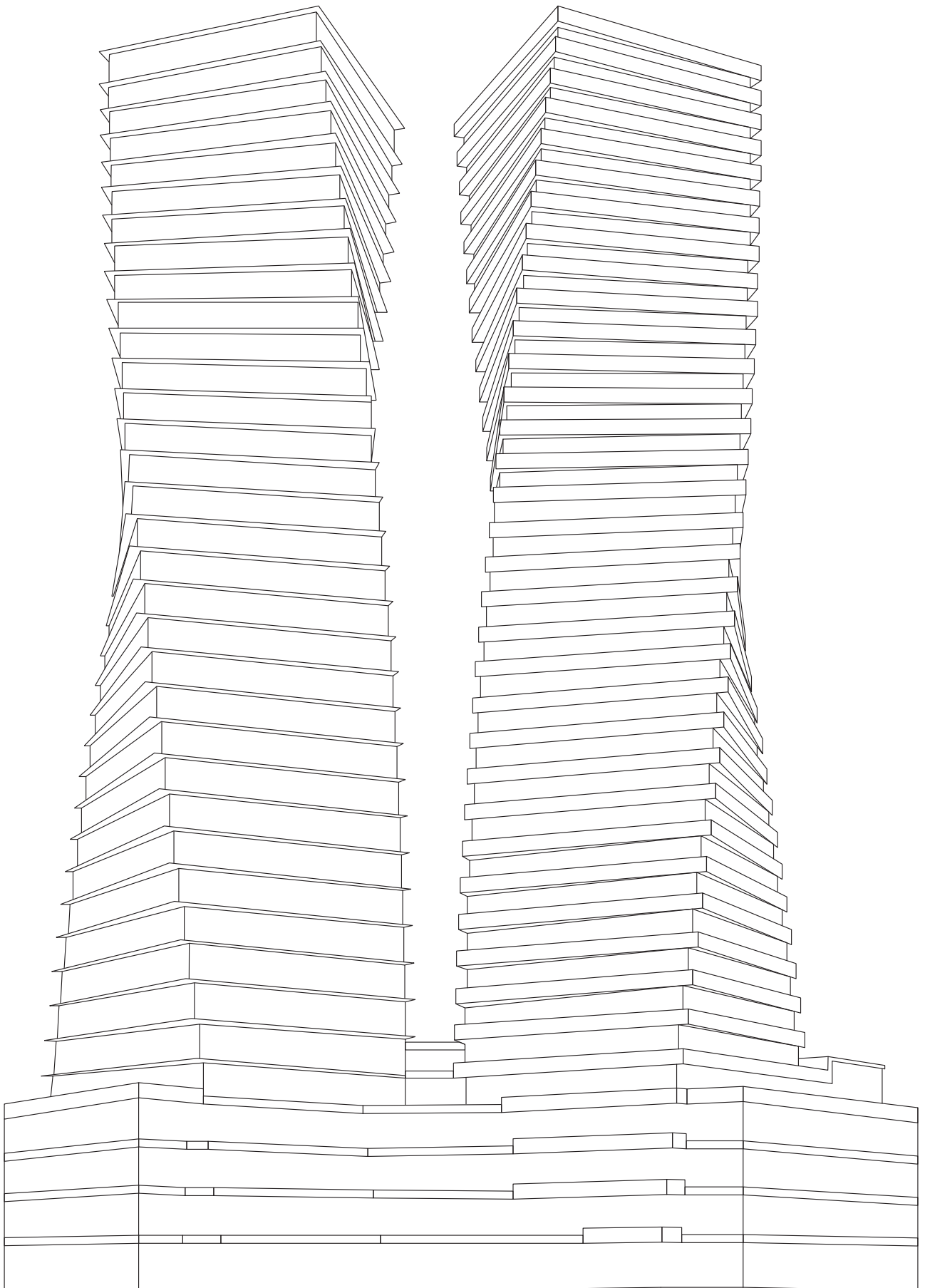
Creative. The industry analysis covered marketing and advertising industry excluding outdoor and printed media, film making, creative arts, and fashion design and sewing. The sector has significant potential for growth, although needs the greatest integration with the educational sector, as many of the skills can only be matured through experience. Engaging creative professionals in the city to advance urban planning, urban design and cultural tourism offerings can have a dynamic and profound synergy effect on the city's culture and its attractiveness to the outside world.

Pharmaceuticals. The pharmaceutical market exists but is limited in capacity by the market size and legislative environment. The research did not identify significant opportunities for full cycle drug manufacturing, although the City has the history and reputation to foster growth in the specialized niche areas. The bacteriophage identification and cultivation championed by Eliava institute could be a promising growth target given the right combination of internal and external factors.

In addition to the selected sectors the City could be attractive for settling the companies in IT development and business process outsourcing and the sectors have recently seen the significant growth. The low cost of living, excellent surroundings, convenient location, ease of doing business and low entry barriers

are strong assets for nurturing expat communities. With the appropriate implementation of infrastructure and development of safe and attractive urban environment, the city can become the go to location for young professionals from other regions that will in turn shape the skills and wellbeing of the residents.

Investment Environment Overview



Quick Facts on Georgia

-  **4th** fastest growing tourist destination in the world
-  **3** UNESCO world heritage sites
-  Oldest wine producing nation >8,000 years
-  **12** unique climate zones
-  **3** international airports
-  **2** sea ports
-  **15.1** USD bln GDP 2017
-  Remote electronic registration of a business
-  Duty Free access to 2.3 bln customers

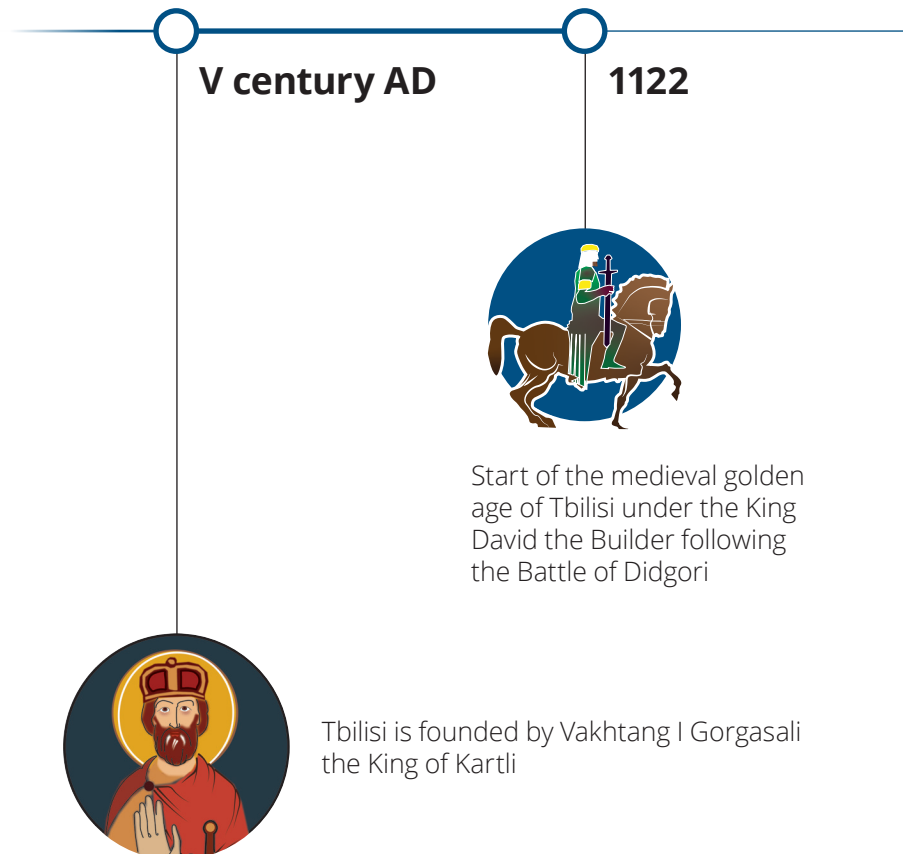


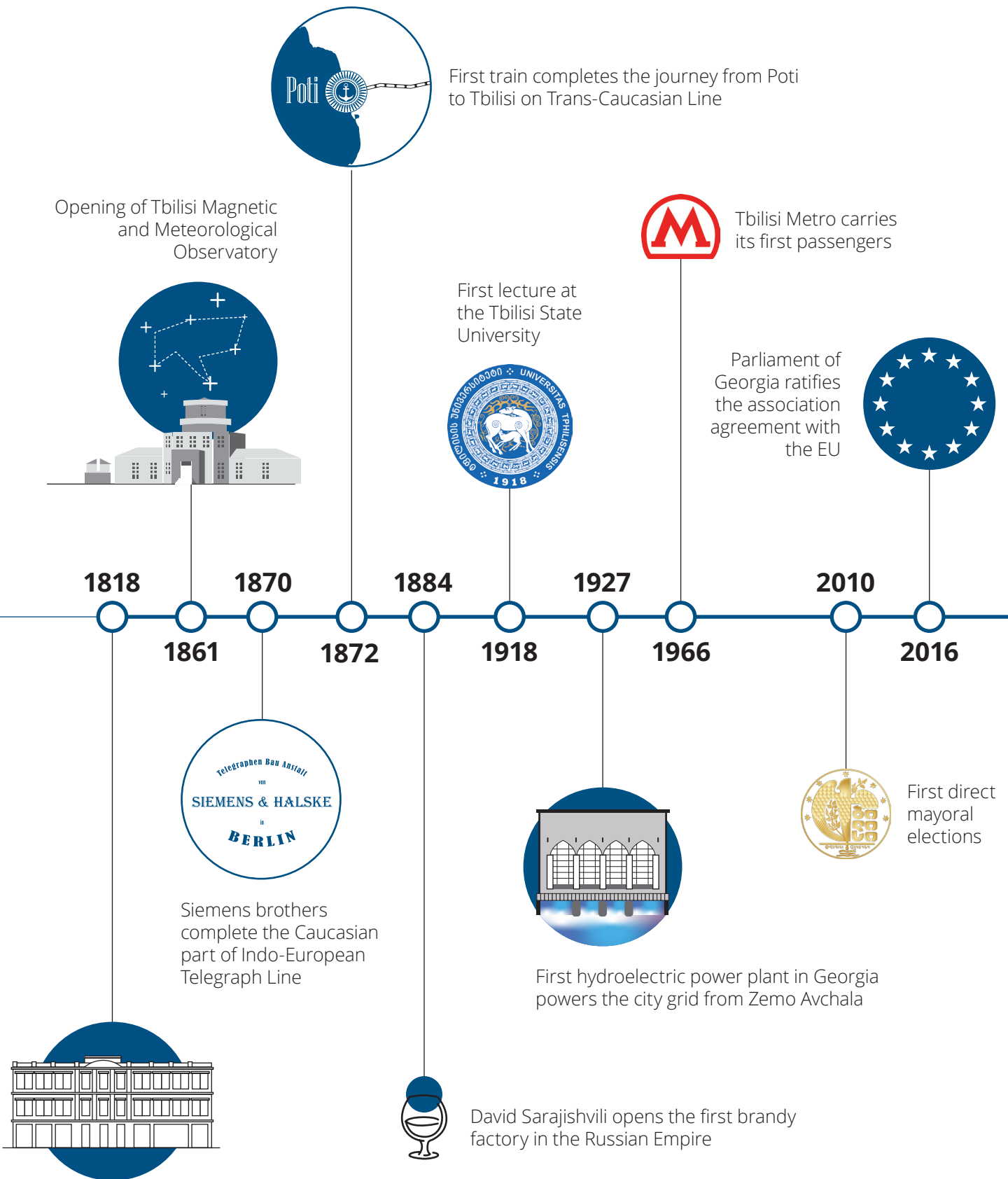
Source: Geostat, Invest in Georgia 2017



History of Tbilisi

Tbilisi is the capital of the Republic of Georgia and the country's largest city. After Baku, Azerbaijan, it is the second-largest city by population in the Caucasus region, which also encompasses the neighbouring countries of Armenia and Azerbaijan. Tbilisi is strategically located at the crossroads of Europe and Asia, making it a natural focal point for critical investment projects in infrastructure, energy and trade.





French entrepreneur opens the first hotel in Tbilisi

Tbilisi Today

Tbilisi is number one in fDi 2018/19 ranking as the most cost effective European city of the future. Georgia's leading city, Tbilisi has nearly 1.2 million inhabitants and covers a land area of about 503 square kilometers. As a municipality, the city consists of 10 administrative districts, which are called "rayoni" and are in turn divided into 33 sub-districts.

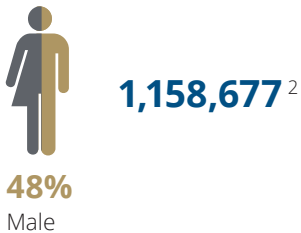
Land area¹



The City of Tbilisi is an independent municipality that is governed by the City Assembly, the legislative branch, and the Mayor's Office, the executive branch centered at Tbilisi City Hall. The City Assembly has 50 members, of which half are elected based on majority representation, whereas the other half are elected based on proportional representation. The mayor is elected to a four-year term.

Tbilisi serves not only as Georgia's economic, cultural and political center, but also as the premier business hub of the Caucasus region. The city generates 42% of Georgia's total gross domestic product (GDP). Its economic dynamism is driven by a number of key industry sectors, including banking, retail, services, transportation, communications, and construction.

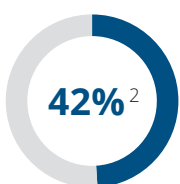
Population



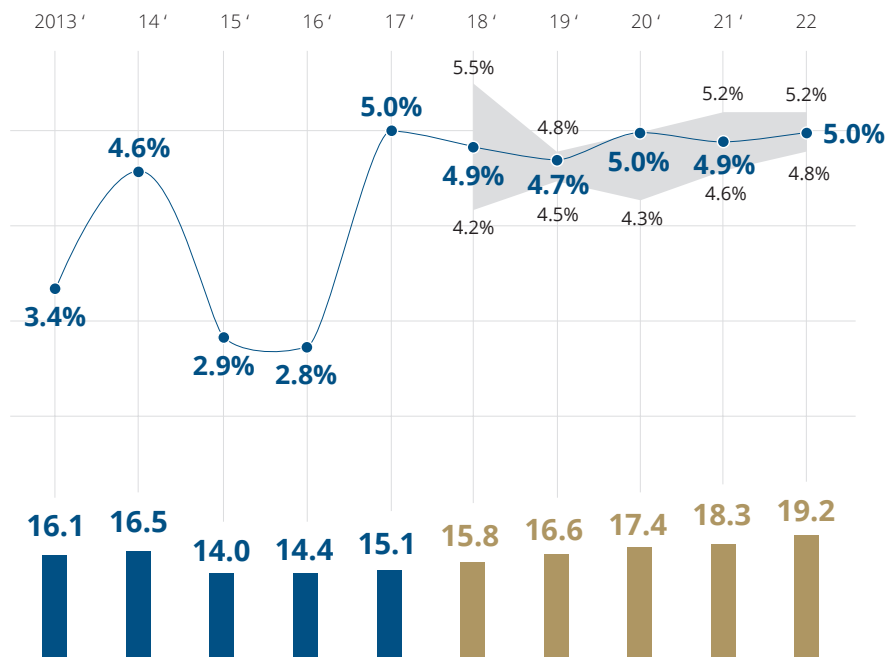
GDP per capita

5,468² USD

Share of national GDP



Georgia GDP forecast, USD bln



Source: actual Geostat; IMF, The Economist Intelligence unit, World Bank, EBRD forecasts

Note: Exchange rate used in the report is set at 2.65 GEL to 1 USD

¹ Area within the city boundary. GIS Data 2018

² National Statistics Office of Georgia (Geostat), 2016-2018



227 USD

Average monthly rent for one-room apartment ³



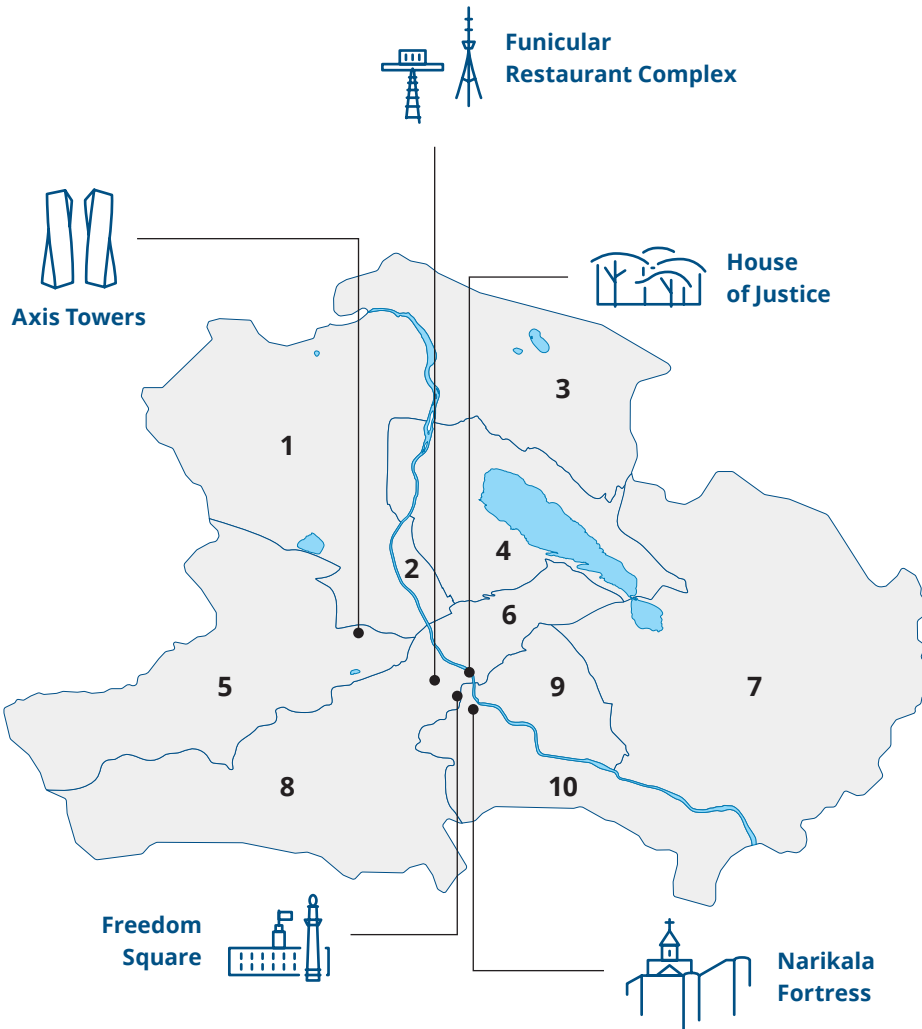
16 USD per m²

Average monthly rent for class A/B office space ⁴



0.07 USD per kWh

Average electricity rate ⁵



Administrative districts

1. Saburtalo
2. Didube
3. Gldani
4. Nadzaladevi
5. Vake
6. Chugureti
7. Samgori
8. Mtatsminda
9. Isani
10. Krtsanisi

³ Colliers International.

⁴ Colliers International

⁵ Telasi

Education

Tbilisi is also Georgia’s leading educational center with the country’s two largest universities:

- Tbilisi State University
- Georgian Technical University.

There are number of higher education institutes and vocational colleges that offer courses in hospitality, healthcare, pharmaceuticals and creative arts.

Tbilisi has well-educated inhabitants with 99% of the adult population having graduated high school and more than 50% having at least a bachelor’s degree (Deloitte survey, 2018). Over 82% of Tbilisi’s population can speak at least one foreign language, above the national average by 4% (Deloitte survey, 2018).



49
Higher education institutions



59
Vocational education centers

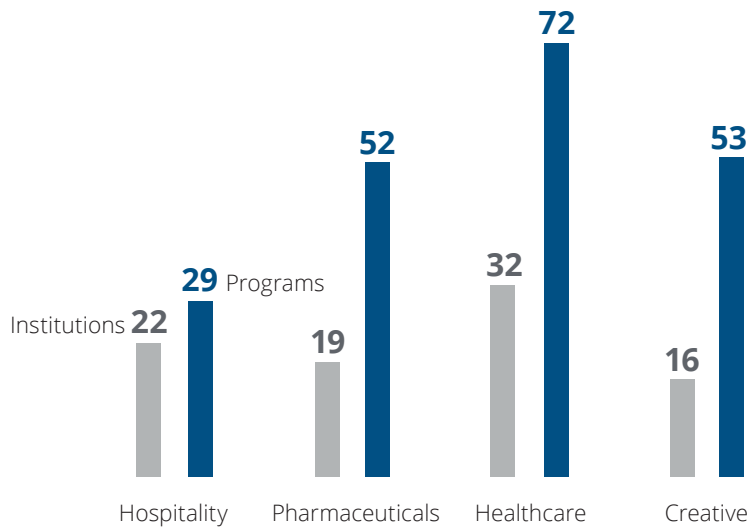


106k
Students enrolled, 2016



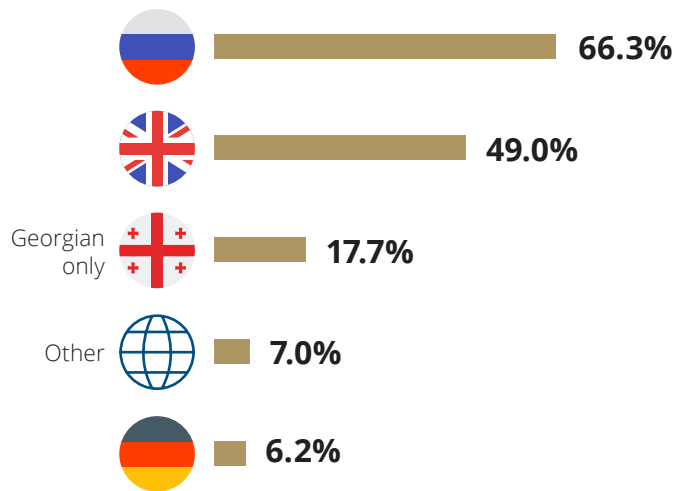
3,144
2018 vocational program graduates

Institutions and programs in selected sectors



Source: Ministry of Education of Georgia, Deloitte Analysis, 2017-2018

% of Population Speaking Foreign Language



Source: ACT/Deloitte Research

Economic Outlook of Tbilisi

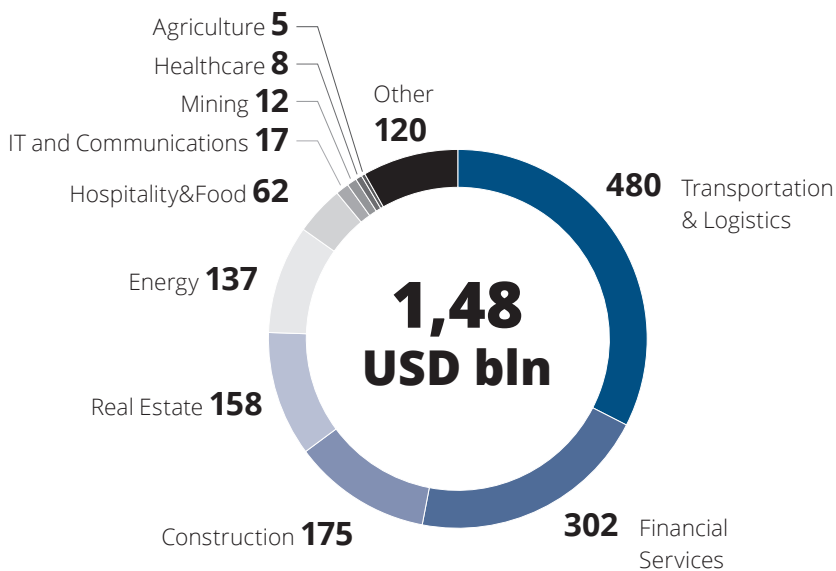
Foreign direct investment (FDI) in Tbilisi has been increasing steadily since 2013 and reached a five-year high in 2017 of 1.48 billion USD. Transportation, financial services and construction industries saw the most investment in 2017.

FDI, USD mln



Source: Geostat, 2017

FDI by sector 2017, USD mln



Source: Geostat, 2017

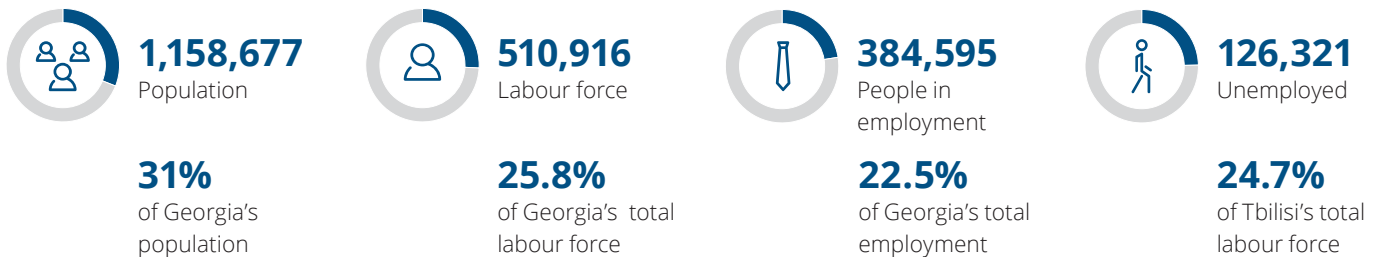
Tbilisi Labour Market Overview

Employment

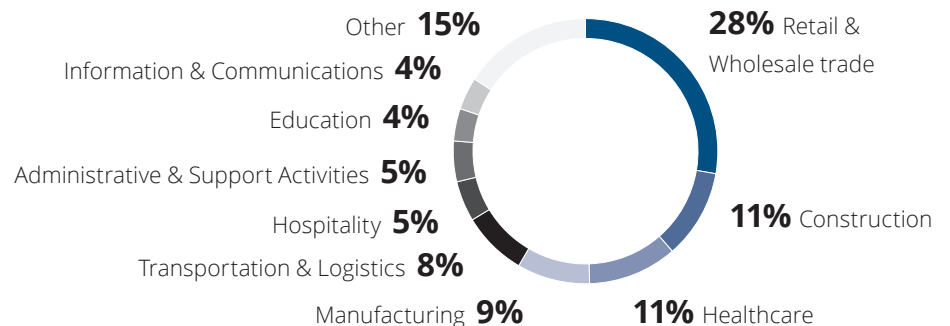
As the country's most populous city and its economic center, Tbilisi accounts for a significant proportion of the country's labour force and employment. Thirty three percent of the city's population are employed in various sectors, including major sectors as retail & wholesale trade, construction and healthcare.

Additionally, Tbilisi's share of Georgia's overall corporate earnings was even more significant at 72% in 2016, whereas 66% of all Georgians employed in business work in Tbilisi. But, Tbilisi also has the highest unemployment rate among all regions of Georgia, which at 24.7% far exceeds the national average of 13%.⁶

Population & employment statistics in 2017



Labour force by sector



Source: Geostat, 2017

⁶ Geostat. This difference is attributable mainly to the methodology for calculating the unemployment rate in rural regions outside of Tbilisi. Everyone who owns or lives agricultural land plots is automatically considered as self-employed regardless of whether they work their land or not.

Tbilisi Average Sectoral Salaries

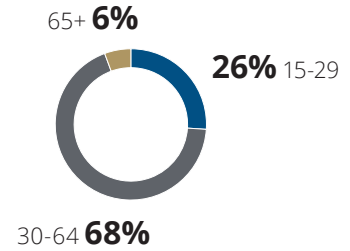
Although 17% higher than the national average, salaries in Tbilisi are low relative to comparable European cities in terms of size and economic development. The average monthly salary in Tbilisi is 465 USD, includes employees of non-governmental organizations receiving the lowest average pay of 219 USD per month. Those employed in professional services earn the highest average salary of 828 USD per month.

Labour force by gender

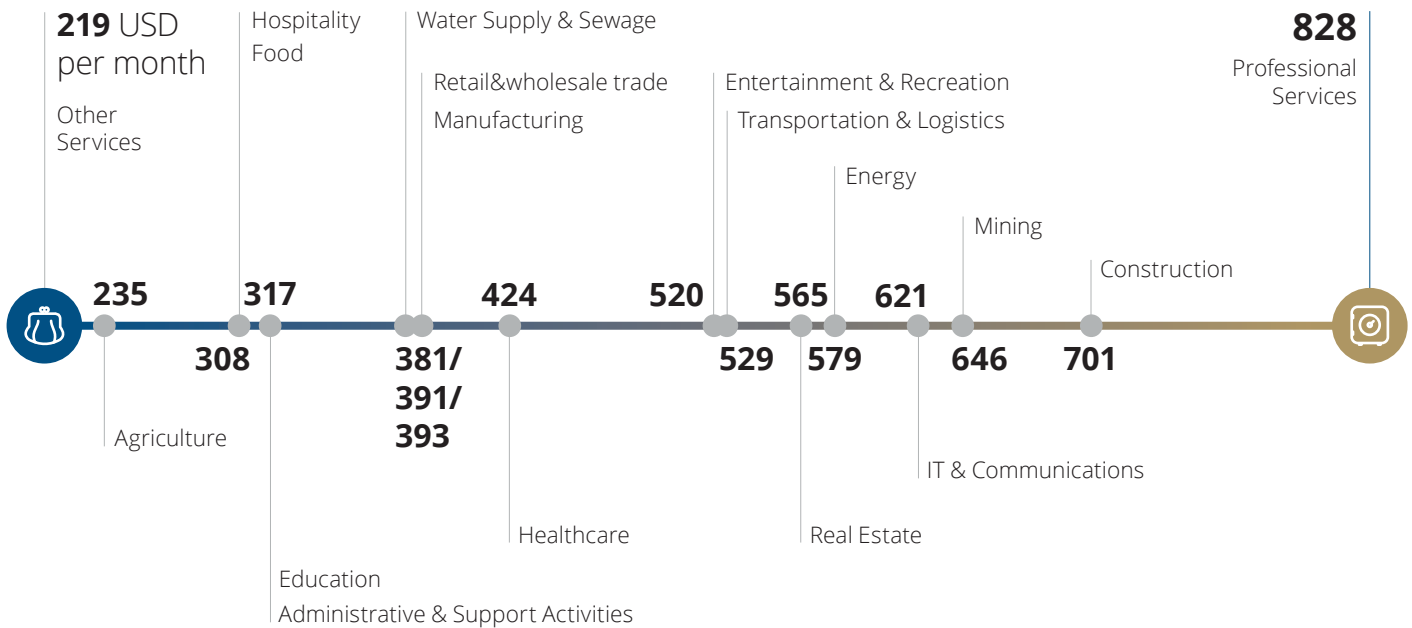


Source: Geostat

Labour force by age



Average salary by sector



Source: Geostat, 2017

Ease of Doing Business in Georgia

The World Bank Group has ranked Georgia in sixth place worldwide in its 2019 Ease of Doing Business rating. This index ranks countries by how long it takes and how much it costs to set up and run a business. It measures such factors as starting a business, obtaining building permits, registering a property, getting credit, trading across borders, paying taxes, etc. Georgia is placed well above the average rankings for its European and Central Asian peers in most of these factors, mainly thanks to simplified legislation and streamlined processes for incorporating new enterprises.

Global confidence in Georgia's free-market reforms and economic growth prospects was highlighted by the over-subscription to the country's sovereign bond issue in 2011.

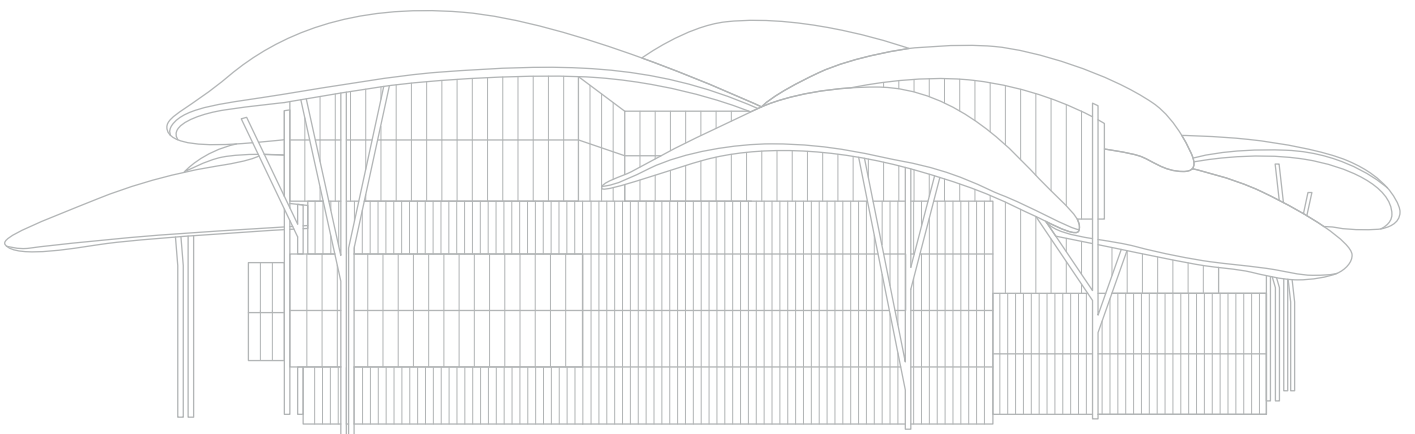
A property owner can register the property under an expedited procedure in one day for a fee equivalent to about 80 USD. Under amendments to the Georgian Civil Code enacted in 2007, sale-and-purchase agreements (SPA) in property deals no longer need to be notarized. The only documents that must be submitted to the Georgian National Agency of Public Registry (NAPR) are the SPA, the passports of the parties' authorized representatives, and a receipt confirming payment of the NAPR fee.

Although only Georgian citizens can own agricultural land, there are no restrictions on ownership of non-agricultural land in Georgia.

Obtaining a building permit has been made significantly less time-consuming in Georgia than in peer countries in Europe and Central Asia. Only 11 procedures taking up to 63 days are required to obtain a building permit in Georgia compared to an average wait of 170 days in Europe and Central Asia.

In addition to the ease of establishing a business in Georgia, a host of other factors contribute to the country's favorable business climate for foreign investment. The country has no minimum wage laws and a very liberal Labor Code. With an average wage equivalent to 400 USD⁷ per month and a nationwide literacy rate of 99.8%, Georgia offers the advantages of a low-cost, educated labor force to any company seeking to do business in the country, particularly in Tbilisi. Additionally, no work permits are required for foreign nationals and citizens of 94 countries enjoy visa-free travel to and residency in Georgia for up to one year.

Georgia has also signed free trade agreements with several CIS countries, Ukraine, and Turkey, as well as with the



⁷ Geostat, 2017

EU and European Free Trade Association (EFTA) member states, giving Georgian products duty free access to the largest markets in Europe. Preferential terms also apply to more than 3,400 Georgian products exported to the United States, Canada and Japan. In late 2017, Georgia and China signed a free trade agreement that eliminated tariffs on Georgian exports to China. Overall, goods made in Georgia now enjoy duty free access to the Chinese market with its 1.4 billion-plus consumers. Georgia has also concluded bilateral investment treaties with another 33 countries.

Overall, Georgia's simplified, one-day business and property registration procedures, coupled with its overall low labor and administrative costs, make the country an attractive location for setting up a new business. As the country's hub for business, government and employment, Tbilisi offers investors ample access to Georgia's national resources. Additionally, the city is well connected to other urban centers in the region. The city is served by an international to neighboring Azerbaijan, Armenia and Turkey. As well, it lies in relatively close proximity (about 400 km) to several full-service seaports in the Black Sea cities of Poti and Batumi. Such logistics channels help simplify export operations for locally produced goods. Additionally, the New Silk Road (NSR) project, which originates in China and will potentially run all the way to Istanbul, traverses Georgia; the first test train arrived in Tbilisi in 2015. The Baku-Tbilisi-Kars railroad section should become a component of NSR, thus boosting Tbilisi's importance as a key transit hub.



THE WORLD BANK

THE WALL STREET JOURNAL.



WORLD TRADE ORGANIZATION



The Economist INTELLIGENCE UNIT



The Heritage Foundation

FitchRatings
STANDARD & POOR'S

MOODY'S

TRANSPARENCY INTERNATIONAL
the global coalition against corruption

World Justice Project

Georgia's Rank

6 th	Ease of doing business 2019
2 nd	Starting a business
2 nd	Protecting minority investors
4 th	Registering a property
16 th	Economic freedom index 2018
11 th	Open trade worldwide 2018
11 th	World's cheapest cities 2018 Tbilisi
26 th	Labour freedom index 2018
BB-	Credit rating 2018
Ba2	Credit rating 2017
1 st	Global corruption perception index 2017 (Best score in EE & Central Asia)
1 st	Rule of law 2017/18 (Best score in EE & Central Asia)

Tax Environment

Georgia's tax system is fairly straightforward with eligibility for special tax regimes based on the type of legal entity. Property tax is the only local tax under the Georgian Tax Code, meaning that the property tax rate is set by elected local government representatives separately in their respective jurisdictions. All other taxes are levied and collected by the national government. In addition, Georgia has concluded double taxation treaties with 55 countries to promote bilateral trade and encourage investment.

Tangible Asset Tax (1% of book value, 0.6% for land, officially referred to in Georgia as the Property Tax)

All individuals and legal entities are subject to the Tangible Asset Tax (TAT) if they own or lease physical assets. The annual TAT rate for companies and organizations may not exceed 1% of the value of taxable property. The value of taxable assets is calculated as the average annual net book value, which may then be increased based on the asset's age using the following ratios:

- 3 times for assets acquired prior to 2000, or assets for which the acquisition date is unknown
- 2 times for assets acquired between 2000 and 2004
- 1.5 times for assets acquired in 2004

Certain types of property are tax exempt depending on the location and nature of the property.

Personal Income Tax (5-20%)

Georgia's Personal Income Tax (PIT) rate is currently 20% for residents and non-residents alike.

PIT is levied at 20% on salary and wages and other types of compensation paid to employees as well as on income earned by individuals or entrepreneurs from their economic activity unless they qualify for other tax regimes.

PIT is levied at 5% on income from leasing out residential space, vehicle or apartment sales, interest, dividends, and royalties.

PIT at 20% is often withheld by the employer and, thus, is not paid directly by the taxpayer to the tax authorities. However, the taxpayer must pay 5% PIT directly.

Non-resident individuals engaged in providing professional services in Georgia are subject to 10% income tax.

Pension Contributions (2–4%)

On 31 October 2017, the Georgian government announced a plan to reform the pension system that is scheduled to take effect on 1 January 2019. Under the plan, all employees under the age of 60 will automatically be enrolled in the occupational pension program (unless the individual is over 40 years old and wishes to opt out of the program) and will then be obligated to contribute 2% of their annual gross salary to the pension program, whereas his/her employer will simultaneously make a matching contribution. If an employee's gross income is less than 9,600 USD per year, the government will contribute 2% of the income amount on the employee's behalf; if it is between 9,600 and 24,000 USD, the government's contribution is reduced to 1%. The government makes no pension contribution at all for individuals earning above 24,000 USD per year. Self-employed individuals contribute 4% of their annual gross income to the pension program.

Corporate Disbursed Profit Tax (15%)

An entity is deemed to be a Georgian company if it was incorporated in Georgia or maintains its place of management in Georgia. Georgian companies are subject to Corporate Disbursed Profit Tax at a rate of 15%. Foreign Legal Entities (FLEs) doing business via a permanent establishment (PE) in Georgia are subject to the same corporate Income Tax (CIT) as Georgian companies. However, foreign companies are taxed only on their Georgian income.

With the aim of spurring economic growth and attracting foreign investment, Georgia has adopted the Estonian CIT model. Under the new CIT rules that took effect on 1 January 2017, Georgian companies and the PEs of non-resident FLEs are liable to pay tax only if corporate profits are distributed (as a dividend paid out in a cash or non-cash form).

Value Added Tax (VAT, 18%)

Value Added Tax is a consumption tax on purchases of goods and services, although certain transactions are exempt. Taxable transactions include the importation of goods into Georgia, which is administered by the customs authorities, and the supply of goods and provision of services within Georgia, which are administered by the tax authorities.

VAT registration is mandatory for all businesses with sales exceeding the equivalent of 40,000 USD during a 12-month period. Declarations must be filed and VAT due paid by the 15th day of the month following the relevant reporting calendar month.

Please note that VAT is levied on all issued invoices regardless of whether they have been paid or not.

Excise Tax

Various goods (e.g. alcoholic beverages, tobacco products, and oil and gas tanker cars) and services (e.g. mobile telecommunications) are subject to Excise Tax, which has variable rates. The specific rate applied depends on the unit and type of the taxable product or service.

Import Tax

While there is no duty on exported goods, any goods that cross Georgia's customs border are subject to import tax (with the exception of re-exports). The tax rate is computed based on the customs value of the imported goods and is set at intervals of 0%, 5% and 12%. The tax rate of 3% is applicable to the temporary import regime.

Dividend Tax

Georgia levies a 5% Dividend Tax on dividends paid by a resident enterprise to an individual, non-commercial legal entity or non-resident enterprise.

Free Industrial Zones (FIZ)

The Georgian government has actively promoted the establishment of FIZ. The country is currently home to five FIZ. The zones and their corporate residents are: Poti FIZ (CEFC China), Kutaisi FIZ (Georgian International Holding), Kutaisi FIZ (Hualing Group), Tbilisi FIZ (Georgian Technology Park) and Kulevi FIZ (Socar).

Free industrial zones are treated as areas that are independent from Georgian territory and have their own administrators and public agencies for monitoring internal affairs. Nonetheless, FIZs remain subject to the Georgian Tax Code. Resident enterprises of an FIZ enjoy certain tax exemptions, including from CIT, VAT, Import Tax, and Property Tax, among others. The importation of goods produced within a free industrial zone from the FIZ to other territories within Georgia is also exempt from Import Tax. However, employees working at an FIZ are still liable for PIT at 20%.

To be eligible to register as an FIZ resident, an enterprise may have any legal structure or form of ownership provided that it carries out all activities within the zone. If a business conducts any operations outside of the FIZ, it would be required to register as a foreign enterprise.

International Financial Company

Apart from the free industrial zone, Georgia offers several other investment incentives for companies. One of these is the opportunity to be classified as an International Financial Company (IFC), which is a financial institution that operates primarily to serve parties outside of Georgia. Companies granted IFC status are exempt from taxation. However, if an IFC earns in excess of 10% of its gross income from operations within Georgia, it would then have to pay a penalty of 100% of the excess amount.

Special Trading Company

Special Trading Companies (STC) are established to encourage the development of trade transit in Georgia. Accordingly, STC status is assigned to legal entities that are involved in organizing trade within the country. Among the activities that an STC may engage in is the re-export of foreign goods. STCs are exempt from CIT, VAT, and customs duties.

Tourist Zone Entrepreneur

The status of Tourist Zone Entrepreneur (TZE) was introduced to promote the development of Georgia's tourism sector. TZEs enjoy a number of tax exemptions. To qualify for TZE status, a registered business entity must be engaged in building hotels in specially designated tourist areas.

Micro Business

Micro Business status is available only to private entrepreneurs (sole proprietors / sole traders) who are personally engaged in doing business, have no employees, had prior-year income not exceeding 12,000 USD, and maintained an inventory balance not exceeding 18,000 USD. Upon obtaining Micro Business status, business activities are exempt from income tax and other taxes.

Small Business

Small Business status is available to private entrepreneurs or general / limited partnerships if:

- Their annual gross revenue does not exceed 40,000 USD
- Their inventory balance does not exceed 60,000 USD
- They are not a registered VAT payer
- They engage in activities that have not been prohibited for small businesses, as determined by the Georgian government
- They have not been penalized for not using a cash machine more than three times during one calendar year

Small businesses pay only 5% corporate income tax, which can be reduced further to 3% if the business can demonstrate that its expenses (excluding payroll) exceed 60% of its revenue.

Fixed Taxpayer

Fixed Taxpayer (or Flat Taxpayer) status is granted to any business entity that is not a VAT payer and carries out very specific activities subject to a fixed tax rate as determined by the Georgian government, such as beauty salons and bakeries, for example. The business' income is not taxed, but instead the Fixed Taxpayer must pay a monthly tax at a rate of either 3% of total revenue or from 1 to 800 USD depending on the types of business activity.

Cooperative

Profits (up to 80,000 USD) earned by individuals engaged in a cooperative are tax exempt.

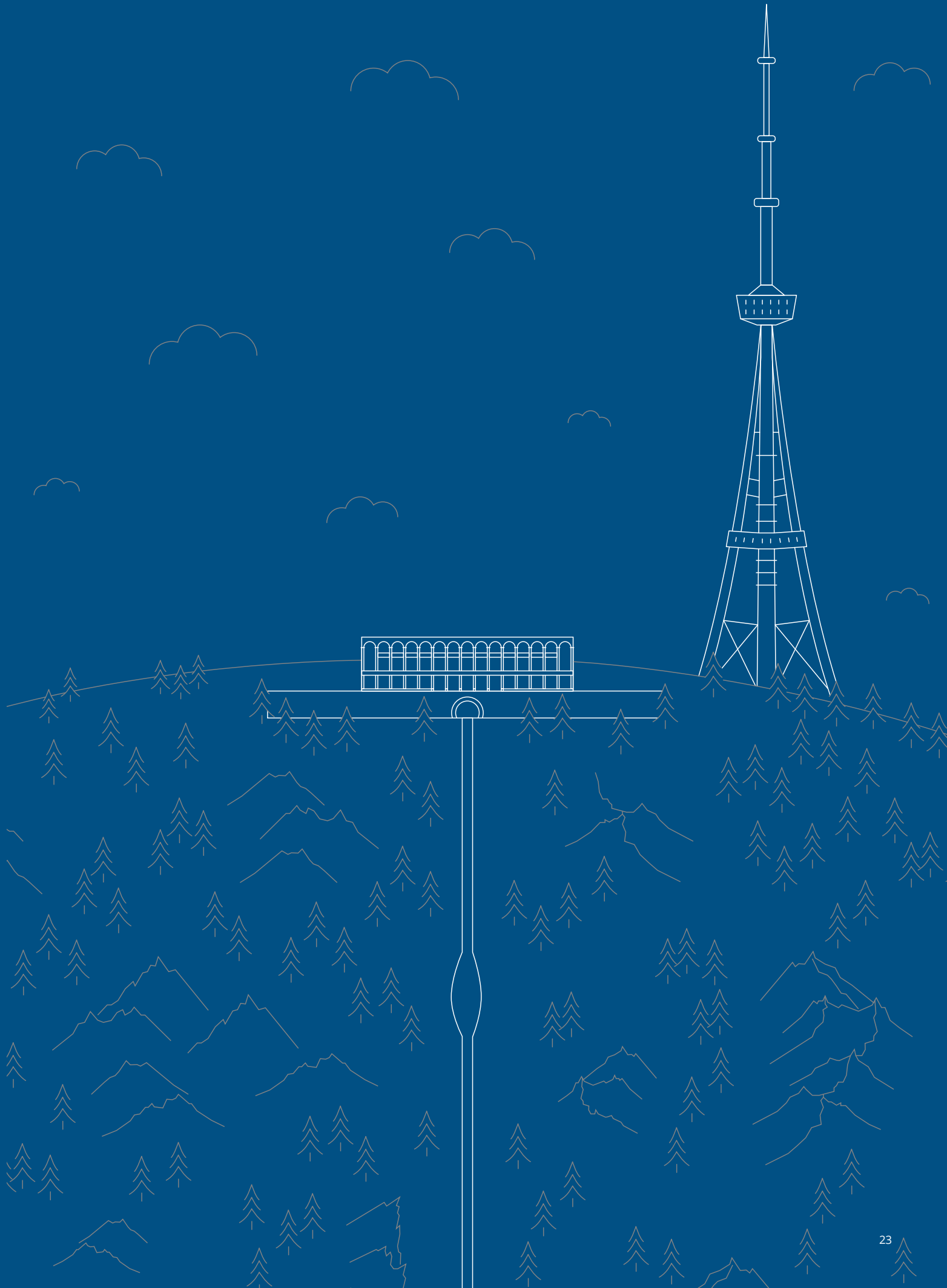
Grants

Grants and acquisitions using grant funds are exempt from VAT and other taxes.

Other Tax Exemptions

Tax exemptions are also available if:

- Profits are earned via means other than economic activity, such as charitable activity
- Donations and membership dues are provided
- Profits are from the National Bank of Georgia
- Profits earned from the supply of information technologies outside of Georgia developed by a legal entity holding a "virtual zone" entrepreneur status are tax exempt. A virtual zone person is a legal person engaged in IT activities and holding an appropriate status



Analysis of Selected Sectors in Tbilisi

Sector Selection

The Sectoral Analysis of Tbilisi's Investment Potential comprises review of the following five pre-selected industries by City Hall being strategically important for Tbilisi and potentially attractive for investors considering the growth opportunities: hospitality, retail and entertainment, creative, healthcare, and pharmaceuticals.

Hospitality

Tourism to Georgia has skyrocketed. Tbilisi alone saw the turnover of the hospitality sector jump 21% year-on-year in 2017. The government has launched a highly effective marketing campaign and adopted a tourism strategy geared towards boosting visitor numbers as well as the average amount they spend. These factors give every indication that the hospitality industry will continue to go from strength to strength.

Retail and Entertainment

Historically one of the largest sectors in Tbilisi's economy with turnover of 11.4 billion USD and employee numbers up 50% on average in 2017. The growth and development of the tourism industry, especially with the influx of more affluent visitors from the Middle East, will only serve to bolster the growth of the city's retail and entertainment sector.

Creative

The creative industries (advertisement, movies, fashion design) have been underdeveloped in Georgia, but Tbilisi have traditionally demonstrated great potential in the sector. Tbilisi's geographical location, sandwiched between the sea and the mountains, also gives film producers ample options for shooting locations.

Healthcare

Georgia inherited a very strong base of medical knowledge and specialists from the Soviet Union. With over 75% of the country's hospitals located in Tbilisi and the newly adopted Universal Healthcare system, the industry has been growing rapidly over the past several years. Local expertise in fertility treatments, dental procedures and cosmetic surgeries could make Tbilisi an attractive destination for medical tourists.

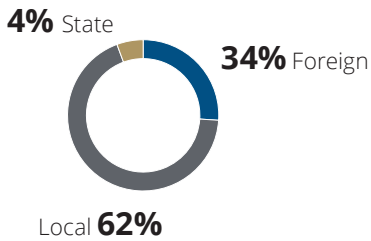
Pharmaceuticals

The manufacture of pharmaceuticals is largely underdeveloped in Georgia and most drugs have to be imported. However, Georgia could take advantage of its unique tradition in bacteriophage treatments to develop niche products. Tbilisi also has potential to establish itself as a base for clinical trials.

Economic Overview of Tbilisi

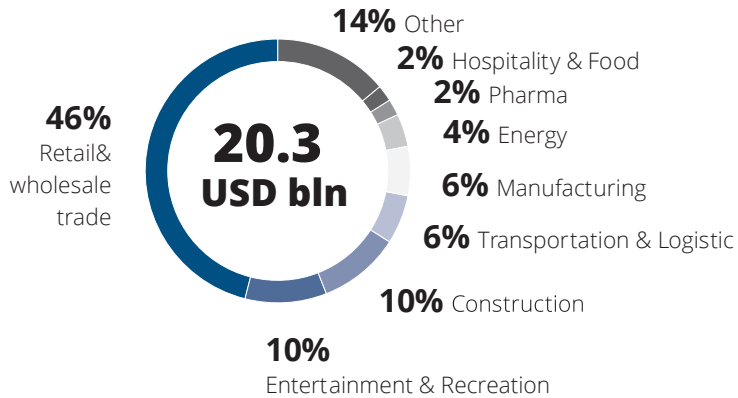
Tbilisi has enjoyed healthy CAGR of 10.3% from 2012-2017, reaching 20.3 billion USD turnover in 2017 (note: USD CAGR is lower due to currency devaluation). The fastest growing sectors over the past five years have been entertainment and recreation (38.9% CAGR), real estate (23.3%), energy (17.2%), hospitality & food (13.7%) and construction (8.2%). Private enterprises generate the vast majority of Tbilisi's turnover (62% by local and 34% by foreign companies), while state-owned entities account for 4%

Turnover by types of enterprise, 2017



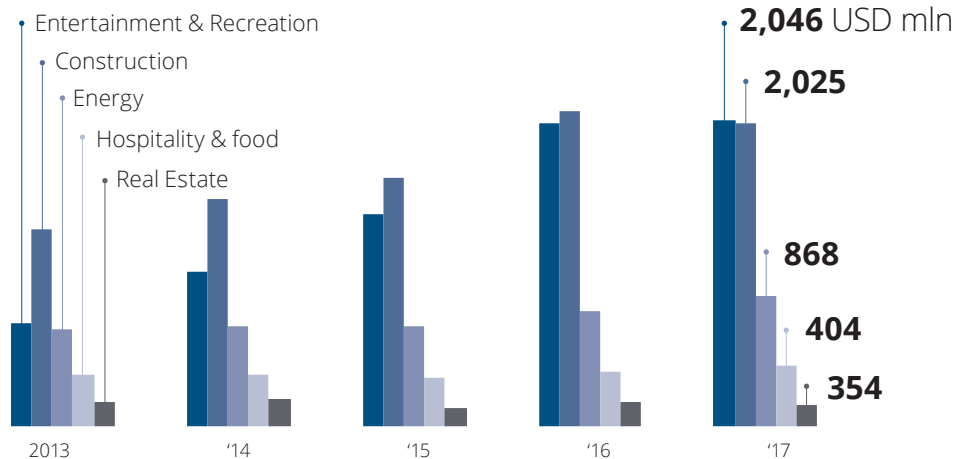
Source: Geostat, 2017

Turnover by sectors, 2017



Source: Geostat, 2017

Fastest growing sectors, CAGR₂₀₁₂₋₂₀₁₇



Source: Geostat, 2017

Hospitality

Georgia was the world's fourth fastest growing tourist destination in 2017 according to United Nations World Tourism Organization. Hospitality has seen tremendous growth over the past five years, achieving CAGR of 16.6%, buoyed by the overall growth of tourism in the country. Tourism has been one of the fastest growing sectors in Georgia with tourist arrivals up 18% in 2017.

Tbilisi is the most popular destination in Georgia with over half of all guests visiting Tbilisi at some point during their stay. Tbilisi Airport is the single largest point of entry for international visitors, handling 1.1 million people in 2017 (a 44% year-on-year increase, Georgian National Tourism Agency). Revenue in Tbilisi's hospitality sector has risen accordingly, reaching 404 USD mln in 2017.

404 USD mln
Turnover, 2017

1.1 mln visitors
Tbilisi airport, 2017

2%
Contribution to Tbilisi's economy 2017

65%
Average occupancy rate, 2017⁸

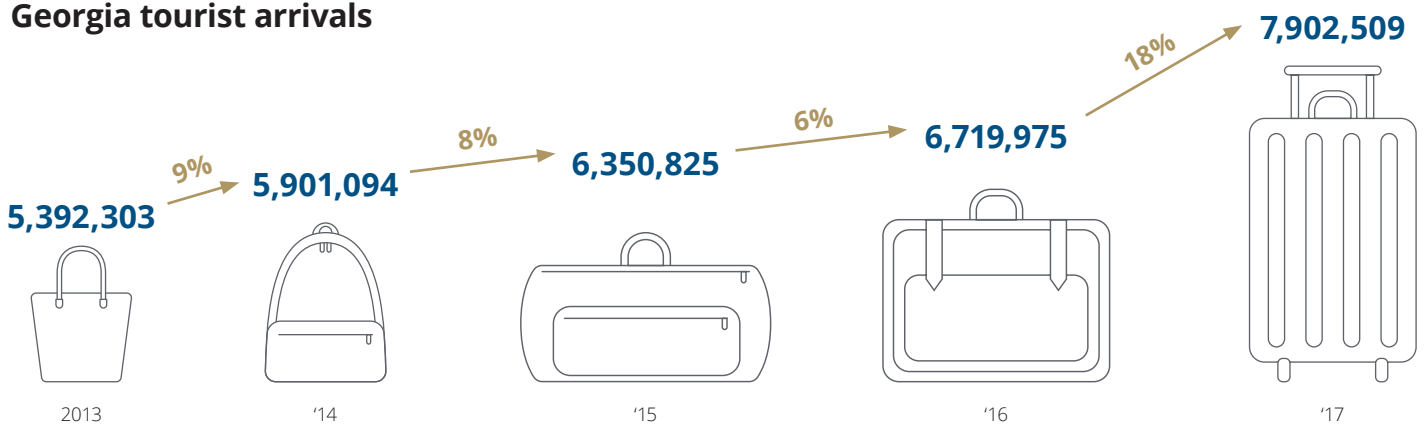
6.9%
Contribution to Georgian economy 2017

99 USD
Daily average room rate, 2017⁸

23,100
Number of people employed in the sector, 2017

68 USD
RevPAR, 2017⁸

Georgia tourist arrivals



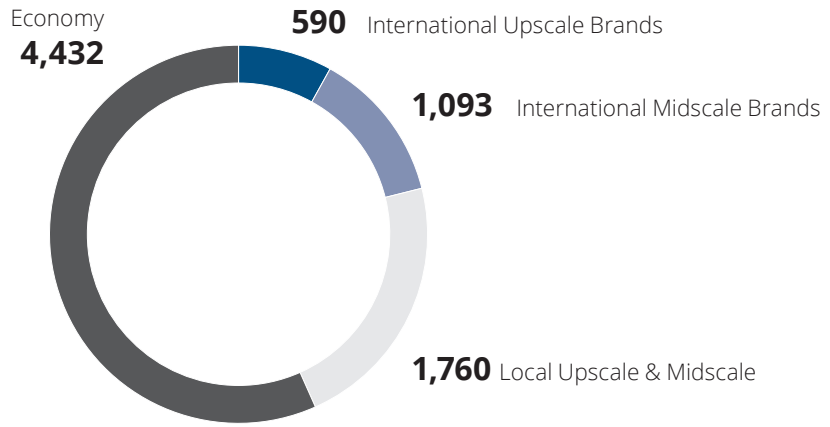
⁸ Colliers, 2018

Note: by November 2018 more than 8.1 millions tourists visited Georgia

Source: Georgian National Tourism Administration, Ministry of Internal Affairs

Tbilisi has the largest share of rooms in the Georgian hospitality sector with 29%, and boasts several international brands such as the Biltmore Hotel, Radisson Blu Iveria Hotel, Courtyard Marriott, Holiday Inn and Sheraton, among others. These upscale hotel chains have enjoyed high occupancy rates of over 70% as well as high revenue per room of 113 USD. Upscale international chains only account for 7% of total room supply while 56% comes from economy hotels. The local Stamba Hotel opened in 2018, catering to a more contemporary and style-conscious clientele, complementing a well-established core of homegrown midscale hotels such as The Rooms chain.

Distribution of hotel rooms by type in Tbilisi



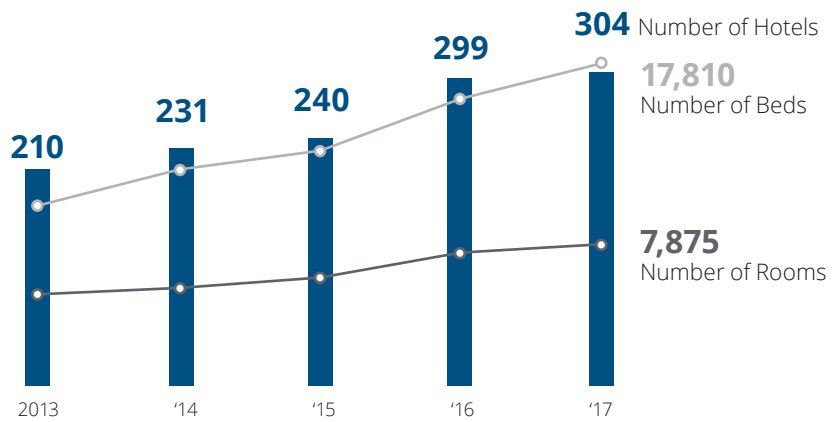
Source: Colliers International, 2017

Tourists from Azerbaijan, Armenia, Turkey, and Russia continue to dominate, but there is strong growth from Middle East, as well as from the EU, with visitors from the UK, Austria and the Netherlands up 40%, 34% and 31% respectively in 2017 (GNTA).

Government Support

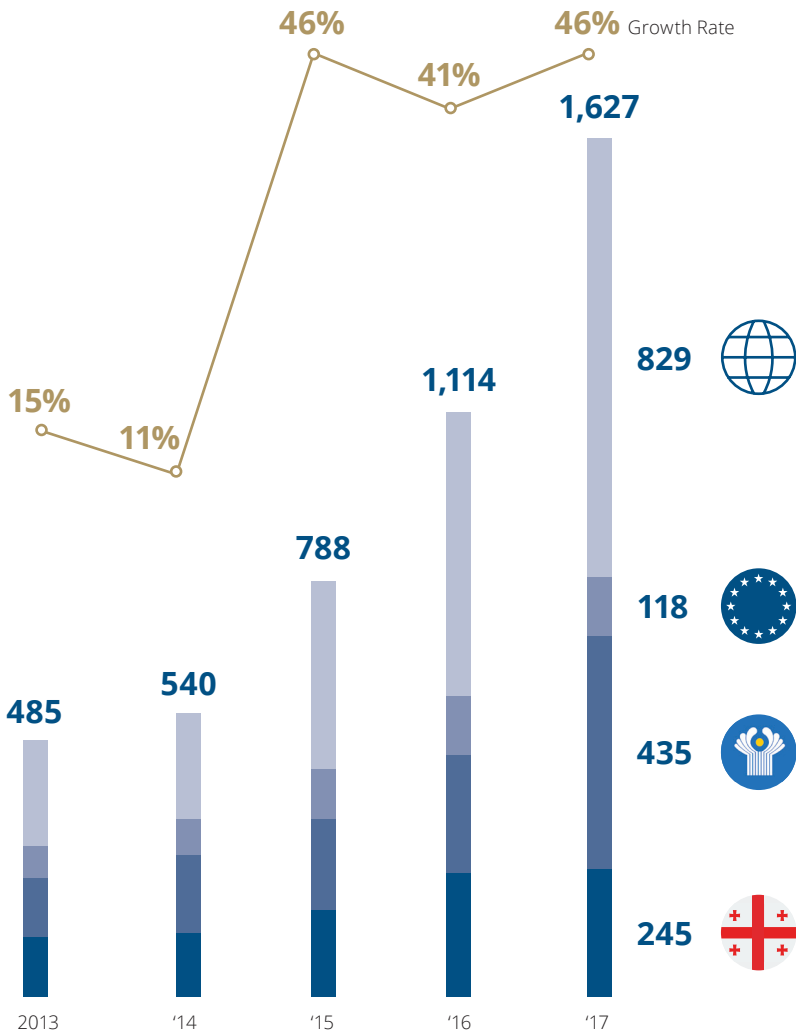
The government and National Tourism Administration has sponsored advertising campaigns promoting Georgia as a tourist destination on TripAdvisor in 10 EU countries, on Expedia in the US, UK and Germany and on TV channels such as Discovery, Euronews and the BBC (GTNA). The Georgian government is actively supporting the sectors development by promoting as a tourist destination and supporting the development of the MICE segment (meetings, incentives, conferencing, exhibitions).

Hotel statistics in Tbilisi



Source: Colliers International, 2017

Tbilisi hotel visitors by regions, '000



Source: Geostat, 2017

Growth drivers

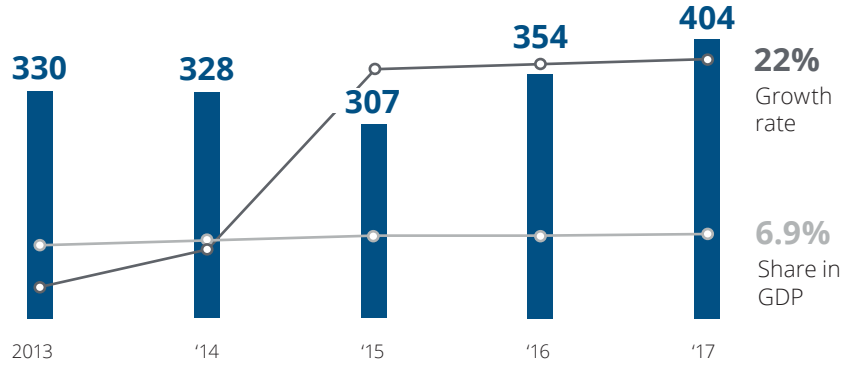
- Improved air access from high-spending markets
- Increased international media attention to Georgian wine and food culture
- Visa-free regime with 94 countries
- Four-seasons destination
- Growth of night-life

Forecasts for growth

The tourism industry and hospitality sector has been given a boost by the government's Tourism Development Strategy 2025 campaign, the simplification of visa procedures and rising number of low cost carriers flying to Georgia. The influx of Middle East tourists has been especially striking, with tourist numbers up to 84% (GNTA). Increased tourism from non-CIS countries made a major contribution to rising hotel stays and the overall growth of the segment. The number of hotel rooms rose 44% from 2014 to 2017. (Colliers).

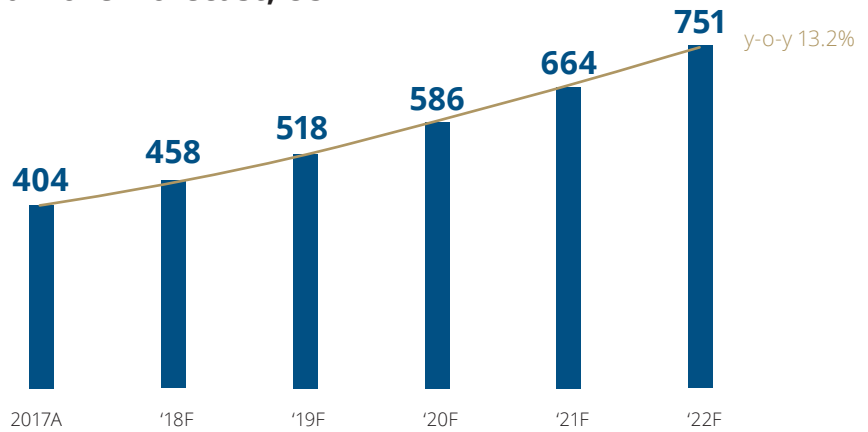
Going forward, Georgia will shift its focus away from boosting tourist numbers and towards enhancing the quality and diversity of arrivals. Visitor number growth will slow to 7.1% per annum in the long-term, while tourism inflow will continue rising steadily at 13.2% per annum (Strategy 2025). We have produced a revenue growth forecast up to 2022 based on these figures.

Tbilisi's hospitality industry turnover, USD mln



Note: growth was calculated in GEL to eliminate the effect of currency deflation
Source: GeoStat, 2017

Turnover forecast, USD mln



Source: Deloitte Analysis, GTNA



Opportunities

- **Development of MICE:** MICE tourism could help high-end international hotels keep their occupancy rates up as a key regional economic player with a strategic location. Tbilisi hosted the Belt & Road Forum in 2017, which saw more than 2,000 delegates stay in Tbilisi. Further efforts to attract similar events will be a real boost to the hospitality sector
- **Development of wellness resorts:** Tbilisi is surrounded by mountains on three sides, not only offering beautiful vistas but also clean air that can offer an array of health benefits, especially at altitudes of 800-1,500 meters. As the center of Georgia's medical sector, Tbilisi will be able to draw on plentiful resources when developing health-focused wellness resorts in the city and its outskirts
- **Development of medical tourism:** The city could also attract more medical tourists if the tourism and healthcare sectors are developed in the right direction. Georgia should take advantage of the strong base of medical expertise and professionals it inherited from the Soviet Union in specific areas of expertise. Areas such as fertility, phage therapy and dentistry are especially popular with patients across the CIS and the Middle East. Further development of these niches, as well as investment in practices such as cardiology and oncology could help Georgia compete with Turkey for medical tourists
- **Underdevelopment of family tourism:** Tbilisi is currently short on activities or accommodation that appeal to both kids and adults. Families generally spend more on holiday, so it is crucial to develop a strategy to attract this type of tourism in the future



Challenges

- **Quality of service personnel:** One of the main challenges named by the industry experts is that the quality of service is still not up to European standards. While more and more people have been taking part in government-sponsored training programs, the quality of service personnel still has room for improvement. Vocational schools specializing in hospitality will help raise standards
- **Oversupply of upscale hotels chains:** Tbilisi has another 16 new international branded hotels either under-construction or in the advanced planning stages. While these types of hotels currently enjoy the highest rate of occupancy (72%), oversupply could hurt their overall profitability unless complementary niches (e.g. MICE tourism) can be developed at the same time
- **Overcrowding:** Tbilisi's most popular tourist hotspots, the Old Town, Liberty Square and Rustaveli, are congested. There are not enough sufficiently developed areas in the city able to cater to tourists and ease-up congestion in the small Old Town. Developing additional zones could improve the economic prospects of various Tbilisi districts, as well as attracting additional visitor numbers
- **One-day visitors:** attraction of visitors, who stay in Tbilisi for more than 24 hours

Upcoming projects

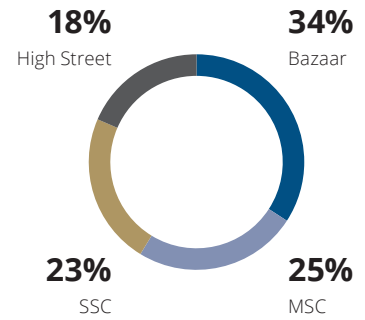


Retail & Entertainment

Retail & Wholesale trade is the largest sector in Tbilisi with average growth rate of 7%

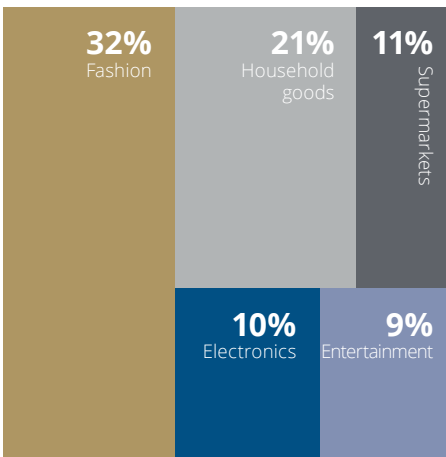
Tbilisi had total retail floor space of 1.12 million square meters in 2017, which can be divided into 4 main groups: bazaars and markets – 384,000 square meters, modern shopping centers (MSC) – 276,000 square meters, specialized shopping centers (SSC) – 256,000 square meters and high street shops – 208,000 square meters. Bazaars and open markets are struggling while modern retail trade concepts are the main drivers of growth.

Retail space supply in 2017

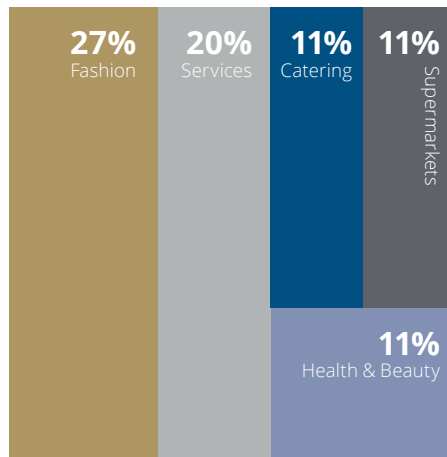


Source: Colliers, 2017

Top 5 tenants in shopping centers



Top 5 tenants on high streets



Source: Colliers, 2017

Entertainment

entails the city's greatest leisure and cultural activities and demonstrated significant growth over the last five years in GEL terms (39%)

The entertainment industry offers services and products that compliment tourism. Both sectors are experiencing growth in Tbilisi and nationwide. The gambling industry is a particularly interesting area that has been expanding rapidly in recent years. The swelling number of hotels being built in the country is directly linked to the number casinos that have entered the market. Other subsectors of entertainment industry are also gaining in popularity, substantially increasing demand in the capital city.

Major Theatres & Concert Halls

Rustaveli Theatre

3 stages
1,230 capacity

Marjanishvili Theatre

4 stages
780 capacity

Tbilisi Concert Hall

1 stage
2,251 capacity

Major Stadiums

Boris Paichadze Tbilisi

Football & Rugby
55,000 capacity

Mikheil Meskhi Stadium

Football & Rugby
27,000 capacity

Tbilisi Sports Palace

Basketball & Judo
9,000 capacity

Shevardeni

Rugby
3,000 capacity

Major Casinos in Tbilisi

Gambling is decriminalized activity in Georgia, which has relatively lenient regulations and is highly popular as means of entertainment. The majority of casinos opening their doors on the Tbilisi gambling market in Tbilisi are not standalone gambling establishments but are attached to prestigious hotels. These are: :

- Shangri La
- Casino Adjara at the Holiday Inn Hotel
- Casino Iveria at the Radisson Blu Iveria Hotel
- Casino Ambassadors at the Ambassadors Tbilisi Hotel
- Casino Jewel at The Biltmore Hotel
- Casino Aviator at the Stamba Hotel
- Sheraton Metechi Palace Casino at the Sheraton Grand Tbilisi Metechi Palace Hotel

Source: Entertainment Market in Georgia 2017, Colliers

Sectoral infrastructure



54 museums

363,600 visitors
329 exhibitions



6 cinemas

30 screens
145 film premiers



24 theatres

394,100 attendees
3,022 performances



Tbilisi zoo

115,790 visitors



14 gyms

340 sports fields
1,088 parks/squares
115 open air gym equipment

Source: Tbilisi in figures 2018, City Hall,



Regulation

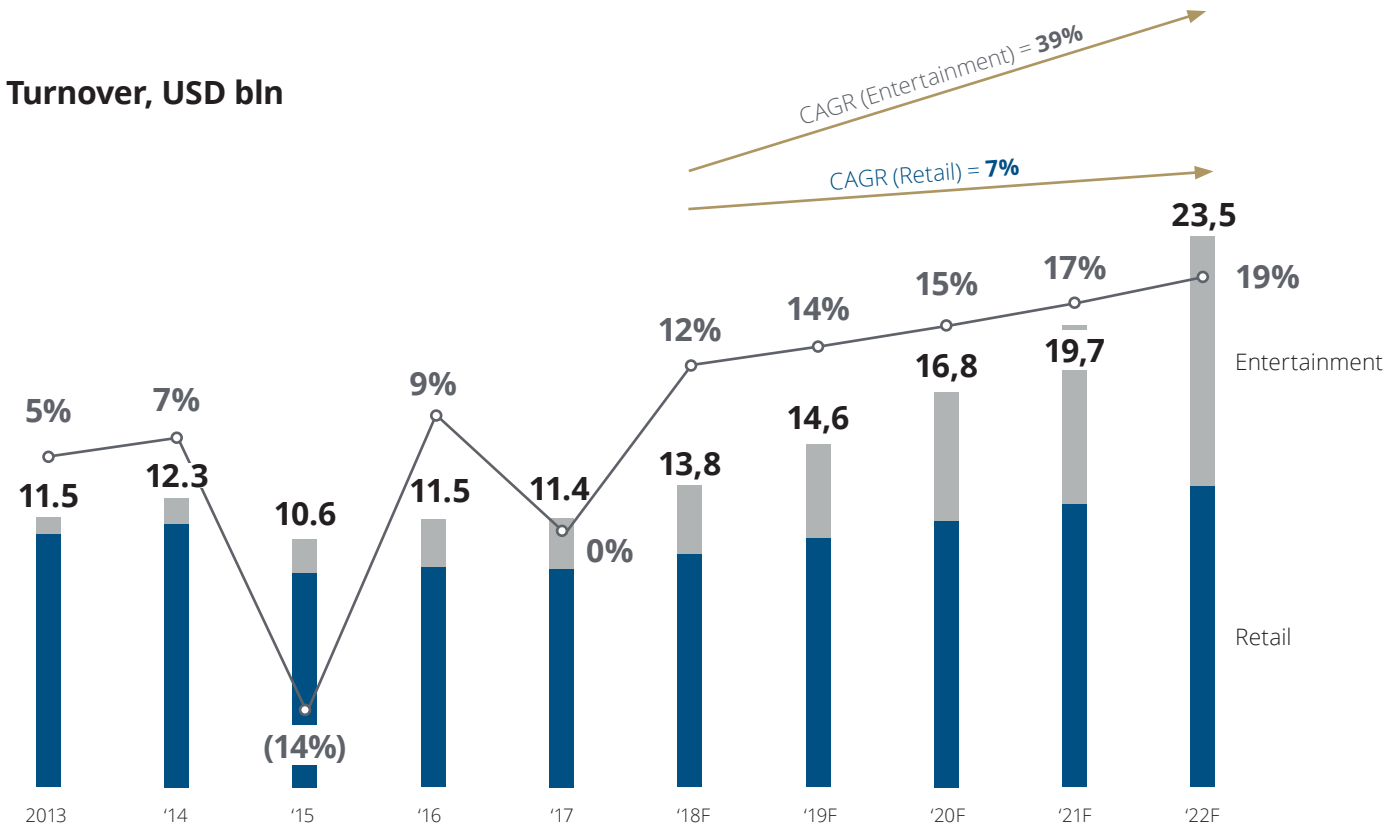
Gambling is subject to local regulations and a permit must be obtained from the Revenue Services of Georgia. The annual cost of the permit is 1,8 USD mln and it is valid for five years.

Growth Potential

According to forecasts, Modern shopping centers will expand by almost 30% in 2018-2019. Fashion retailers are the top tenants at shopping centers and on the high street.

Forecasted growth between 2018 and 2022 calculated at the average growth rates of 6.6% and 38.9% for the retail and entertainment sectors respectively.

Turnover, USD bln



Source: Geostat, 2017

Industry growth drivers

- International visitor numbers to Tbilisi are up 44%
- Leisure trips account for 58% of the visits to Tbilisi
- Shopping is the most popular tourism activity, with increasing occupancy in shopping centers and malls⁸ (Tourist spends on cultural & entertainment activities – 426 USD mln and on shopping 316 USD mln)
- Increasing number of hotels, shopping malls and leisure facilities
- Approximately 50% increase in the average number of employees from 2013 to 2017⁹

Industry Trends

- Retail makes up 46% of the sector and entertainment – 10%
- Accelerated business activity from 2012 onwards as international players entered the market and specific retail sectors were developed
- With a growing level of urbanization, international retail chains are beginning to substitute and gain a larger share of the market at the expense of the traditional retail market (small local players)

⁸ Georgian tourism in figures, page 10, 14, 17

⁹ Geostat, 2017



Opportunities

- Low barriers to entry, promoting a healthy competitive climate on the market
- A low corruption rate and no protectionism, fostering optimism and a sense of security in Tbilisi for potential investors
- The Estonian tax model for corporate tax and other tax breaks are a major draw for investors in this expanding sector
- The industry is predominantly focused on local customers with a limited view to international expansion. Expertise gained locally can be applied to foreign markets



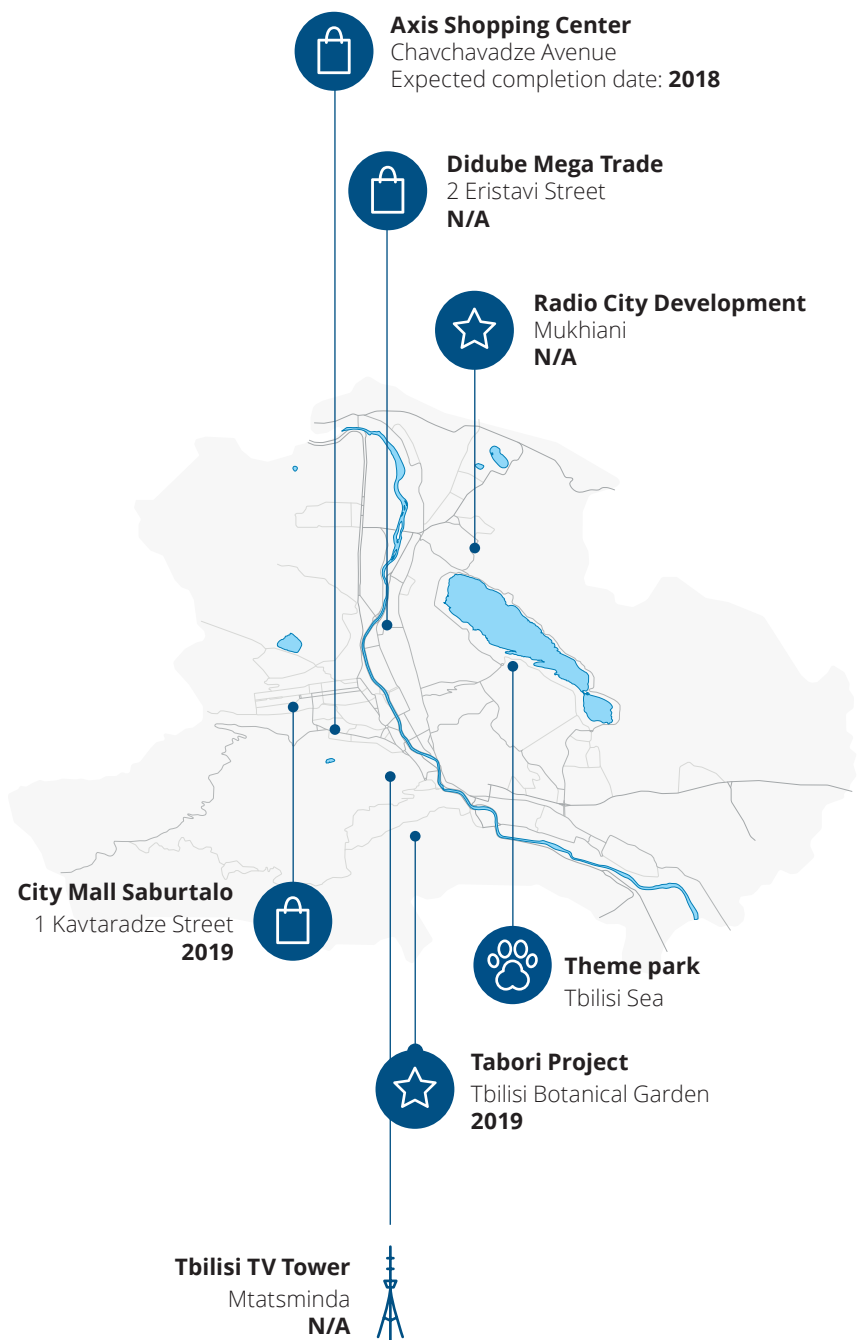
Challenges

- Market size is a natural obstacle, although there is a significant increase in international visitors
- Lack of state programs and incentives to promote local businesses and attract investments
- Less innovation in the market. The consumer needs more time to take on change, discouraging businesses to try to reshape the market with novelty
- The industry is heavily focused on expanding in the local market, shifting the direction towards foreign markets is not the goal for the near future
- Existing retail stores are neglecting the potential gained from establishing e-commerce, a highly successful global trend

Government Support

- Larger projects can draw on a state-owned fund (Partnership Fund)
- City Hall is heavily involved in locating and studying potentially viable areas for further investment opportunities

Upcoming projects



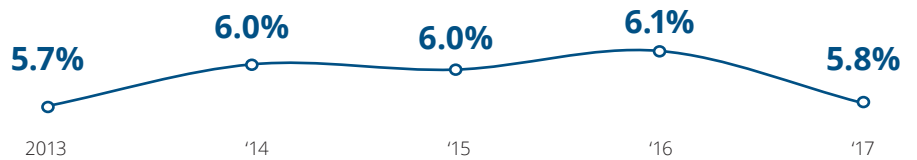
Healthcare

Georgian healthcare sector's share in total GDP was 5.8% in 2017, and has varied between 5.7%-6.1% over the past five years. Tbilisi healthcare sector turnover comprises 282 million USD.

Sectoral Growth Drivers

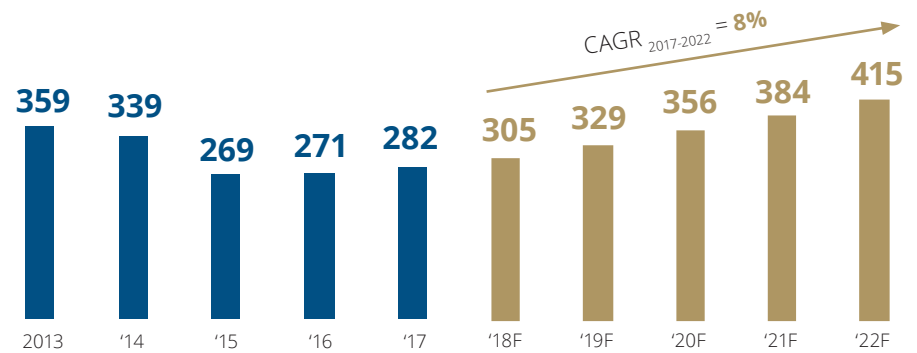
- Favorable government policy for healthcare – United Healthcare program (UHC)
- Increased investments in hospitals and medical equipment
- Increased awareness and usage of insurance policies
- Increased number of doctor visits relative to prior years due to introduction of UHC
- Development of medical tourism driven by dentistry, cosmetic procedures and plastic surgery.
- Growing number of medical tourists from the Middle East

Share of healthcare sector in GDP of Georgia



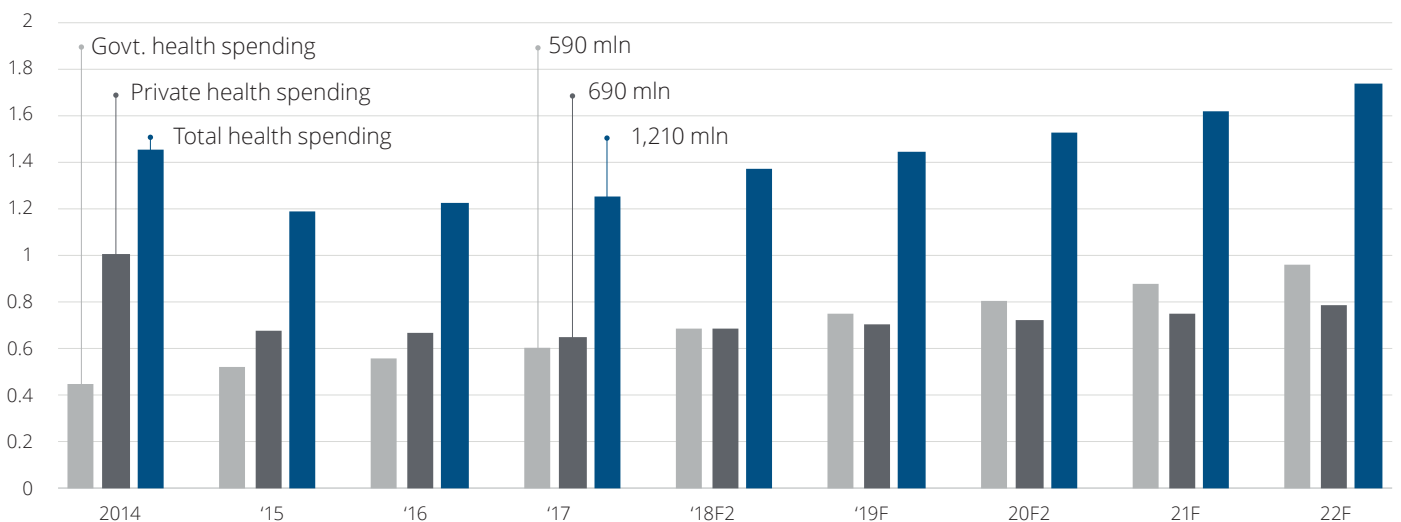
Note: Healthcare sector includes social work.
Source: GeoStat, 2017, Deloitte Analysis

Tbilisi healthcare market turnover, USD mln



Note 1: Turnover numbers have been converted into USD at the average annual rates published by National Bank of Georgia
Note 2: The Healthcare market includes medical institutions, dental, veterinary and social care services
Source: GeoStat, Georgia Healthcare Group, 2017

Georgia healthcare expenditure trends and forecasts, USD mln



Source: World Health Organization (WHO), Fitch Solutions



Opportunities

- Further efforts to attract even greater number of medical tourist for plastic surgery from the Middle East
- Development of rehabilitation centers
- Low competition on the market of modern medical equipment and lack of financial leasing services
- Specialized pediatric hospitals
- Better integrating oncology professionals within the Tbilisi medical sector
- Increasing investment in research and development laboratories
- Using Public Private Partnerships (PPP) to make improvements in the healthcare sector
- Developing medical tourism for in vitro fertilization and bacteriology could be competitive advantage in the beginning becoming extremely high-on-demand and leveraging on cost, according to industry experts
- Further development of clinical trials in Tbilisi



Challenges

- Lack of modern medical equipment and specific medical services
- Low quality of inpatient (inside hospital) services driving patients to neighbouring countries
- Opaque patient distribution for emergency services in hospitals
- Limited Research and Development activities and investments in innovative healthcare treatments

Government Support

UHC was introduced by the Georgian government in 2013 (Phase I-II) and Phase III in 2017. The Government adjusted universal coverage provisions to account for purchasing power in 2017 meaning that high-income earners have some restrictions on the care they can receive from UHC.

The program has improved access by removing financial obstacles to health services. According to World Healthcare Organization Europe research, around 3.2 million people made use of UHC in 2014, while 530,000 used private health insurance. Over 90% of population has benefited (to some extent) from UHC.

- UHC covers basic healthcare costs, including emergency services, limited inpatient and basic outpatient services
- Any healthcare provider in Georgia is eligible for the program
- The healthcare program is financed by tax revenues and is administered by the Social Service Agency (SSA)
- Government healthcare spending totalled 590 million USD in 2017

Selected medical services in Georgia are exempt from VAT, what makes competitive pricing



Regulations

- Hospitals require a permit to provide inpatient services
- Emergency service providers require a license
- Doctors must have a local certificate of qualification

Regulatory Institutions

- Ministry of Health, Labour and Social Affairs
- State Regulation Agency for Medical Activities
- National Center for Disease Control and Public Health

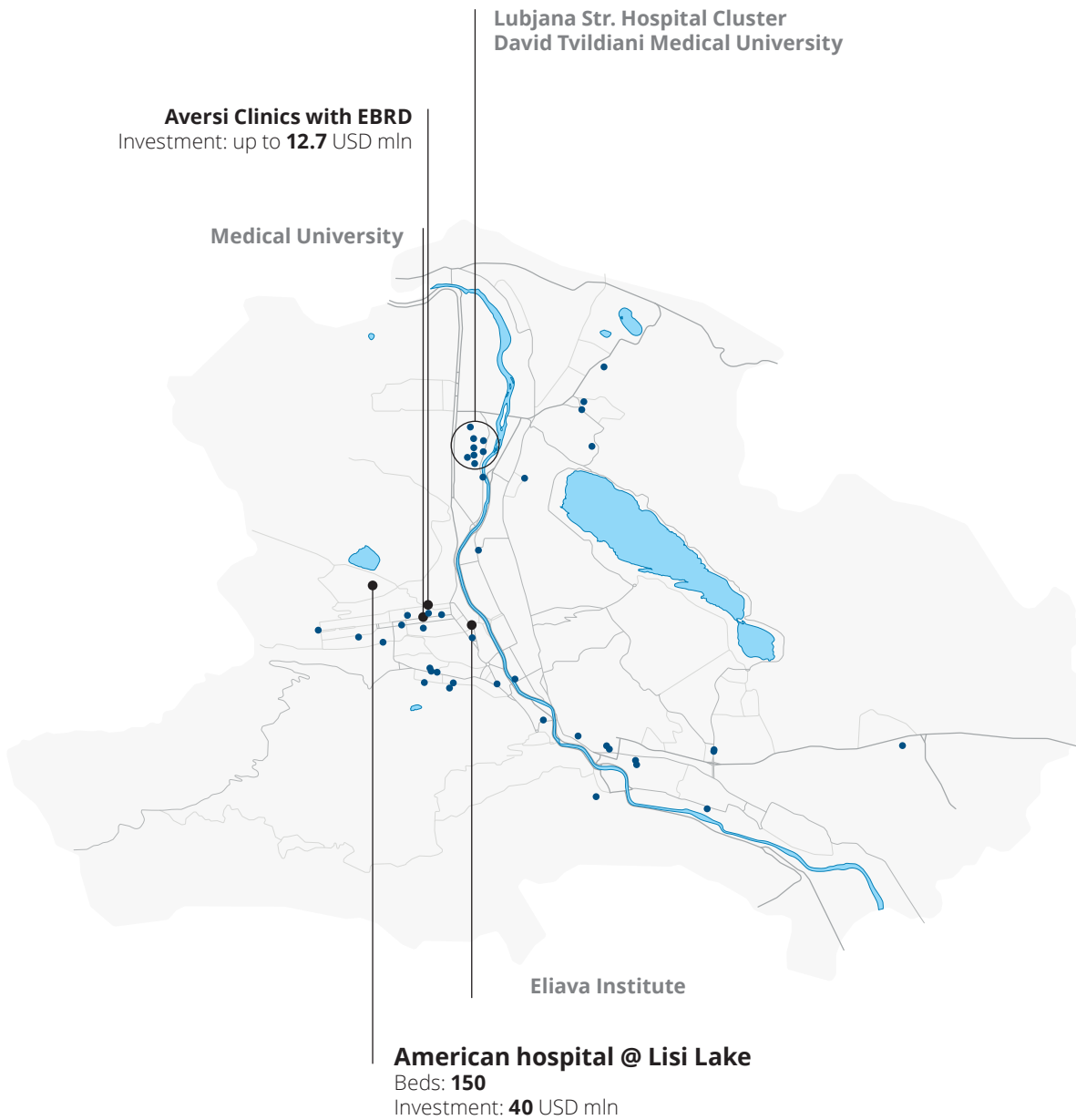
Upcoming Projects

American hospital @ Lisi Lake

A 40 USD mln investment in 150 beds hospital. With practicing 25 Georgian doctors who are currently gaining experience in the US.

Aversis Clinics with EBRD

A 12.7 USD mln joint project by Aversis Clinics and EBRD including infectious disease hospital modernization and construction of a new oncology center in Tbilisi.



Pharmaceuticals

Pharmaceutical sales totalled

419 USD mln
in 2017 nationwide

9.4%
growth forecast for 2018

Forecasted to reach
582 USD mln by 2022

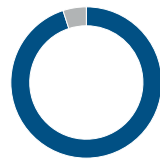
Pharma imports

350 USD mln
in 2017 (a top 5 import category)

107 USD
healthcare spending per capita in 2017–
below regional average

Government Support

The government provides free land for factory construction, as well as the aforementioned tax exemptions.

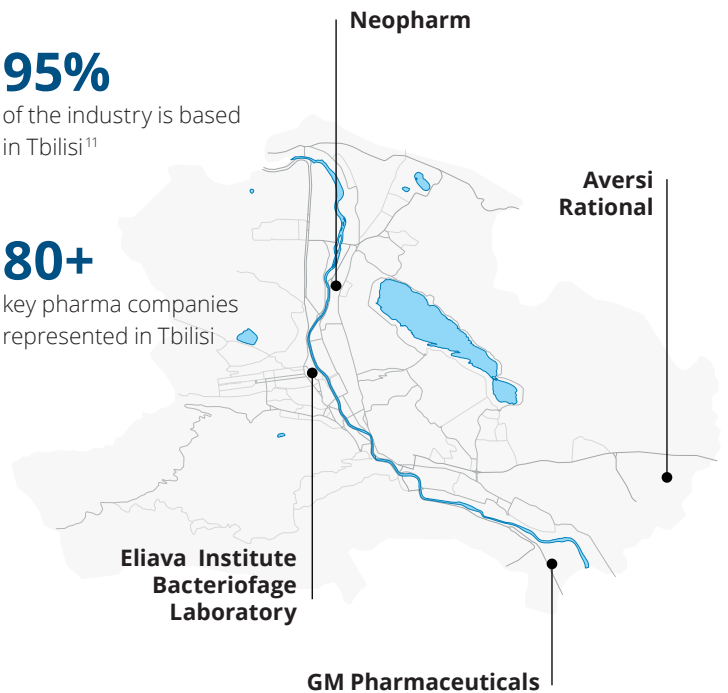


95%
of the industry is based
in Tbilisi¹¹

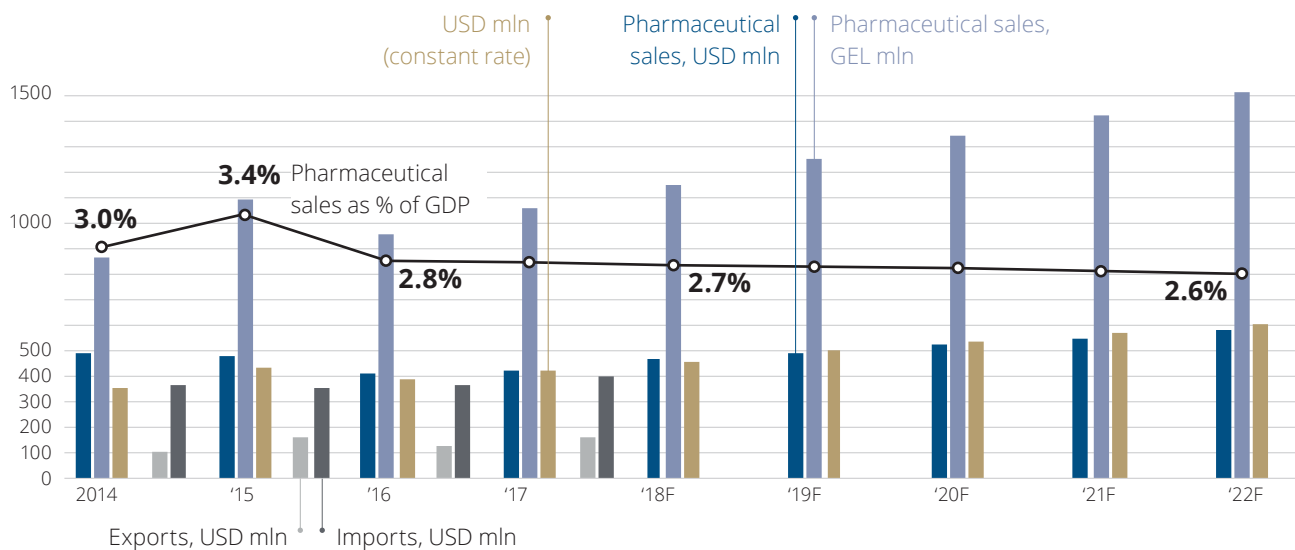


80+
key pharma companies
represented in Tbilisi

Existing pharmaceutical manufacturing



The Georgian pharmaceutical industry



Source: Geostat, 2017

¹¹ Based on the registration of the company in NAPR



Opportunities

- The lack of price regulation for medicines makes the market more attractive
- Georgia's R&D niche in bacteriophages: The Eliava Institute, founded in the 1920s, continues to research bacteriophage treatments in collaboration with a number of local and international research institutions and universities
- While clinical trial outsourcing is still relatively underdeveloped in Georgia, it is on the rise. Georgia offers low labor costs and high patient recruitment rates compared to other Central and Eastern Europe (CEE) countries, as well as good safety standards given the recent increases in healthcare investment
- No import tax or value-added tax on pharmaceuticals
- Imports meet much of the demand in the absence of a well-established domestic drug manufacturing industry
- The mark-up on medicines in Georgia is far above that of other European countries. In 2010, the average pharmaceutical mark-up was 102%, whereas in Europe the mark-up ranged from 27% and 49%.
- The intellectual property (IP) environment in Georgia remains below EU standards as the process of aligning the country's laws with its obligations under the Association Agreement is still ongoing. The EU alignment process is a positive signal for innovative drug makers and offers a far superior patent protection environment compared to Georgia's neighbours.
- Due to tax incentives, Georgia has the potential to become the manufacturing hub for pharmaceuticals for the CIS region



Challenges

- While the government remains committed to improving the healthcare system, financial resources are limited in both the public and private sectors, damping interest from innovative pharmaceutical companies
- Good Manufacturing practice international standard (GMP) are not introduced in Georgia and are planned to become effective after 2019. GMP are mandatory in almost all developed countries, and limit the export opportunities of local products
- The registration and approval of medicines present a challenge due to the underdevelopment of laws regulating pharmaceuticals, although medicines recognized by respected regulatory authorities can be fast-tracked
- R&D in pharmaceuticals is very limited
- The small population limits the market size

Creative

Industry Overview

The creative industries include advertising, fine arts, new/digital media, fashion and film production.

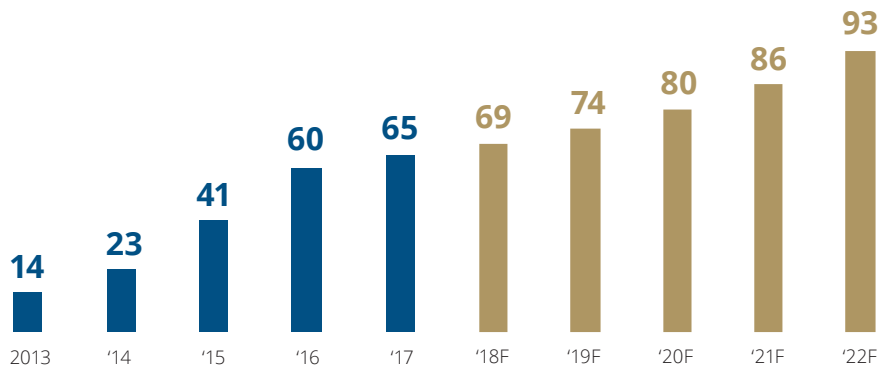
Tbilisi's creative industries generated just over 65 million USD in 2017 with over 64% coming from advertising and 29% from fashion and sewing. This figure may be distorted as film are established as separate legal entities during production (6 months to 1 year) and are not effectively covered by the statistics. The share of other creative sectors in total turnover is relatively small.

The advertising sector employs upwards of 300 people, while the fashion and sewing sector employs over 1,400 people in Tbilisi.

The industries are composed of largely small and medium enterprises. These players provide most of the jobs in the sectors. The large companies account for the largest part of the revenue, but employ about 20% of the labor force.

The companies are located all over Tbilisi, but with a geographical clustering of the advertising agencies and boutique sewing salons concentrated in Vera and Vake neighbourhoods.

Industry turnover for Tbilisi, USD mln



Source: BIA, 2018

Growth Forecasts

The industry consensus is that growth will continue at 10% per annum over the next few years, with growth pegged to the expansion and maturing of the local advertising sector, with new media and digital content growing much faster than traditional mediums.

The fashion and sewing turnover is forecasted to grow through expansion of contract manufacturing for various international brands.

Rising awareness of financial incentives for the film industry that were launched in 2016 may provide a significant boost.

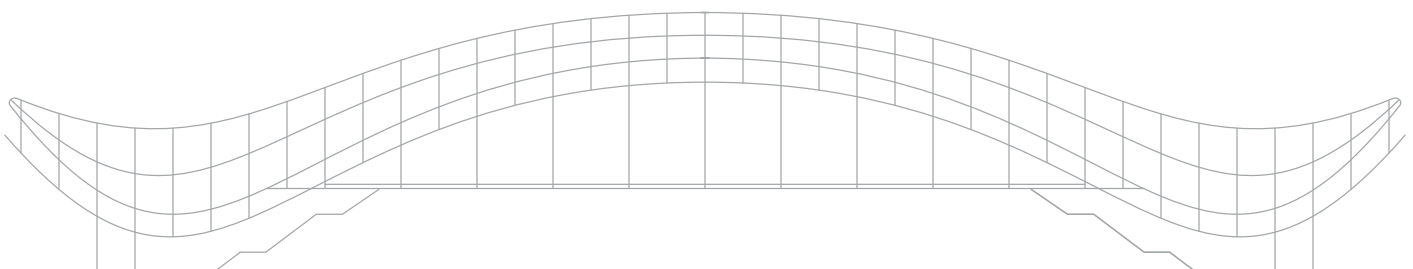
Government Support

There are several programs in place that provide financial support to the creative industry sectors.

First is "Film in Georgia" program offering up to 25% cash rebate on qualified expenses incurred while filming in Georgia, assuming minimum spending requirements are met. Additional financing is available from the Georgian National Film Center.

Second is "Produce in Georgia" supporting various industries, by one-lari price land plot and co-financing of interest rate for equipment.

Furthermore, the Government of Georgia sponsors Georgian Fashion Week that serves as the venue to bring attention to the local fashion industry.





Opportunities

- Internationally recognized work of local agencies
- The industry is staffed with local talent
- Many agencies and companies in the sector are either self-taught or have to train their employees in-house to ensure proper performance Employee wages are lower compared to regional competitors
- Film and advertising companies are given strong support from government programs such as Film in Georgia and have access to funding from the Georgian National Film Center



Challenges

- The advertising sector is primarily focused on the local market with limited vision for opportunities outside of Georgia
- The development of the advertising market is dependent on local economic growth
- Many agencies have to provide their employees with in-house training to ensure they have the required skills
- Although there are several art schools based in Tbilisi, the lack of targeted educational programs for the sector means there is a shortage of qualified staff and limited growth options beyond the local market, particularly in new and digital media
- State incentives may take decades to deliver results



Selected Countries Analysis

Benchmark Countries

The research was based on the analysis of both industry opportunities and challenges in Tbilisi. Benchmarking of five comparative countries to draw out insights and lessons that could potentially be applied to growth of the reviewed sectors of Tbilisi. The country analysis covered two CEE countries (Czech Republic and Slovakia), two CIS countries (Ukraine and Belarus) and Turkey.

Ukraine

With a population of 42 million, Ukraine is undoubtedly much larger than Georgia, however its per capita economic development has followed a similar trend. Like Georgia, Ukraine has a free trade agreement and visa-free regime with the EU, giving a marked development boost. The creative and hospitality sectors have also seen rapid growth in recent years.

Belarus

Another former Soviet Union country, Belarus has seen the value of its currency plunge over the past five years, but has still managed to expand its hospitality and pharmaceutical sectors. Much like Georgia, Belarus has a low crime rate and outstanding natural beauty, enabling the development of niche tourist segments. Belarus has found success in the pharma manufacturing sector by mainly focusing on the production of generic drugs.

Turkey

With close to 80 million population, Turkey has enjoyed the benefits of having a large market. All the selected sectors have experienced strong growth, with some industries such as healthcare benefiting greatly from close government involvement. Medical tourism is making great strides in Turkey, with the lessons learned providing useful success stories for Georgia.

Czech Republic

A former Eastern Bloc country, the Czech Republic has developed tremendously over the past 25 years, and is now an OECD high-income country. While like Georgia the country does not have a huge local market, it has been very successful in developing the selected sectors. Pharma sales reached 4.5 USD bln in 2017, having benefited from government funding in the past. Retail is another success story with over 30 new brands entering the Czech market in 2017.

Slovakia

Slovakia is very similar to Georgia in terms of size and population. An EU country since 2004 Slovakia has developed well in terms of economic growth and has solid experience in developing the selected sectors. Healthcare spending accounted for 7.1% of GDP in 2017 and is expected to grow further, driven by government plans to expand health infrastructure. The hospitality sector is also well developed, with travel and tourism making up 6.35% of GDP in 2017. Slovakia is also one of the few countries that has focused on developing spas and wellness resorts.



Czech Republic

Population: **10.6 mln people**
 Land area: **77,240 km²**
 Capital city: **Prague**
 Currency: **Czech Koruna (CZK)**
 Language: **Czech**



The Czech Republic became an independent state after the dissolution of Czechoslovakia in 1993.

The country has one of the most stable and prosperous economies among the former Eastern Bloc countries, thriving to become a highly developed industrialized economy. The Czech Republic is a member of the European Union and an OECD high income country, demonstrating how far the country has come. The production of pharmaceuticals is the country's second largest manufacturing sector. As in other CEE economies, the retail sector is a key driver of growth. A low inflation rate has a boosted consumer purchasing power, making for a highly lucrative retail market.

Ease of Doing Business

35th

Unemployment Rate

2.9%

Personal Income Tax

22%

Corporate Income Tax

19%

Inflation

2.2%¹²

GDP per capita

36,297 USD

Credit Rating

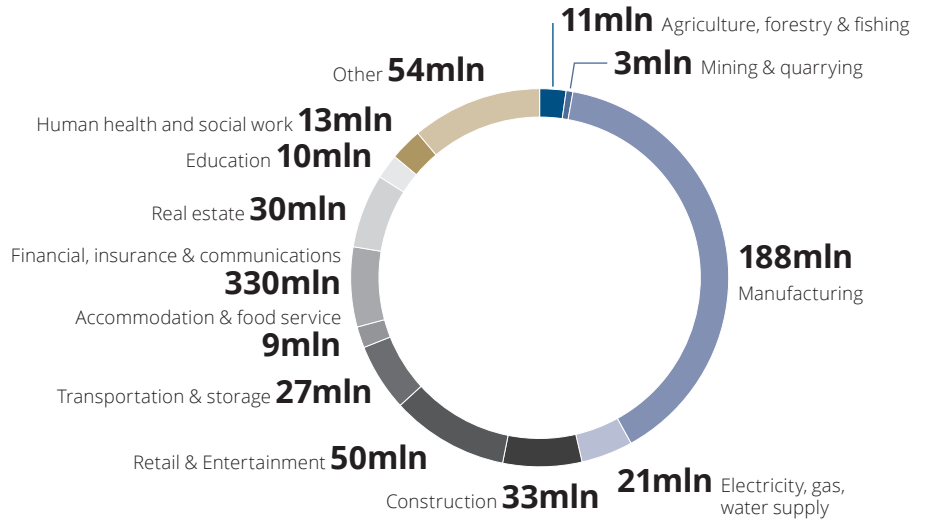
Moody's **A1**¹³

Source: www.worldometers.info

¹² tradingeconomics.com

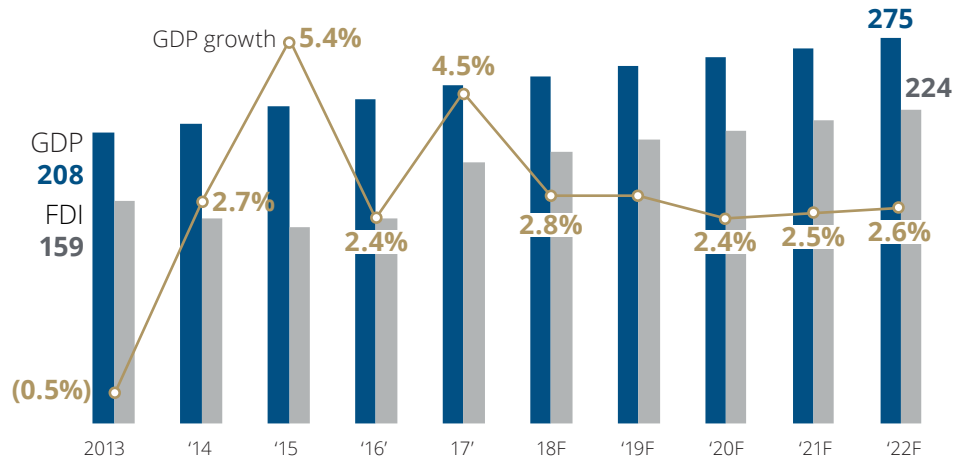
¹³ tradingeconomics.com

Output by Industry 2017, USD



Source: apl.czso.cz

Czech Republic GDP and cumulative inward FDI stock, 2013-2022, USD bln



Source: The Economist Intelligence Unit

Czech Republic **Pharmaceutical**

Pharmaceuticals account for a large share of the chemicals industry, which is second only to car making in the Czech Republic’s manufacturing sector.

Growth Drivers

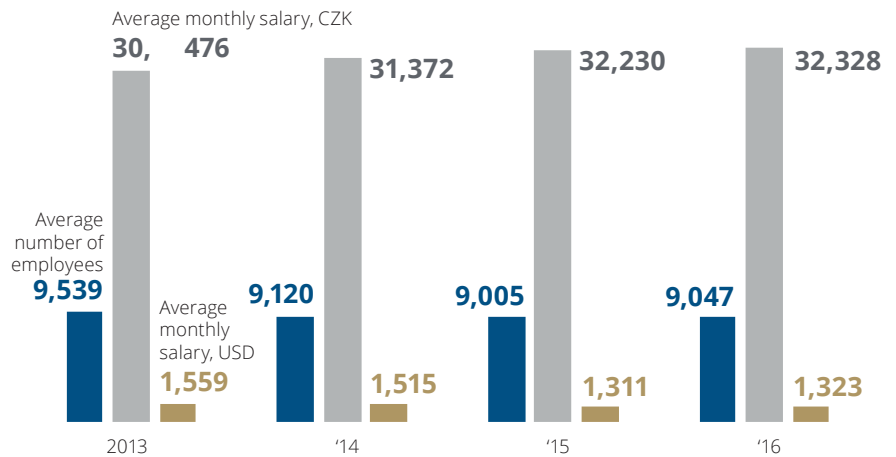
The growth of the pharmaceutical sector is heavily dependent on foreign trade, increasing global competitiveness. The sector’s particular success and strength is due to:

- The high quality of research and development
- A well-educated population
- An ageing population
- Rising incomes
- A strategic central European location
- Industry experience with a long history of chemicals production¹⁴

Pharmaceutical sales are expected to grow at a CAGR of 6.4% in 2018-2022 (in CZK).

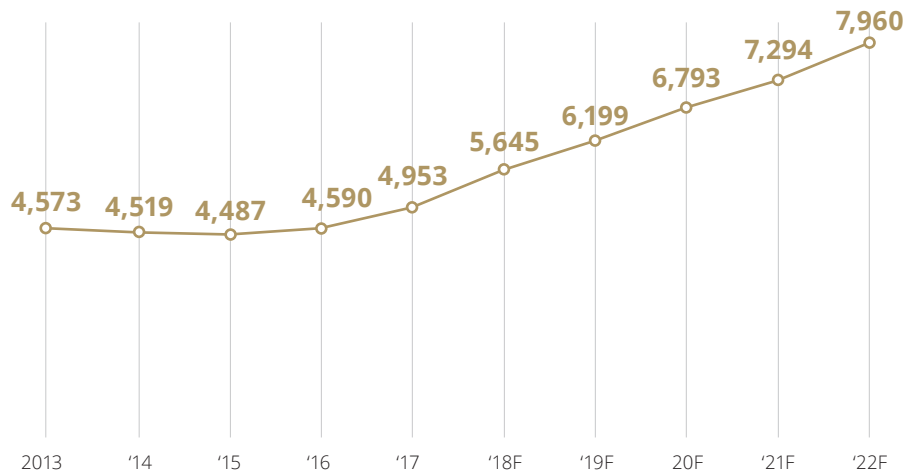
Despite growth in the Czech pharmaceutical sector, there is still a high trade deficit. The value of imported pharmaceutical commodities exceeds that of exports.¹⁵

Average number of employees and wages in the pharmaceuticals sector, CZK and USD



Source: www.czso.cz, 2017

Pharmaceutical sales, USD mln



Source: The Economist Intelligence Unit, 2017

¹⁴ CZECH Chemical & Pharmaceutical Industry 2008

¹⁵ Panorama 2016

Demand

- Ageing population
- Steady increase in GDP per capita spending
- Favorable geographic positioning in Europe

Trends

The largest pharmaceutical companies in the Czech Republic are Farmak, Ivax Pharmaceuticals, Zentiva (owned by Sanofi), Spofa and Teva Czech Industries. Most of these companies produce generic drugs, rather than patent protected 'branded' drugs.¹⁶ The pharmaceutical industry can be split into two distinct branches, the manufacture of basic pharmaceutical products and the manufacture of pharmaceutical formulations, including vaccines, homeopathic medicines, antisera and dental fillings. The country generates respectable revenue for the production of the later.¹⁷ Overall, the range of medications manufactured in the Czech Republic is mainly limited to generic rather than innovative drugs.

Challenges

- High energy costs for manufacturing (including utilities)
- Strict local/EU legislation, government price regulation¹⁸
- Limited government spending on expensive new drugs

Government Support

The Czech government has injected EUR 2.5 billion into pharmaceutical research infrastructure over the past decade to support the growing industry.¹⁹ As part of healthcare reforms medicine prices were cut to boost sales, prescription fees were scrapped in 2015 and mandatory electronic prescriptions introduced from January 2018 to ensure the long-term preservation of consumers' medical histories .



Regulations

The State Institute for Drug Control (SUKL) is the regulatory body that monitors every aspect of the supply chain to ensure the safe production of pharmaceuticals. Regulations apply to pharmaceutical prices (lower profit margins), advertising, distribution, and so on.²⁰ There are also regulations from the EU's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) legislation to avoid the import or manufacture of hazardous chemical substances and the Globally Harmonized System (GHS) regulations for classifications, labelling and packaging that ensure uniform hazards symbols.²¹ An amendment to the Pharmaceuticals Act from February 2017 means that distributors are legally required to supply pharmaceutical products within 2 working days. The amendment also gives the Ministry of Health the power to prevent the re-export of pharmaceutical products that are at a risk of shortage as a precautionary measure.²²

SWOT analysis



Strengths

- Highest per capita spending levels in the CEE region
- Receptive market for patented medicines
- Legislation harmonized with EU regulations



Opportunities

- Skilled labor and stable economic environment
- Potential to develop biotechnology, with respected clinical research and EU-aligned regulatory infrastructure
- Growing per capita spending with continued steady long-term potential.

Source: www.emis.com



Weaknesses

- The local market is maturing, while major international players are already well-established
- High competition for new entrants



Threats

- Asian markets are cheaper manufacturing locations, making them more attractive propositions
- Exports represent a large portion of GDP, therefore the Czech economy is heavily dependent on global economic conditions

¹⁶ Pharmaceuticals and biotechnology in the Czech Republic

¹⁷ CZECH Chemical & Pharmaceutical Industry 2008

¹⁸ Landscape of the European chemical industry 2018

¹⁹ www.czechinvest.org

²⁰ www.pwc.com

²¹ CZECH Chemical & Pharmaceutical Industry 2008

²² www.cms-lawnow.com

Czech Republic Retail & Entertainment

The retail market has gained in popularity in the Czech Republic, partly due to low government regulation. In contrast to the tightly regulated trading hours in Western Europe, the Czech retailers can take advantage of unlimited operating hours.

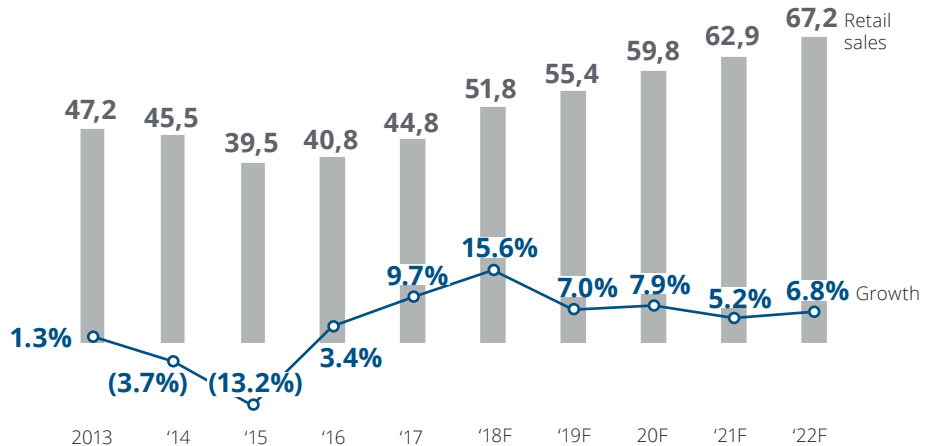
Growth Drivers

- Rising local and international e-commerce sales (having been Europe fifth biggest e-commerce market in 2016). The main retail players are reacting to changing buyer habits. Online retail giant Amazon has launched a Czech-language website, Tesco has expanded its online shopping services, Lidl has introduced its online platform and other stores are following suit
- Continued interest from German discounters such as Lidl and Kaufland who are expanding and re-investing in store development
- Increased wages and more disposable income
- Low inflation
- Increased male interest and spending in fashion

Industry employment

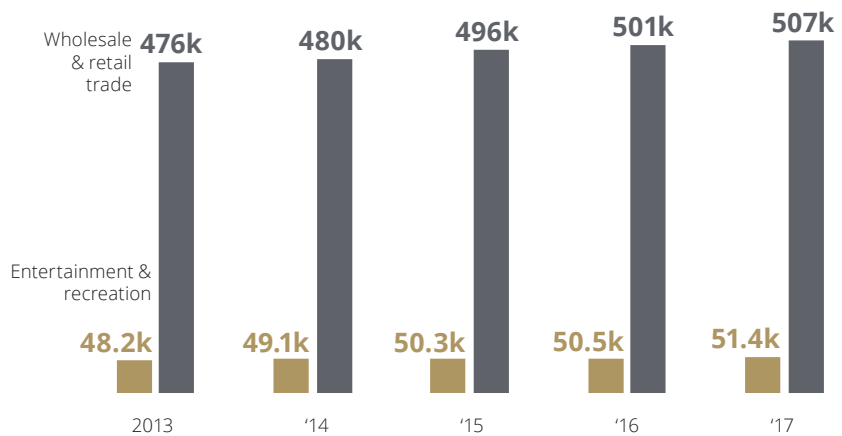
Most firms have responded to the shortage of staff in the retail sector by increasing the average salary by approximately 5 percent. Additional employee benefits have also improved. 2018 is expected usher in a more employee-friendly retail sector with more comfortable working hours and higher salaries. ➤

Retail sales, USD bln

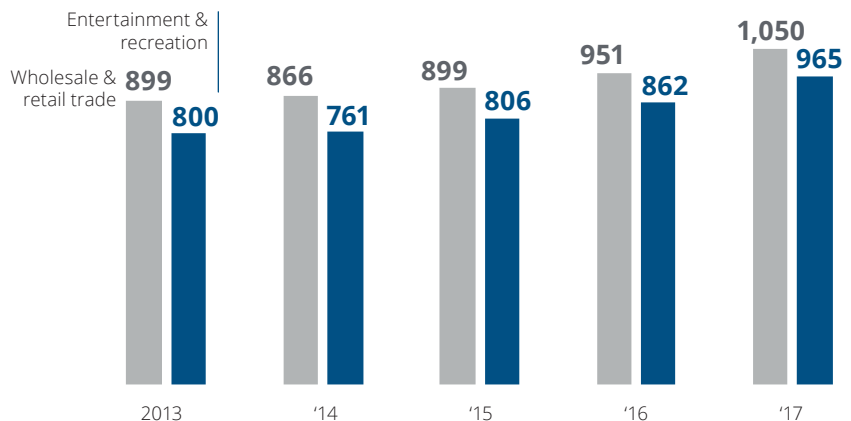


Source: www.czso.cz, 2017

Average number of employees, thousands



Average gross monthly salary, USD



Source: www.czso.cz, 2017

Demand

- Growth in related industries such as fashion and beauty, pushing up demand and driving expansion
- Trends in the fashion industry are shifting towards niche segments
- Foreign shoppers are taking advantage of the Czech national currency's relative weakness against the euro.

Trends

Shopping centers in the country remain highly attractive to tenants, with over 30 brands entering the Czech market in 2017. Once established, foreign brands tend to make additional investments and expand their presence. Some examples of this include Tezyo, Tous, Zara Home, Thomas Sabo, Philipp Plein, Oysho, Karl Lagerfeld, Huawei, Armani Exchange, AW Lab, Palmer's, Boax Avenue, Kazar, Vapiano and Pizza Hut.

The prime focus for future investments will be on expanding and renovating existing centers. There is relatively little construction activity of new shopping centers in the Czech Republic.

Upcoming projects for 2018:

- An extension to an existing shopping center in Ostrava
- Opening two new factory outlets: the Prague Style Outlet and Outlet Arena Moravia

SWOT analysis



Strengths

- The upbeat economic and retail situation has been driving strong sales growth and foreign investment
- One of Central Europe's most developed food processing industries, with significant segmentation already in place
- The alcoholic and soft drinks industries are very well developed, with strong multinational involvement
- Czech mass-market grocery retail is extremely well developed, with organized retailers accounting for more than 90% of grocery sales



Opportunities

- There remains room for long-term growth in value-added and functional products, which offer greater profit margins
- Supermarkets and hypermarkets will likely see an up-tick in consumers as economic growth accelerates
- There are notable opportunities for premiumization in the alcoholic drinks market



Weaknesses

- Rapid changes in consumer behavior
- Complicated VAT system that disrupts certain economic activities
- Retail chains have a very strong position on the market, meaning that they can apply considerable pressure onto suppliers, squeezing their profit margins
- The power of trade unions is on the rise, putting pressure on retailers



Threats

- Foreign direct investment is increasingly focusing on cheaper emerging European markets over more established bases
- Rising health consciousness and growing rates of obesity may have a dampening effect on the sales of certain product

Source: www.emis.com



Ukraine

Population: **42 mln people**
 Land Area: **604 thousand km²**
 Currency Ukrainian: **Hryvnia (UAH)**
 Language: **Ukrainian**



Ukraine declared itself independent on 24 August 1991 during the breakup of the Soviet Union. Ukraine has since encountered numerous internal and external challenges, including rampant corruption, the domination of industry by oligarchs and a series of protracted political crises, culminating in fraught relations with its neighbour Russia. Ukrainian controlled territories are continuing to develop in spite of economic obstacles. ↻

Ease of Doing Business

71st place

Unemployment Rate

9.5% 2017

Personal Income Tax

18% + 1.5% Military Tax

Corporate Income Tax

18%

Inflation

9% 2018

GDP per capita

2,640 USD 2017

Credit Ratings

Moody's – **Caa2** (2017)

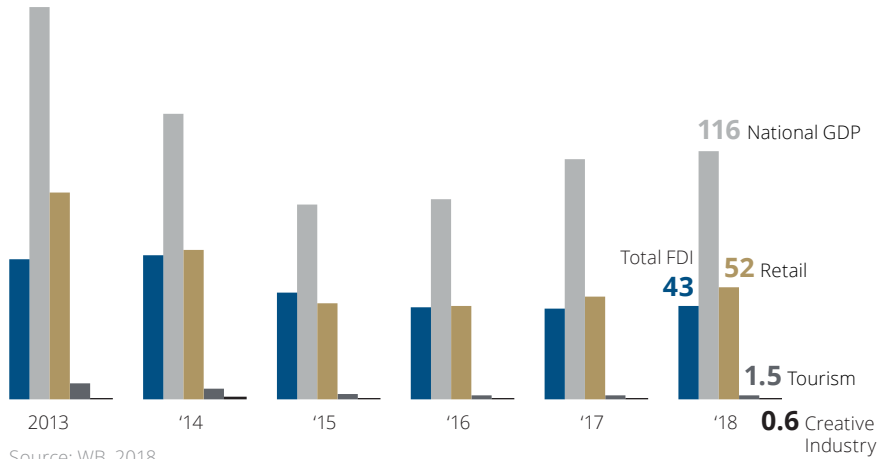
S&P: UAH – **B-** (2018)

foreign currency – **B** (2018)

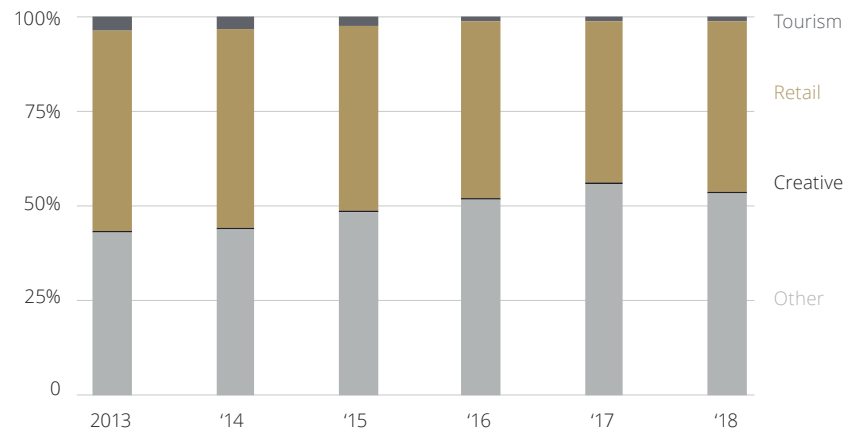
Source: www.worldometers.info

The signing of the Association Agreement with the EU has promoted further growth and supply chain restructuring. The substantial growth in the selected sectors was seen: tourism, retail and creative industries, largely driven by an overall economic recovery. Creative industries are experiencing a particular boom with the revenue approaching pre-crisis levels.

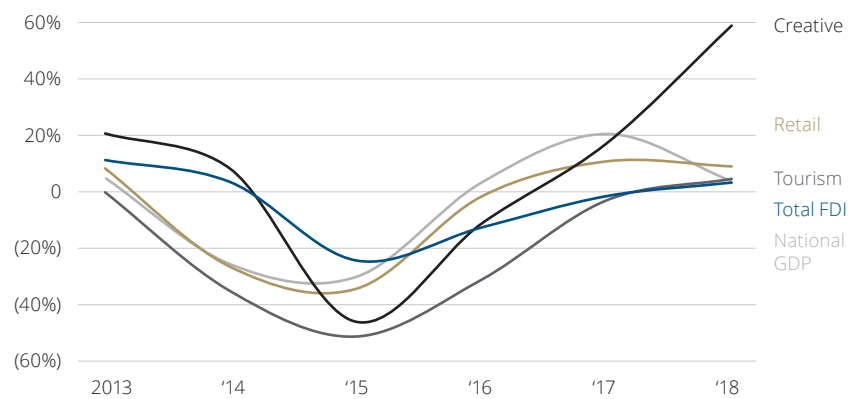
GDP and sectors, USD bln



Share in GDP



Growth



Ukraine Retail & Entertainment

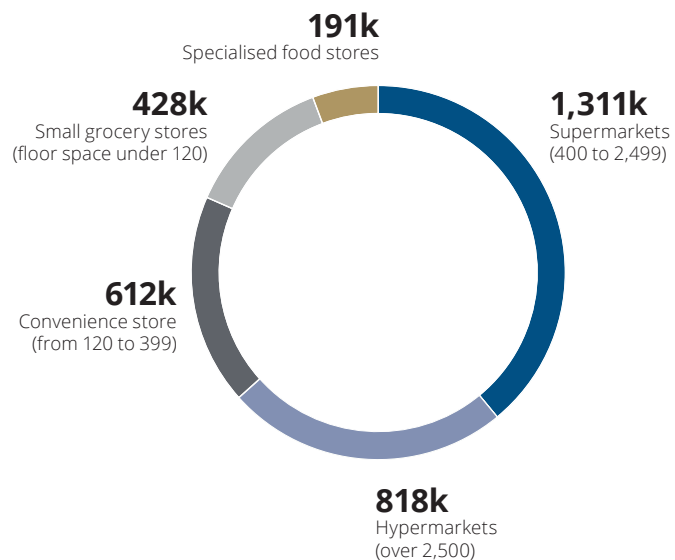
Several analysts are predicting growth of three percent in retail, helped by an improvement in external factors, a modest loosening of fiscal policy and a recovery in credit loan. Ukraine's growth prospects in 2018 remain positive as the latest round of reforms and the full implementation of the free trade agreement with the EU will offset the negative effects of the economic slowdown in China, one of Ukraine's biggest trading partners.

Overview

Retail sales contracted 36% in volume terms in 2015, mainly due to the weakening of the hryvnia, downbeat consumer sentiment and the economic downturn in Ukraine. A low base, combined with a recovery in private consumption, gave retail sales a boost in 2016 and 2017. The retail sector recovered robustly in 2018 with growth of 8.6%. Restricted access to credit and the ramifications of the hryvnia's sharp depreciation in 2014-15 are abating while disposable incomes in local currency are expected to grow at an average of 15.9% in 2019-22 per annum, pushing up consumer spending. Steady real wage growth in 2019-2022 will drive expansion in the retail sector.

Ukraine's Deep and Comprehensive Free-Trade Agreement (DCFTA) with the EU came into force on 1 January 2016, with duties imposed based on trade volumes. DCFTA was fully implemented in September 2017, which will help to improve Ukraine's legal and regulatory environment, although harmonization will be slow. The west of the country will benefit disproportionately from the reorientation of trade towards the EU, whereas eastern Ukraine's ties with Russia, together with the effects of the ongoing war, will limit opportunities for the region. ➤

Retail market floor space distribution in Ukraine, m²



Source: EIU, 2018

Locally owned ATB Market and Fozzy Group were the retail market leaders with shares of 6.7% and 5.85% respectively in 2016 (Planet Retail). Other important players include Furshet, Retail Group, Metro Group (Germany) and REWE Group (Austria).

The average salary in the retail sector was 283 USD per month (Derzhstat). The political upheavals and economic crisis have resulted in very low entertainment spending and we are unable to make any meaningful observations at this stage.

Trends

Ukraine's retail sector is expected to grow at around five percent per annum over the next several years as real disposable personal incomes rise in 2019-22.

Food purchases accounted for 54.2% of total retail sales in 2018 but will gradually fall throughout the year as consumer confidence starts to pick up.

The depreciation of the hryvnia has triggered demand for locally-made goods. The boycott of Russian goods, has given local brands an opportunity to flourish. There is also demand for Ukrainian retail goods on foreign markets such as the US and Japan.

Government support

Any state support programs does not have the retail sector specifically, although there are several for local agricultural producers, including for farming, co-financing the purchase farming equipment and regional agricultural support programs run by Ukraine's Ministry of Economic Development and Trade. There are also a number of export support programs administered by the ministry and donor organizations.

SWOT analysis



Strengths

- Mature sector with clearly defined retail channels
- Stronger than average consumer spending as a percent of income due to poor savings habits
- Above average e-commerce penetration for the region



Opportunities

- Strong national brands and new opportunities to export them
- Strong growth of e-commerce
- The entry of new European chains encouraged by DCFTA
- Improved efficiencies by integration with Central European supply chains



Weaknesses

- The high level of corruption limits opportunities to develop retail projects and complicates customs clearance
- The need to re-establish supply chains severed by the war
- Relatively poor logistics infrastructure in comparison to other Central European countries



Threats

- Geopolitical instability
- Global economic downturn

Ukraine Hospitality

The outlook for Ukraine's tourism industry is increasingly positive. Tourist arrivals have started rising again, boosting investment spending in the industry and making the country a more viable prospect for investors. Several new hotels are planned and the number of flight connections to Ukraine is expanding, making the country both more attractive and more accessible to high spend visitors.

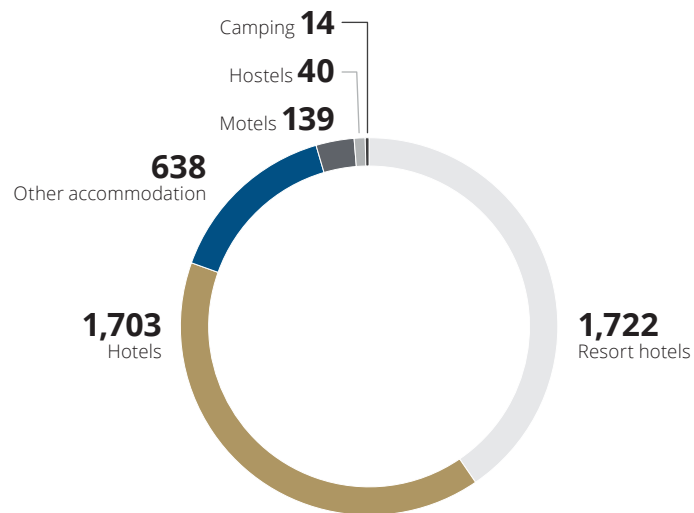
Growth Drivers

Tourism accounted for 1.30% of GDP in 2017 in 2018. This primarily reflects revenue generated by hotels, travel agents, airlines and other passenger transportation services (excluding commuter services), but also includes, restaurants and leisure industries that directly cater to tourists.

Travel and tourism directly supported 228,000 jobs in 2017 (1.4% of total employment) and this is forecast to grow 6.6% to 243,000 in 2018.

Ukraine's tourism industry has both major structural challenges and significant growth potential. Cities such as Kiev, Lviv and Poltava could well become established weekend or city break destinations to rival regional competitors such as Budapest and Prague. Ukraine is also home to the Carpathian Mountains, which offer winter and summer tourist activities, and a long Black Sea coastline. The country is relatively accessible with numerous road and rail connections to neighbouring countries and a growing aviation sector, which will support expansion.

Amount of accommodation facilities in Ukraine



Source: World Travel and Tourism Council, 2017

Demand

The outbreak of hostilities in 2014 has weighed heavily on the market with arrivals declining sharply in subsequent years and only now returning to growth. The country suffered a deep recession, including sharp currency devaluation, making Ukraine an unattractive investment prospect. The political environment remains unstable, particularly in terms of the government's ability to push through much-needed market reforms.

Ukraine's tourism industry is almost entirely reliant on European source markets, which are expected to account for over 14 million of the total 14.9 million arrivals forecast in 2018, rising to almost 15.6 million (out of 16.7 million) by 2022. Several factors encourage regional travel from Europe, including Ukraine's proximity to key tourist

markets in the east, which are connected by good road and rail links as well as the lack of regional travel restrictions. Kiev's airport has flights to a number of European destinations, although less than other capitals in the region, particularly rival weekend break destinations such as Prague and Budapest. Arrivals from other markets are currently very low; around 390,000 arrivals from the Middle East are expected in 2018. This figure is forecast to rise rapidly to reach 521,000 in 2022 while arrivals from North America, Latin America, Africa and Asia-Pacific will remain minimal. ➤

Trends

Ukraine's tourism industry had been experiencing sustained growth prior to the outbreak of hostilities in 2014 with arrivals reaching almost 25 million in 2013. Tourism also received a boost from major regional sporting events held in Ukraine. Increasing stability has seen rising tourist numbers, with arrivals up again, reaching 14.2 million in 2017.

The medium-term outlook for the tourism sector is improving, and experts are forecasting relatively healthy growth up to 2022. These more optimistic forecasts rely heavily on the maintenance of some semblance of security and a sustainable resolution to the ongoing conflict in eastern regions of the country. Tensions with Russia will likely have a negative effect on the market. We are sticking to our forecasts this quarter, putting total arrivals at 16.7 million in 2022 with average annual growth of 2.9 percent between 2019 and 2022.

Government support

The Ukrainian government spent about 1.1 USD mln in 2017 and 0.9 USD mln in 2018 on various initiatives to support tourism across the country (e.g. travel vouchers for public enterprises employees)

SWOT analysis



Strengths

- Ukraine benefits from a strong geographical location among emerging markets in Central and Eastern Europe
- The country offers a wide range of activities encompassing winter and summer tourist attractions
- Visa liberalization means EU citizens have easier access to the country;
- A well-developed rail network facilitates travel to and within Ukraine, though connections in the east have been severely disrupted by the conflict
- Ukraine has four renowned spa towns: Truskavets, Myrhorod, Khmilnyk and Bardiansk



Opportunities

- The Middle East could become an increasingly important market, further diversifying sources of arrivals
- The gradual recovery of the Ukrainian economy is driving a renewed increase in domestic consumption in hotels and restaurants
- Increased stability, particularly in Kiev, is opening up new opportunities for the hotel industry and could encourage more arrivals
- Ukraine has many underdeveloped natural tourism assets which could turn out to be sensible long-term investments
- Dental and medical tourism had been picking up pace prior to the 2014 conflict and recover over the medium term



Weaknesses

- Arrivals have fallen sharply due to the civil war in the east, damaging public perceptions of Ukraine as a holiday destination
- The hotel segment needs significant expansion and modernization to meet high-end standards and compete with established Western European markets
- Widespread corruption and overloaded bureaucracy make foreign investment more difficult compared to other regional markets
- There is growing competition from other destinations in the region, namely Bulgaria and Romania, in terms of both investment and arrivals



Threats

- The ongoing conflict in the east is deterring tourists with no resolution likely in the near future
- A wider European backlash against migration could see border controls tightened across the region
- Further political unrest and separatist activity makes promoting tourism a hard sell

Ukraine Creative

Building on its recovery in 2016, the Ukrainian advertising market grew in 2017 and is on track to make major advances this year. Data from the All-Ukrainian Advertising Coalition shows that 393 USD mln was spent on TV and digital advertising in 2017 compared to 337 USD mln in 2016. The market is expected to recover to close to pre-crisis levels of around 626 USD mln in 2018.

Digital media and online advertising have demonstrated steady growth and is expected to overtake TV advertising in terms of spending over the next few years, in line with global and regional trends.

Online ads exhibited the largest growth in 2017, soaring 39 percent and increasing its market share to 155 USD mln.

Growth Drivers

The main drivers of digital advertising last year were paid search (pay-per-click advertising in the sponsored listings of a search engine), digital video and mobile ads. There is also a significant increase in the consumption of online media from mobile devices, a trend that is predicted to intensify next year.

The film production sector also saw growth in 2017.

The average official salary in the creative content sector was 308 USD per month in 2018 (Derzhstat). It is important to note that due to Ukraine's tax system a large portion of people's income is undeclared and real salaries are generally considerably higher than reported officially.

Trends

Experts expect the Ukrainian advertising market to continue growing over the coming years as the advertisers will carry on ramping up investment in various media channels. TV and digital media will take the lead in revenue growth 2019-2020, further distancing themselves from other channels such as print and radio.

Forecasts predict a 26 percent rise in spending on TV advertising in 2019 and a 30 percent increase for digital media. Advertisers are becoming increasingly interested in YouTube as a new advertising channel. Some Ukrainian YouTube channels can clock up tens of millions of views, similar to television, but with added bonus of targeting adverts by audience or location

The sector has developed much faster than most commodity sectors in Ukraine over the past two years, since it continued to recover from the crisis, however, growth may slow next year.

Government Support

- Ukraine offers a film production rebate of up to 25 percent for the production costs and 10 percent of actor's fees
- The 2018 state budget includes a 20 USD mln grant to support for Ukrainian film. By law, state support should amount to 0.2 percent of the national budget. Children's films and documentaries can receive 100 percent financing, feature and animated films – 80 percent and TV and animation series – 50 percent

SWOT analysis



Strengths

- Strong, globally competitive talent pool, especially in the digital sphere.
- Mature and well-segmented market.
- Well-developed media production ecosystem
- Already a go-to place for digital marketing in Europe
- Mature local customers
- Similar film production incentives as other countries in the region and a diversity of locations



Opportunities

- Competitive position in taking the leading roles in digital and new media content
- Growth potential that can use the IT outsourcing as a growth driver
- The large void left by the withdrawal of Russian content is a sizable market for locally-produced media
- Comparatively low wages and cost of living



Weaknesses

- The country's economy is still recovering
- Although much more isolated from government interference, corruption issues in doing business are still major drag on resources
- Limited experience on European market



Threats

- Geopolitical instability and other internal and external shocks to general economy



Turkey

Population: **78.8 mln people**

Land area: **783,562 km²**

Capital city: **Ankara**

Currency: **Turkish lira (TRY)**

Language: **Turkish**



Turkey's appeal to foreign investors traditionally stemmed from its sizeable market, its perceived political stability, and the relative sophistication and efficiency of its manufacturing industries. The economy has also benefited from a gradual harmonization with EU regulatory norms over recent decades. Going forward, Turkey's ability to attract and retain foreign investment will depend greatly on how it navigates through acute political challenges from within and beyond its borders. ➤

Ease of Doing Business

43rd place

Unemployment Rate

10.9%

Personal Income Tax

35%

Corporate Income Tax

22%

Inflation

21.6% 2018

GDP per capita²³

27,131 USD

Credit Rating

Fitch **BB**

²³ www.eiu.com,

Investment

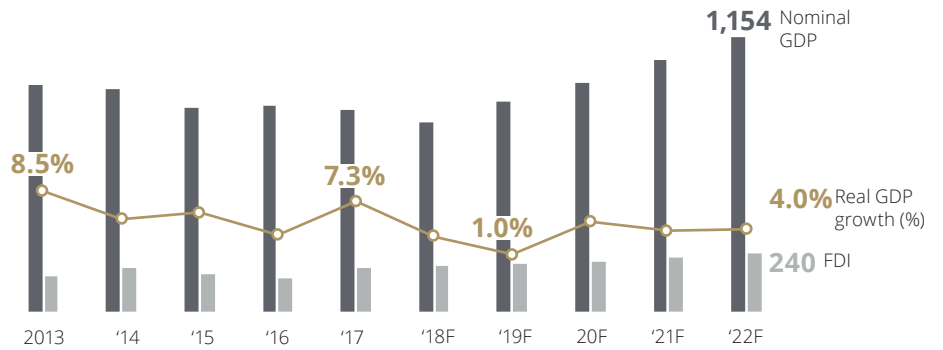
Turkey's FDI net inflow decreased from 18 USD bln to 12 USD bln from 2015 to 2017, while overall FDI stock reached 180 USD bln. Further declines in FDI inflow are also forecasted in 2018 and 2019 due to the political and economic situation.²⁴

Over the past 15 years, the finance and manufacturing sectors have attracted the highest amount of FDI in Turkey, with significant diversification in targeted sectors, in line with Turkey's 2023 vision of raising its position on the global value chain.

As of year-end 2017, the number of Turkish companies with foreign capital hit 58,400, up from 5,600 in 2002.²⁵

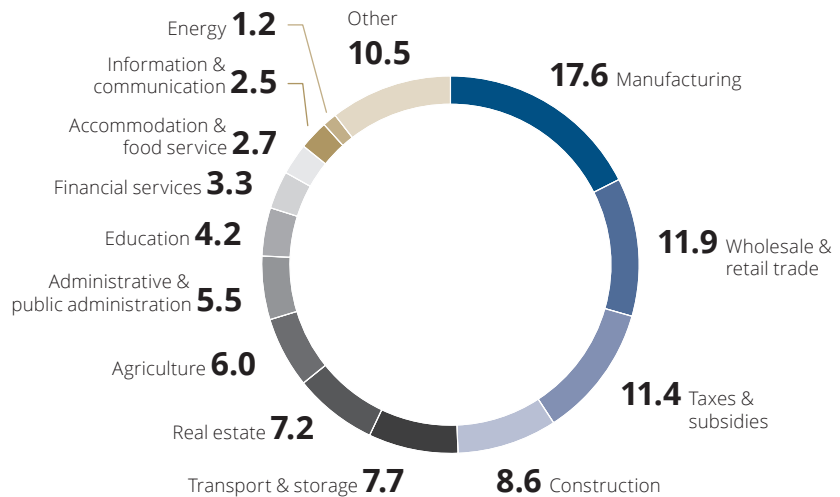
Foreign capital has traditionally come into Turkey via multinational companies based in major EU countries, especially the Netherlands, Germany, the UK and France, and in other OECD countries such as the US, Switzerland and Japan. Large one-off investments from several smaller EU countries, the UAE, Saudi Arabia, Russia, Kazakhstan, Azerbaijan and Brazil have altered this pattern in recent years, and there have also been some significant acquisitions by private equity funds. The majority of foreign investment seems to be focused on Istanbul, Turkey's economic hub and where most Turkish companies are headquartered. Manufacturing (particularly the chemicals, food and automotive industries) and financial services have by and large attracted the most FDI. Chemicals and pharmaceuticals was the second most popular destination for FDI after financial services in 2015, accounting for 15% of total inflow.

Turkey's GDP from 2013 to 2022, USD bln



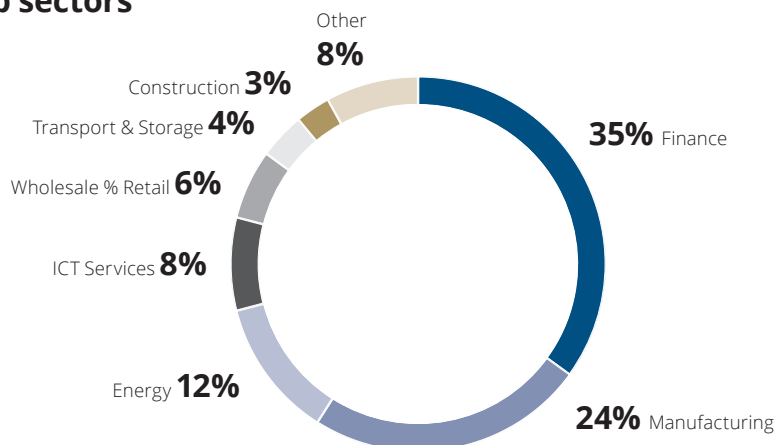
Source: EUI, 2018

GDP breakdown by sector



Source: EUI, 2018

Top sectors



Source: EUI, 2018

²⁴ Dun & Brandstreet
²⁵ www.invest.gov.tr

Turkey Retail & Entertainment Sector

Growth Drivers

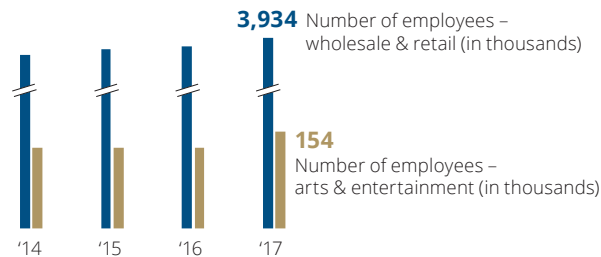
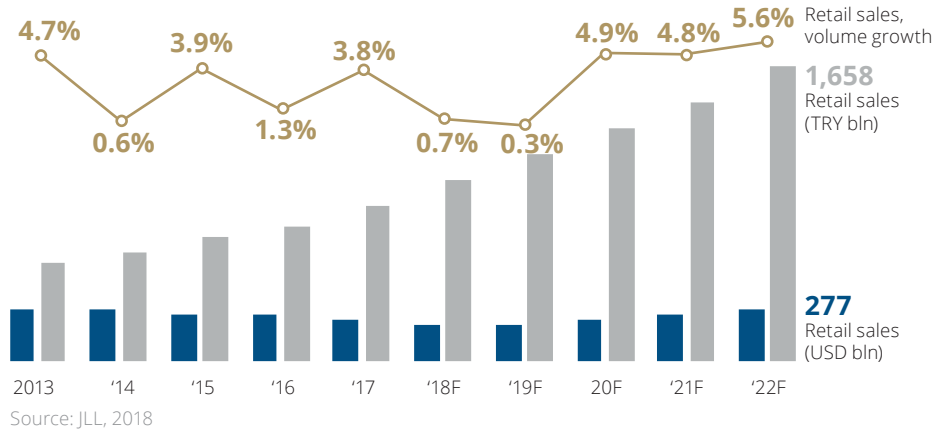
The retail market in Turkey has shown strong growth over the past decade as the country's middle-class and purchasing power have ballooned, coupled with sustained long-term growth in both international and domestic tourism.

The rising number of middle- and high-income earners will drive the growth in retail demand. Young city dwellers will be the main consumer group, bolstering the presence of foreign firms and sales of branded goods.

Amusement Parks and Entertainment Services

The Turkish market for amusement parks and entertainment services enjoyed sizeable growth of 74% from 2007 to 2012 and was worth more than 334 TRY mln in 2012²⁶. The industry's growth can be largely attributed to growing tourism as well as Turkey's expanding middle-income group, which is eager to experience new leisure activities. The performance of Turkey's tourism sector has a major impact on amusement parks and entertainment services. The rise in tourism and resorts was a strong stimulus for the construction of water parks in Turkey, with many hotels located near the coast building their own water parks exclusively for their guests. ➤

Retail sales in Turkey



Shopping center supply and development, Gross Leasable Area (m²) and units²⁷

		Active	Under Construction	Total
Istanbul	GLA ('000 m ²)	4,226	875	5,101
	units	114	22	136
Rest of Turkey	GLA ('000 m ²)	7,793	858	8,651
	units	287	22	309

²⁶Euromonitor 2014

²⁷JLL, Q4 2017

Demand

Demand will continue to expand for Western-style retail formats, such as supermarkets, shopping centers and malls, at the expense of traditional markets and small traders.

Gross Leasable Area (GLA) exploded from 2.2 mln m² in 2005 to 12.2 mln m² at year-end 2017 while cross-border retailers have significantly increased their presence, particularly in Istanbul. Momentum is continuing to build and there is considerable room for growth, with the presence of international brands still well below many of Istanbul's global and regional peer cities. Turkey's projected retail sales growth between 2018 and 2020 eclipses that of mature European markets.

Forecasts predict that by the end of 2020 a total of 445 shopping centers will be offering almost 14 mln m² of leasable space with a further 1.7 mln m² under-construction.

Trends

Rising internet penetration and credit card use are driving solid growth in e-commerce. In 2017 domestic e-commerce transactions reached 11.6 USD bln a 37% increase on 2016. The value of online purchases accounted for 4.1% of total retail sales in 2016, according to the Turkish Informatics Industry Association.

There has been strong foreign investment in the e-commerce sector and competition may soon intensify. Amazon has announced plans to launch a dedicated Turkish service in 2018, although the currency crisis may delay these plans. The company has been serving Turkish clients through its German website.

Consumer appetite for recreational and upscale retail facilities is driving development activity and tenant demand in the market. Experiential retail and specialized shopping center formats are expected to outperform in the market.

The five largest players in the Turkish retail

market are grocers: BIM Birlesik Magazalar AS (BIM), Migros, A101, SOK Market and CarrefourSA (majority owned by Turkey's SabanciHoldings). Together they account for about 17% of the grocery market. This reflects the fragmentation of the market and the enduring role of small suburban "corner shop" grocers. Nevertheless, the share of major chains is forecast to rise, as the largest retailers are expected to expand faster than the market average.

The number of modern malls in Turkey has been on the rise since the end of the financial crisis, resulting in around 400 shopping centers across Turkey. A quarter of mall real estate is located in Istanbul, the country's largest city and economic hub. However, the rate of construction has declined as the market has become more saturated, and fewer new projects are being commissioned and completed. As a result, mergers and acquisitions are becoming more and more common. Istanbul's Starcity is the latest example of this, with owners Ulker and Boyner obtaining approval to sell to shopping center from the Competition Authority in May 2018.

Emaar Square Mall opened in Istanbul in May 2017. The mall has a mix of Turkish brands and other global players, and is expecting 25 million visitors through its doors annually. The mall has a 10 percent share of luxury brands, including Galeries Lafayette, Gucci, Cartier and Hermes. Turkish fashion giant Vakko operates one of its largest outlets in the country in the mall, along with multinational fashion brands such as Zara, Massimo Dutti, Victoria's Secret and Mango.



Regulations

The Turkish government has ramped up regulations for shopping malls with rules covering multiple aspects of their construction and operation. This is however, unlikely to have a tangible effect on mall operators and may increase the appeal of shopping centers in their local communities.

SWOT analysis



Strengths

- One of Europe's largest consumer markets, with the population forecast to reach 85 million by 2022
- Proximity to both Western Europe and the Gulf has attracted wealthy tourists, generating sales for retailers in middle and high price-range segments
- The customs union with the EU and bilateral agreements with Russia and other countries offer protection to foreign retailers in the country
- Legislation in step with market developments and does not discourage foreign companies from investing
- Lower operating costs make Turkish commercial property more attractive to foreign investors



Opportunities

- Over 76.5 percent of Turkey's population will be living in towns and cities by 2022 making it relatively easy for retailers to serve large customer base and reduces distribution costs
- Turkey's tourism sector is rebounding, boosting revenue opportunities for luxury retailers, restaurants and hotels
- Consumer appetite for modern retail formats that offer a mix of entertainment and luxury stores are driving demand in the sector
- Major infrastructure development and an increasing number of PPP contracts bodes well for growth in the real estate market



Weaknesses

- High income disparity, with rural households tending to be significantly poorer, meaning that there are few opportunities to sell non-essential goods beyond the major cities
- The market power of domestic retailers creates high entry barriers in most retail sub-sectors
- Traditional retail still dominates the market outside the biggest urban areas, creating hurdles for formal retailers



Threats

- Geopolitical instability

Turkey Pharmaceutical Sector

Turkey was the seventh-largest pharmaceutical market in Europe by total market value (all sales channels) in 2016, according to the European Federation of Pharmaceutical Industries and Associations (EFPIA). This was higher than the value of production in Poland, Austria and Hungary.

After falling in 2016, pharmaceutical exports rose 3.6 percent to 896 USD mln in 2017, according to the Pharmaceutical Manufacturers Association of Turkey (IEIS). There will be strong export growth in nominal local currency terms over the forecast period owing to the weakness of the lira. The value of imports rose 5.9 percent to 4.9 USD bln in 2017. Imports accounted for just 19% of the market in volume terms in 2017.

Trends

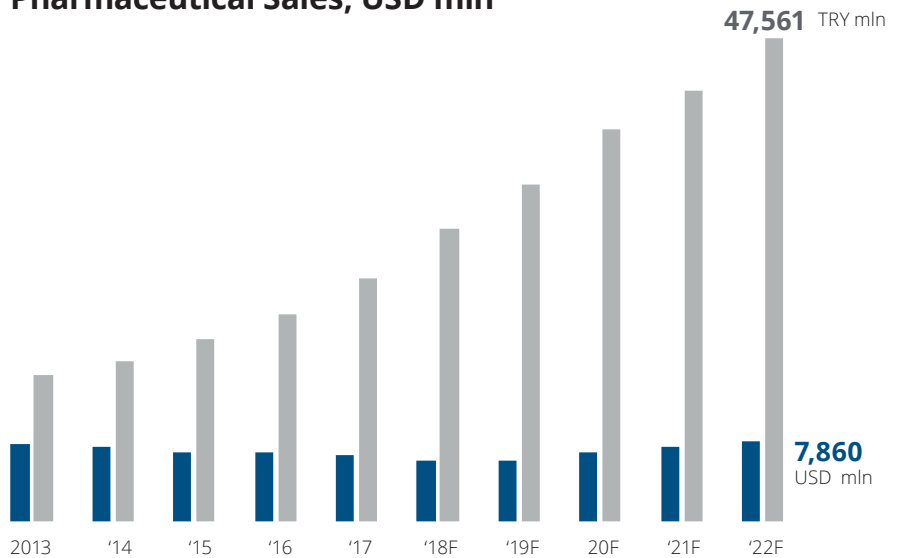
Pharmaceutical sales saw double-digit growth in local currency terms in 2015-17, reflecting the expansion of the health system. However, sales fell in US dollar terms due to the devaluation of the Turkish lira.

Cost cutting efforts will help the pharmaceutical market deliver on projected CAGR of 14.6% in local currency in 2018-22, but the weakness of the lira will raise the cost of imported medicines. In August 2018, the health ministry denied reports that the fall in the lira had halted the supply of some imported drugs.

According to the World Health Organization's (WHO) Report on Surveillance of Antibiotic Consumption, Turkey ranked first in Europe for antibiotic consumption, at 38.18 defined daily doses per 1,000 people.

In 2017, generics accounted for 58.7% of pharmaceutical consumption in volume terms and 32% in value terms, up from 53.6% and 30.8% respectively in 2010, IEIS data shows.

Pharmaceutical Sales, USD mln



Source: EUI, 2018



Regulations

Under Turkey's drug-pricing system, if a branded drug has no generic equivalent, its ex-factory price is capped at the lowest price of five EU reference countries: France, Greece, Italy, Portugal and Spain. In cases where both a branded and a generic drug are available, the prices of both are capped.

The government introduced additional regulations to lower the prices of generics in 2014. Wholesaler and pharmacy profit margins are controlled. VAT of 8% was imposed on medicines in 2017.

Manufacturers are also required to offer a discount to the public healthcare system. This discount was set at a basic rate of 11% in April 2012 and was updated in 2016 to account for changes in the exchange rate. Discount ratios were reduced for some product groups and price increases of 10-20% were gradually applied to about 4,000 types of medicines.

The price rises also fed through into increased consumer co-payments. The Turkish Social Security Institution reimbursement system covers about 80% of prescribed drugs, but patients are only reimbursed the price of the generic equivalent.

Generic substitution is legal in Turkey, as long as it is prescribed by a doctor.

The 1999 patent law grants patent protection for a customary 20 years, but 2005 regulations on the registration of medicines only provides for data exclusivity for six years, significantly less than the EU's 11 years. The EU is trying to persuade Turkey to participate in its unitary patent system.

Government support

The government announced plans in 2017 to guarantee purchase agreements with international medical product firms that invest in domestic production in Turkey. The scheme intends to attract 1.3 USD bln in foreign direct investment.

The government has also called for more local production of tomography, ultrasound and magnetic resonance imaging (MRI) machines, and has invited international manufacturers to set up joint production with Turkish partners.

Government initiatives to optimize its medicine expenditure through public education on rational drug use and the promotion of generic substitution will increase the market share of generic drugs over the long term. The challenging regulatory environment will continue to limit innovative drug makers, making the market more appealing to generic manufacturers.

Demand

According to the IEIS, there are 85 pharmaceutical manufacturing facilities in Turkey, including 18 owned by multinationals such as Novartis (Switzerland), Pfizer (US), GlaxoSmithKline (UK) and Bayer (Germany). Abdi Ibrahim is the largest domestic player, followed by Bilim Pharmaceuticals.

Notable foreign acquisitions have included Recordati's (Italy) purchase of Turkish generics producers Yeni Ilac and Frik Ilac in 2008 and 2011. Amgen (US) acquired a 99% stake in Turkey's MN Pharmaceuticals in 2012 and Takeda (Japan) bought Turkey's Neutec in 2015. The leading ten companies make up about 50% of the market.

Approximately 31,000 people are employed in the pharmaceuticals sector, manufacturing more than 11,500 products. ➤



Regulations

Regulations in the sector are in line with EU directives. The health ministry is developing a health policy for 2018-23 that will build on the Health Transformation Program (HTP) by further improving the quality of the healthcare system. This will include a shift towards value-based healthcare, linking spending more directly to patient outcomes. Other priorities include tackling the rise in non-communicable diseases (NCDs).

The Pharmaceutical Research and Manufacturers of America (PhRMA)'s annual Special 301 submission to the United States Trade Representative (USTR) discusses the key issues facing innovative pharmaceutical firms and singles out countries with significant market access barriers to these pharmaceutical firms, including issues with intellectual property protection and regulatory approval. As in the 2016 and 2017 editions, Turkey was recommended for inclusion on the Priority Watch List of countries in the 2018 Special 301 Report.

In the past few years, the PhRMA has noted improvements in Turkey's regulatory environment, through increased dialogue between industry stakeholders and the government. It was designated a 'Priority Foreign Country' in 2015 (the worst classification; defined as a foreign country that denies adequate and effective protection of intellectual property rights or fair and equitable market access). Furthermore, the Industrial Property Law (December 2015) and the admission to the Pharmaceutical Inspection Co-Operation Scheme (PIC/S) in January 2018 have been highlighted as positive developments which will move Turkey toward closer alignment with international standards. However, the report highlights that pharmaceutical policies are still being undermined by a lack of transparency, dissuading investment from foreign innovative medicine manufacturers and creating barriers to market access.

Growth drivers

The Turkish pharmaceuticals market is expected to grow by 11 percent annually in lira terms in 2016-2025, with an increase in per capita pharmaceutical sales from 97 USD in 2015 to 128 USD by 2025.

Pharmaceutical exports, which stood at 610 USD mln in 2011, have grown 41.4 percent over the past five years, reaching 863 USD mln in 2016. Turkish pharmaceutical manufacturers export to more than 170 countries, with the majority going to the EU, MENA, and CIS countries.

Challenges

- Weak enforcement of patents and regulatory data protection failures
- Localization policies: the Government Immediate Action Plan from December 2015 outlined plans to replace a large number of foreign manufactured originator products with approved generics from the reimbursement list. Throughout 2017, the government published a number of lists with more than 200 products set to be delisted within one year. An additional 150 products are expected to be taken off the list in the coming year. PhRMA believes this policy is inconsistent with the WTO's national treatment requirement and may deter pharmaceutical investment into the country
- Regulatory approval delays: regulatory approval for medicines takes 446 days on average, far in excess of the 210 day target set out in the country's legislation

Clusters

There are approximately 1,000 medical device manufacturers in Turkey. There are also medical device clusters in Istanbul, Ankara and Samsun provinces.

The government has sought to attract investment into the domestic industry by forming special pharmaceutical clusters and providing incentives to multinationals such as corporate tax exemptions. Moreover, the state guarantees seven years of medicine procurement for multinational pharmaceutical firms when they partner with a local manufacturer to produce medicines within the country's borders.

SWOT analysis



Strengths

- The third-largest pharmaceutical market in Central and Eastern Europe
- Strong domestic production capacity
- Access to a skilled workforce



Weaknesses

- Turkish legislation does not provide effective protection for intellectual property holders in resolving patent disputes
- Long regulatory delays in receiving market authorization for innovative and newly registered drugs
- Lira weakness will continue to limit revenue generating opportunities for multinational drug makers



Opportunities

- Potential for growth in the generic sector, with market demand patterns driven by a cost-conscious government and a low-income population
- Exports will benefit from closer links with the EU, improvements in local industry standards and increasing international investment



Threats

- Government pharmaceutical pricing and reimbursement policies continue to pose challenges for drug makers, particularly foreign firms
- New patent law increases the possibility of compulsory licenses being granted
- Localization policies stifle opportunities for foreign pharmaceuticals manufacturers

Turkey Healthcare Sector

Turkey's Health Transformation Program (HTP) 2003-13 drove the introduction of universal health insurance in the country. By 2016, health insurance coverage stood at 98.2%, and the program had achieved most of its original goals. The Ministry of Health's Strategic Plan 2013-17 further improved health provision indicators, cutting infant mortality rates, raising vaccination rates and reducing out-of-pocket (OOP) health expenditure.

Turkey's healthcare spending accounted for 4.2 percent of GDP in 2017, according to OECD data, and will rise to 4.5 percent of GDP in 2022. Although this remains far below the OECD average of 9 percent (2016, latest available data), Turkey's robust GDP growth, barring periods of currency crisis and inflation, means that, in nominal lira terms, total healthcare spending will rise at a rapid CAGR of 14.1 percent over the forecast period (2018-22). In US dollar terms, CAGR will be lower, at 3.3 percent.

Demand

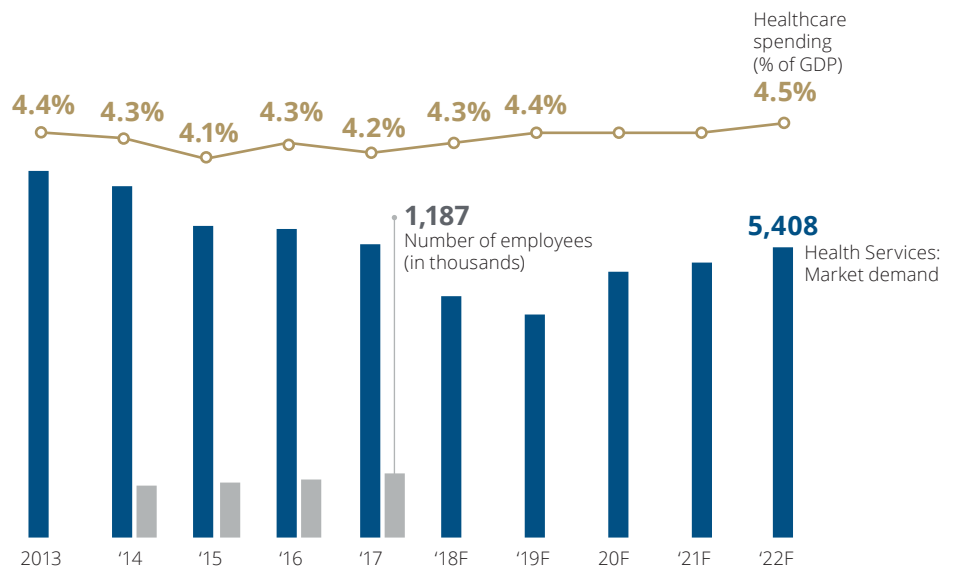
Turkey has 894 hospitals, 7,950 family health centers and 2,700 emergency health stations, according to government figures.

Turkey's total ratio of hospital beds per 1,000 people rose from 2.3 in 2002 to an estimated 2.7 in 2017, although this remains well below the OECD average of 4.7. The Health Ministry is also expanding the hospital network beyond Turkish borders, with plans to build hospitals in Syria, Germany, Saudi Arabia and Qatar.

The government is also building "city hospitals", large facilities designed to centralize healthcare for major urban areas. The 3,800-bed Ankara City Hospital is scheduled for opening at the end of 2018 and may lead to the closure of a number of smaller city center facilities.

The Health Ministry runs more than half of Turkey's hospitals. However, the number of private hospitals doubled to 565 in the decade to 2016, according to TurkStat. Although the private sector accounts for fewer than one in five hospital

Healthcare spending and demand, USD mln



Source: EUI, 2018

beds, it provides a significant proportion of complex medical care, while public hospitals tend to suffer from overcrowding.

Trends

Partially offsetting the gradual slowdown in the growth of public healthcare spending, the private sector will continue building on its strong momentum, boosted by the government's aim to bolster the economy by becoming a regional medical tourism hub. Former Health Minister, Mehmet Müezzinoğlu, said that the country generated approximately 3 USD bln from medical tourism in 2015. In January 2016, he spoke in favor of establishing a Health Tourism Agency to help achieve the target of bringing income up to 10 USD bln by 2019 and 25 USD bln by 2023. Much like the ambitious targets set for the pharmaceutical trade balance, we believe these numbers are highly optimistic; however, they do signify a concerted effort to diversify the economy, which will certainly lead to growth in the sector.

Clinical trials: The government has been slow to implement its planned clinical studies directive. This would provide a regulatory framework for the clinical trials industry, protecting patients and universities, as well as pharmaceutical

companies. Somewhat encouragingly, in August 2011, a new draft document on clinical research was sent out to various institutions in Turkey as part of the consultation phase. The deputy head of the directorate in the Ministry of Health, Hanefi Özbek, said that the new regulation, the Clinical Research Code, had been created in accordance with US and European standards. It is designed to increase Turkey's draw as a destination for clinical research. However, the number of clinical trials conducted in Turkey has fallen significantly since 2013.

The government has sought to attract investment in the domestic pharmaceutical industry, forming special clusters and providing incentives to multinationals with corporate tax exemptions, such as social security waivers and an exemption from VAT on products made in Turkey. Moreover, the state guarantees seven years of medicine procurement by state clinics for multinational pharmaceutical firms when they partner with a local manufacturer to produce medicines within the country's borders. ➤

Investment into the Turkish pharmaceutical industry has predominantly come in two forms: foreign direct investment into localized production through the construction of medicine production facilities, or cooperative agreements between multinational pharmaceutical firms and Turkish drug makers. While there has been an uptick in investment in the Turkish medicine manufacturing industry, the vast majority of this has been within the generic drug sector. Turkey has historically focused on generic medicine manufacturing; however, the industry has shifted its focus onto R&D more recently, driven by further incentives from the state. However, despite this the investment into R&D and innovative medicine, production remains limited.

According to a tourism report published by the Turkish Hoteliers Federation (TÜROFED), revenue from medical tourism could reach 20 USD bln by 2023. The report highlights the fact that Turkey has the third highest number of healthcare organizations accredited by Joint Commission International (JCI), considered the gold standard in global healthcare. In addition, Turkish airlines offer substantial discounts to medical tourists. The Health and Tourism ministers signed a Cooperation Protocol for the Promotion of Health Tourism in October 2017 where they announced that 359,000 international patients were treated in 2016 and 183,000 in just the first half of 2017. By 2023, Turkey aims to be in the top two countries globally for medical tourism and the medical tourism hub for Europe, the Middle East, Africa, Central Asia and Russia. Turkey hopes to be treating over 1.5 million medical tourists every year by 2023.

Government support

In 2010 Turkey began rolling out a network of family doctors to act as the gatekeepers for access to hospitals or specialist services. The number of doctors has been rising steadily, but at 1.9 doctors per 1,000 people in 2017, is still well below the OECD average of 3.4 per 1,000 people. This is expected to rise marginally to 2 per 1,000 people in Turkey in 2020-22.

Under the Strategic Plan 2013-17, the target was to increase the number of doctors per 1,000 to 2 by 2017, but this target was missed due to rapid population growth and financial constraints.

The dismissal of thousands of healthcare workers following the thwarted 2016 coup has hindered plans to strengthen the health workforce. However, the government aims to make up for the deficit by making it easier to hire foreign health workers. In November 2018, the government announced a research budget of about 189,000 USD for senior Turkish and foreign researchers, along with 4,300 USD worth of scholarships per month and a family relocation package of 430 USD.

The Health Ministry announced changes to emergency care provisions in January 2018. Under the new rules, there will be a two-hour limit for the short-stay units of emergency wards, and interim beds will be supplied in emergency rooms to deal with bed shortages in intensive-care units.

In 2017, the Health Ministry announced plans to provide an additional 41,000 hospital beds to boost patient privacy. The beds form part of plans to build a network of city hospitals under public-private partnership (PPP) regulations approved in 2013.

Turkey has 44 hospitals that are accredited by Joint Commission International, a US-based organization for medical tourism. According to TurkStat, Turkey attracted 433,292 medical tourists in 2017 and 274,062 in the first half of 2018.

The Health Ministry wants Turkey to attract 1.5 million medical tourists and raise earnings to 25 USD bln per year by 2023. The new regulations adopted in early 2018 will exempt foreign patients from VAT on the cost of their care.

SWOT analysis



Strengths

- Large, growing and ageing population with a mounting disease burden



Weaknesses

- Relatively low per capita drug spending compared with other European markets, indicating limited demand for patented drugs



Opportunities

- Harmonization with the EU
- Significant scope for growth, given the size of the population, the current low consumption rate and the expansion of insurance coverage
- Potential site for clinical trials



Threats

- The country's precarious fiscal position poses a risk to the continued growth of healthcare expenditure



The Republic of Belarus

Population: **9,5 mln people**
 Land area: **207,595 km²**
 Capital city: **Minsk**
 Currency: **Belarusian Ruble (BYR)**
 Language: **Belarusian, Russian**



The Republic of Belarus became an independent state in 1991 after the dissolution of Soviet Union. In contrast to the approach of many other post-Soviet states, who adopted capitalist and free market models, Belarus chose a market socialism system with state control over prices and the exchange rate. Belarus' economy is heavily dependent on the price of its petroleum products exports, and on the state of Russian economy, its main trading partner. ➔

GDP
54.5 USD bln
 GDP Per Capita
5,741 USD
 Ease of Doing Business
37th place

Unemployment Rate
0.8%
 Labor Force
4,387,300
 Credit Rating
 Fitch **B**

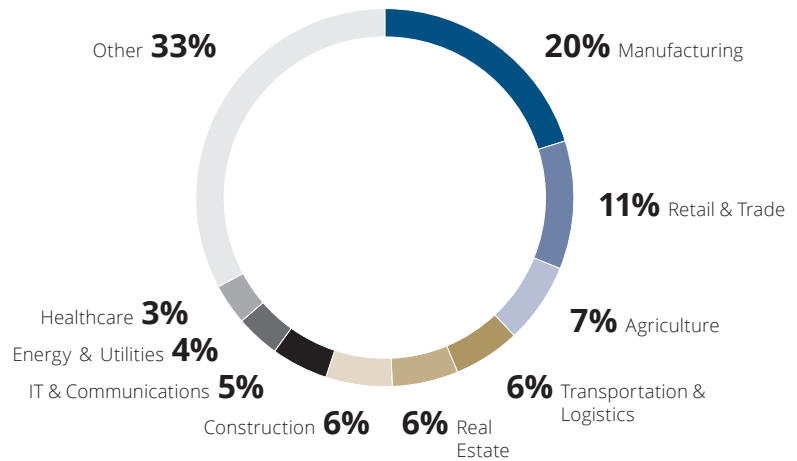
The Belarusian economy went into recession in 2014 and has only recently started to recover. Rampant corruption, strict government regulations and a predominantly state-owned economy has hindered growth for many years. However, reforms undertaken in recent years, such as streamlining the process of registering a business and obtaining construction permits, as well as creating a one-stop shop for business registration procedures.

Belarus was left with a very strong industrial base after the collapse of Soviet Union, accordingly manufacturing makes up the large part of Belarus' economy, accounting for 20% of GDP. Retail, trade and agriculture are the country's other key sectors at 11%, 7% and 6% respectively.

The Belarusian economy has only recently recovered from a slump triggered by contagion from its main trading partner Russia (46.9% of exports), and falling prices for petroleum products. The government introduced the new Belarusian ruble in 2016 with a conversion rate of one to 10,000 of old rubles in an effort to combat the high inflation that had started in 2011.

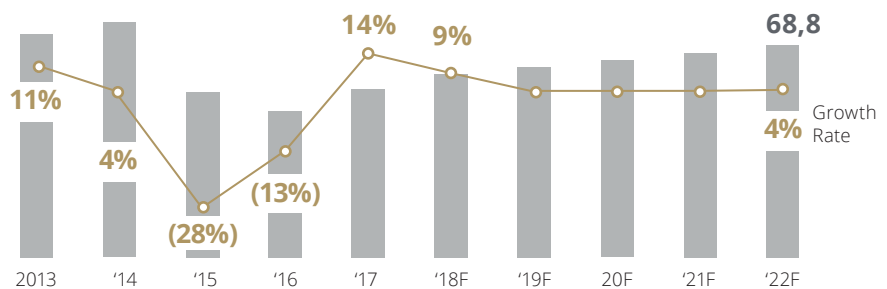
The official unemployment rate in Belarus was under 1% in 2017, which was mostly due to government policies against unemployed people, including forced community service for the registered unemployed, as well as fines on people who work less than 183 days in a given year. The labor force participation rate is 80%, with a total labor force of 4,387,300 people, almost equally split between men and women (BelStat). The average monthly wage is 513 USD, with IT and financial services offering the highest average wages of 1,452 USD and 885 USD respectively.

GDP Breakdown by Sector



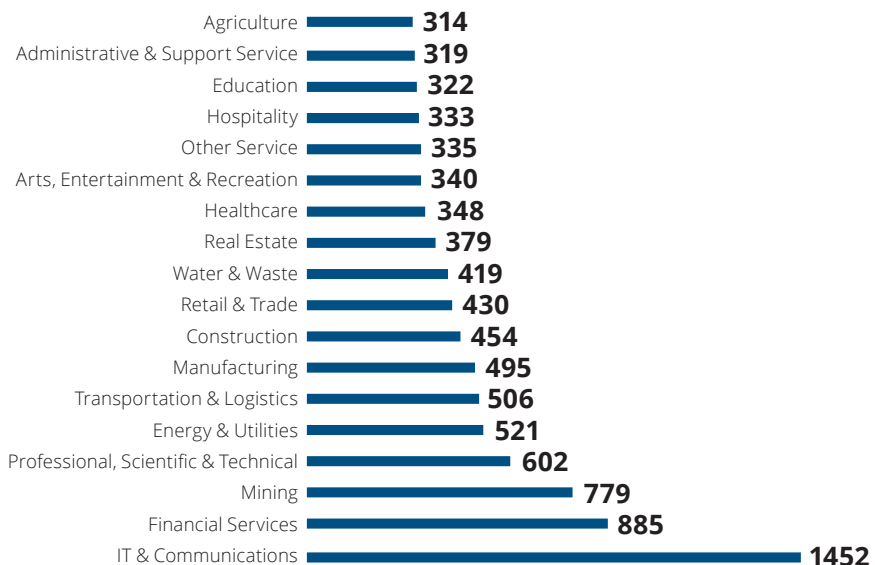
Source: Belarus National Office of Statistics, 2018

Belarus GDP, USD bln



Source: World Bank, IMF, Economic Intelligence Unit, 2018

Average monthly salary in Belarus, USD



Source: Belarus Office of National Statistics, 2018

The Republic of Belarus Hospitality

Trnedes

Tourism recently has become more and more popular in Belarus due to increased government attention, the granting of visa-free travel for citizens of more than 80 countries, and an increase in the number of international events.

The hospitality and tourism sector in Belarus is considered as high potential. The main focus areas to boost growth are the adoption of government initiatives and investment in the regional development projects, improving image of Belarus as a sporting country with a highly developed sports infrastructure, and the development of health and wellness resorts.

Growth Drivers

One of the main growth drivers in the Belarusian tourism and hospitality industries has been the increase in the number of international events in the country. The 2014 Ice Hockey World Championship, hosted in Minsk, was a major stimulus for the Belarusian hospitality sector. The government introduced visa-free travel for the citizens of more than 80 countries, additionally a person traveling to Minsk for the championship needed only a match ticket and a passport to cross the border, and people entering country via Minsk airport could stay in a country for five days without needing a visa. The total number of hotels in Belarus rose by more than 50 in 2014 due to the increased demand, including 14 two-five star hotels built in Minsk specifically for the championship. The Minsk edition of the championship broke attendance records and saw 40,000 tourists and tournament guests come to city, according to Belarusian authorities. The 2019 European Games will be hosted in Minsk and should promote the further growth in the sector.

Government support

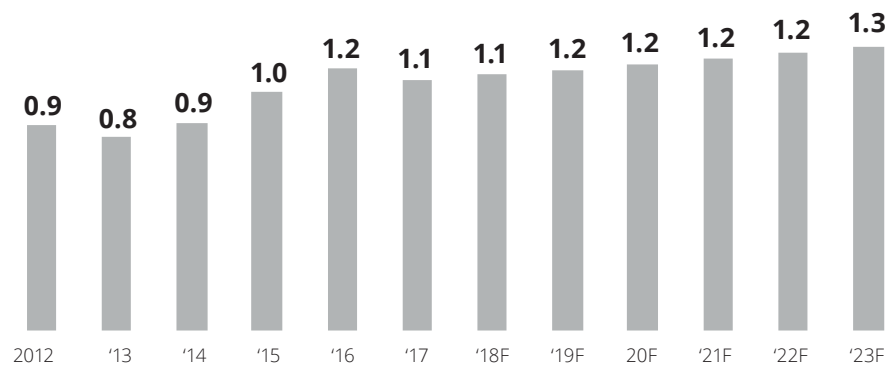
The Belarusian government has adopted a national tourism strategy for 2016-2020 called Hospitable Belarus. The strategy includes two programs, the first geared toward the training and development of staff to improve the overall level of service

Contribution to GDP: **1.1 USD bln** or **2%** of total GDP in 2017

Contribution to Employment: **86,000** jobs or **1.9%** of total employment

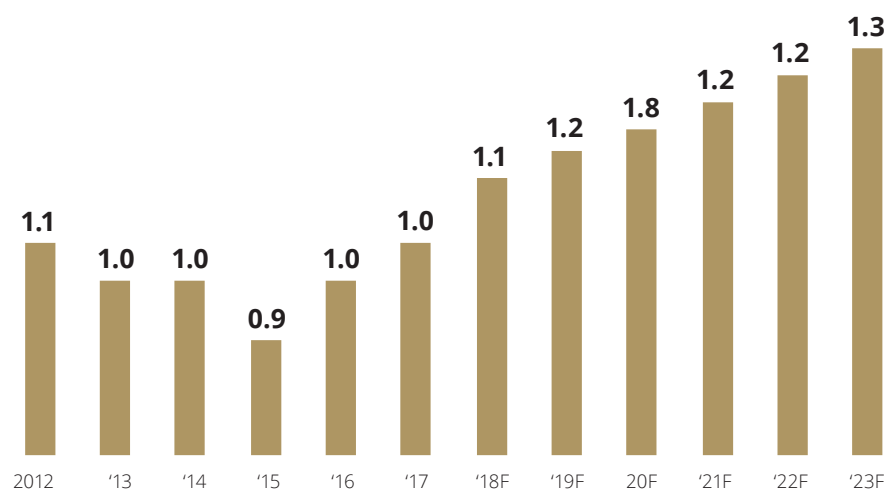
Investment: **312 USD mln** or **2%** of total investment

Tourism's contribution to GDP, USD bln



Source: World Travel and Tourism Council, 2018

International Tourist Arrivals, mln



Source: World Travel and Tourism Council, 2018

and language skills in the industry. The second program focuses of marketing and increasing awareness of Belarus as a tourist destination in Europe. The government has earmarked upward of 9 USD mln for these programs.

Additionally, the government has been offering incentives to private investors to build hotels in the country since 2016, with first three years of hotel operation being exempt from property tax.

SWOT analysis



Strengths

Belarus has beautiful natural scenery, a low crime rate and an abundance of cultural activities.

- **Natural scenery** – Over 40% of Belarus is covered with forests that are home to a rich ecosystem. Picking mushrooms and berries are especially popular leisure activities in the country. The beautiful rural part of the country has great potential for eco and agro tourism
- **Low crime rate** – Belarus was ranked as having the 10th lowest crime rate of 125 countries and a high security index (Numbeo). Crime stats have been decreasing at over 7 percent annually in recent years, and the high police presence on the streets makes both Minsk as well as other parts of the country very safe for tourists
- **Traditional festivals** – Belarus has a well-developed tradition of folk festivals and traditional open-air celebrations. Famous festivals include Christmas Tsars, a unique Belarusian ritual that is included in UNESCO's list of intangible cultural heritage, as well as Koliada, Maslenitsa and many others. Belarus also has frequent food festivals, with the country's first cheese festival was held in Minsk in 2013. The high number of open-air festivals and rich culture makes ethnic and cultural tourism a strong subsector to target



Weaknesses

The hospitality sector is still in its early stages, while the number of tourists coming into the country is increasing. Belarus is still well behind their neighbours such as Poland and the Baltic states.

- **Low occupancy rates in hotels** – While the number of hotels has increased in recent years, the occupancy rate has remained low, especially compared to other CEE countries. At only 42% the occupancy rate is below the average of 50% in Poland, and 52% in Estonia (Belarus.by, Uniter)
- **Supply and demand** – Major investments in the hospitality sector are mainly geared towards four and five star hotels, especially in Minsk. However, experience shows that the country actually needs a higher number of two to three star hotels that can attract younger tourists from Europe. The market is not currently set up for lots of luxury hotels to enjoy high occupancy rates
- **Lack of language skills** – While Belarus has been commended for its very hospitable locals, many people do not possess the necessary language skills to seamlessly interact with non-CIS tourists. This is especially evident in the regions, where knowledge of English is still very low; according to national statistics only 12% of population speak English. Additionally there are not adequate facilities in terms of signs in English or tourist information centers



Opportunities

Belarus has a good base to develop several distinct tourism niches. The country already has a good foundation for wellness and health tourism which has been especially popular with Russian visitors .

- **Agro eco tourism** – There are over 2,500 estates for agro and eco tourism that promote active lifestyles and family oriented activities (Belarus.by). Belarus also boasts many national parks, with the Belavezhskaya Puscha National Park listed as a UNESCO World Heritage site. Eco tourism and healthy lifestyles are a Europe-wide trend, giving this subsector great development potential. Belarus welcomed 300,000 visitors to its agro eco tourism subsector of which 100,000 were foreigners
- **Medical and wellness tourism** – Due to the strong knowledge base left from the Soviet Union, the medical tourism subsector is relatively well developed. According to the Belarusian Health Ministry there is high demand for healthcare services such as: cardiovascular and neurological surgery, endoscopic operations, oncology, stomatology, ophthalmology, reproductive and fertility treatments, as well as after care. Medical tourism service were worth 35.2 USD mln in 2016, and more than doubled in the first quarter of 2017. Additionally more than 190,000 foreign tourists visited sanatoriums and wellness resorts, including over 178,000 from the CIS
- **Sport tourism** – more than 100 new sporting facilities have been opened in Belarus over the past five years. The number of major international sporting events rose from 30 events in 2015 to over 80 in 2017. The upcoming 2019 European Games will bring in large numbers of sport tourists and will act as a catalyst for further investment in the hospitality sector



Threats

While Belarus is in a good position to expand its tourism industry, the unstable political situation in the region as well as rocky relations with EU could be potential threats.

- **Political instability** – The political instability in the neighbouring countries could make the whole region less attractive as a tourist destination. Russia has historically been Belarus' largest source market for tourism but as sanctions mount up, the amount Russians have to spend on travel may decrease substantially. The effect of contagion from the Russian economy has had an adverse impact on Belarus in the past
- **Rocky relationship with EU** – While the relationship with EU has improved in recent years, with EU countries removing sanctions on President Lukashenko and people associated with him, Belarus is still considered highly undemocratic. Recent mass protests against the unemployment tax saw a heavy government crackdown, and similar developments in the future could result in EU sanctions and a decrease in the flow of tourists from western countries
- **Government-owned enterprises** – A large number of hotels in Belarus are still state owned, with Belarus historically being a planned economy. State management is usually less efficient and hinders the market forces that could develop the sector based on its strengths. Government involvement threatens the competitiveness and attractiveness of the industry in the long run if investors believe that unfair practices are taking place on the market

The Republic of Belarus **Pharmaceutical**

Trends

The pharmaceutical industry has seen sales and exports increase in recent years and has generally been regarded as one of Belarus' most promising industries. The sector receives strong support from the government with a target to produce 55 percent of market demand locally by 2020. While strong growth has been the norm for the industry the devaluation of the local currency and the 2014 recession has caused some tremors in the market. Local production currently accounts for 52 percent of the market. Belarus' export potential is strengthened by the fact that its neighbours Russia, Ukraine and Poland are major pharmaceutical markets.

Spending on pharmaceuticals accounts for over one fifth of money spent on healthcare in Belarus. The forecast of growth in the market is very strong with turnover reaching 1.4 USD bln at 15.4 percent CAGR. Pharmaceutical sales as a percent of total GDP has also been rising in the recent years improving from 1.4 percent in 2013 to 1.7 percent in 2017.

Grow Drivers

In order to reduce dependence on foreign-produced medication, Belarus has focused heavily on increasing local production of drugs. A total of 30 projects worth 250 USD mln have been completed in 2012-2017, with as many as 776 new pharmaceutical products registered and entering production in the country.

Demand

The increased focus on domestic manufacturing as well as its proximity to major pharmaceutical markets such as Russia, Ukraine and Poland, means that Belarus has been able to boost its pharmaceutical exports over the last several years. Additionally with several manufacturers becoming GMP (Good Manufacturing Practice) certified, the potential for exporting to other countries has increased. Moving forward however

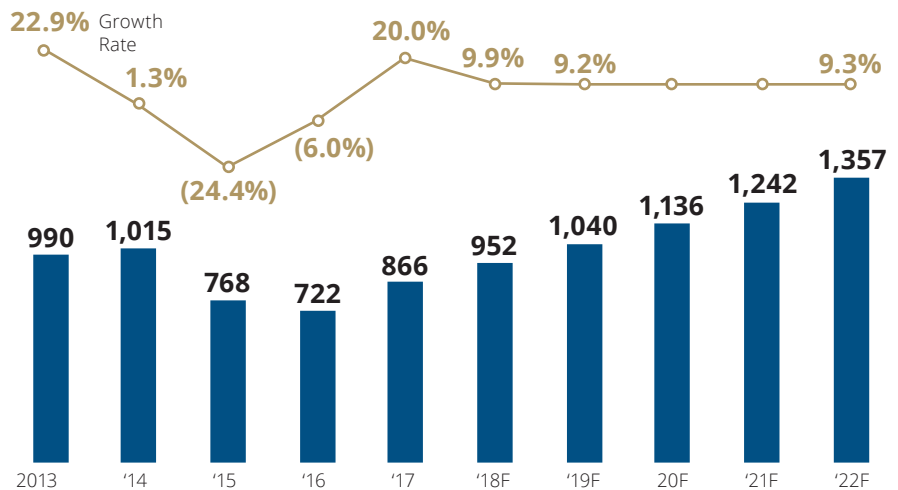
Pharmaceutical sales in 2017: **866 USD mln** or **1.72%** of GDP

Forecasted CAGR up to 2020: **9.4%**

Pharmaceutical exports in 2017: **203.9 USD mln**

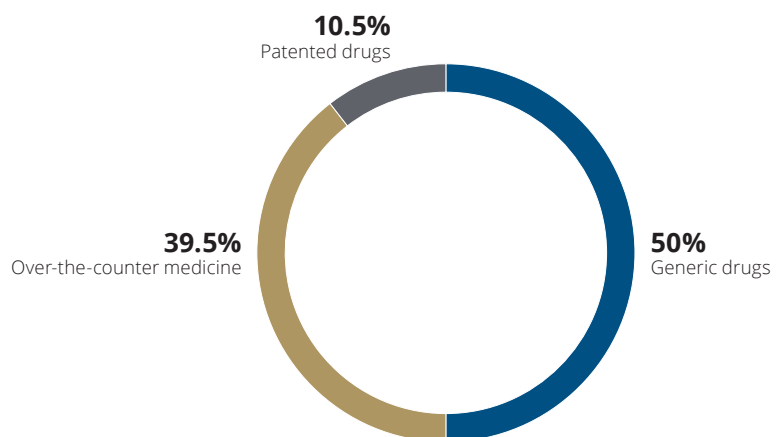
Pharmaceutical sales as a percent of healthcare spending 2017: **20.7%**

Pharmaceutical Sales, USD mln



Source: World Health Organization, AIPM. Fitch, 2018

Medication types



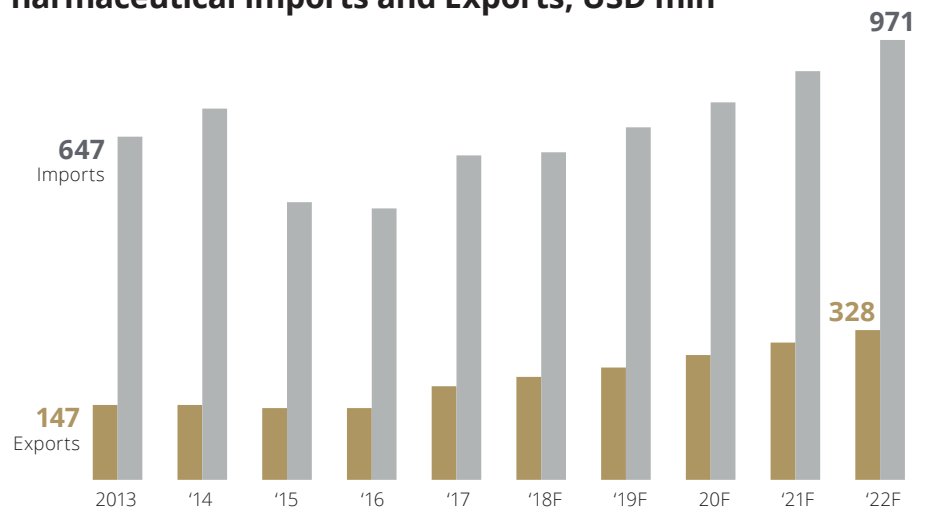
Source: World Health Organization, AIPM. Fitch, 2018

the reliance on foreign-made advanced medicines will mean that import will increase, continuing a trend seen over the past several years.

The economically challenging period in Belarus has led to the prioritization of generic medications. Given the state's focus on expanding access to healthcare, the government is encouraging the use of cheaper medications, coupled with increasing generic-focused domestic production, meaning that the generic drug sales will have a larger market share.

The patented drug market on the other hand is unlikely to see significant expansion in the future due to the preference for generics. Most patented drugs are imported as local production lacks the relevant technology and knowledge base to produce innovative medicines. As self-treatment is prevalent in Belarus, the market share for over-the-counter medication remains high and is expected to increase in the future. This unfortunately reflects the limited access to both doctors and pharmacists in rural areas of the country. The strong growth of generic products will not only be driven by increasing domestic demand but also by the increased export potential to the CIS as well as to the Middle East and Africa.

Pharmaceutical Imports and Exports, USD mln



Source: United Nations Comtrade, Fitch, 2018



Regulation

Belarus's 2008 law on medicines is the keystone legislation governing the pharmaceutical industry. The basic principles defined by the legislation are the support and promotion of international cooperation, access to medicines and the government's role in the sector.

The main regulatory body, the Division of Pharmaceutical Inspectorate ensures that all companies comply with the law and certifies GMP compliance. All advertising for medicines must gain prior approval from Ministry of Health.

A company seeking to enter the market must register with the Ministry of Health and receive a certificate that is valid for five years. Drug registration should take place within 180 days and registration must be renewed annually. Information supplied with the product, such as summary of its ingredients, side effects and instructions must be in either Russian or Belarusian.

A 2002 decree requires batch testing of imported and domestically produced pharmaceuticals. Drug manufacturing does not need to be checked if inspections have recently been performed by another competent authority such as US Food and Drug Administration. This exception will be extended to manufacturing facilities in Russia and Kazakhstan in the near future.

Government Support

Belarus has made steps to improve the attractiveness of the pharmaceutical sector for international investors, including issuing unlimited registration certificates and removing unnecessary bureaucratic procedures.

The President issued a special decree in 2012 “On Some Measures to Develop the Pharmaceutical Industry” providing state financing of over 150 USD mln to five companies. More than 27 investments projects have been exempted from import duties and VAT on imported equipment. Additionally more than 40 USD mln has been issued to state companies to acquire intellectual property rights and licenses.

Belarus is also undertaking the necessary steps to gradually bring its legal requirements in line with the EU regulations, which coupled with the adoption of the GMP standards will make the medicine produced in the Belarus more competitive on the international market.

SWOT analysis



Strengths

- **Universal Healthcare System** – The expanding universal healthcare system is a major pharmaceuticals consumer in Belarus and supports the further growth of the industry in the country
- **Government incentives to attract manufacturing** – The government is willing to provide low-cost financing and VAT exemptions on imported equipment for foreign manufacturers to boost local production, as in the past
- **Increased demand for high end products** – Demand for high end products is increasing as the healthcare system modernizes



Opportunities

- **Modernizing healthcare system** – The government is committed to improving the universal healthcare system and increasing coverage, helping the sector grow
- **Improving relations with EU** – Updating legislation coupled with the adoption of GMP standards could open up the EU market for the Belarusian products in the future



Weaknesses

- **Restricted reimbursements** – Reimbursement for pharmaceutical products is only available for medicines bought in state pharmacies and hospitals, negatively affecting the competitiveness
- **Limited access to innovative medicines** – The bulk of the local production is geared toward generic drugs while innovative medicines have to be imported from abroad. The lack of the technical capabilities to produce innovative medicines could hinder growth
- **Corruption** – With universal healthcare and some of the largest manufacturers being state owned, corruption in the procurement of medicine remains an important issue



Threats

- **Economic dependence on Russia** – The economy of Belarus is overly dependent on the economy of its major trading partner Russia. Increasing geopolitical tensions and sanctions could negatively affect the region's economy
- **Currency volatility** – The currency has undergone a major devaluation in the recent years and was redenominated in 2016. The volatility of the currency can wipe out any value created by inward investments



Slovakia

Population: **5,4 mln people**
 Land area: **49,037 km²** including 39%
 agricultural, 41% forest
 Capital city: **Bratislava**
 Currency: **Euro (EUR)**
 Language: **Slovak**



Slovakia is located in the heart of Central Europe. The country has been both politically and economically stable since its independence and has made number of reforms following the breakup of Czechoslovakia in January 1993.

Slovakia became an EU and NATO member in 2004, later joining the Schengen Area and the Eurozone in 2009.

The Slovak Republic is one of the fastest growing economies in the region with GDP growth rate of 4.3 percent in 2018.

Real GDP growth

4.3%

Consumer price inflation

2.5%

Unemployment Rate

5.5%

Ease of Doing Business

42nd place

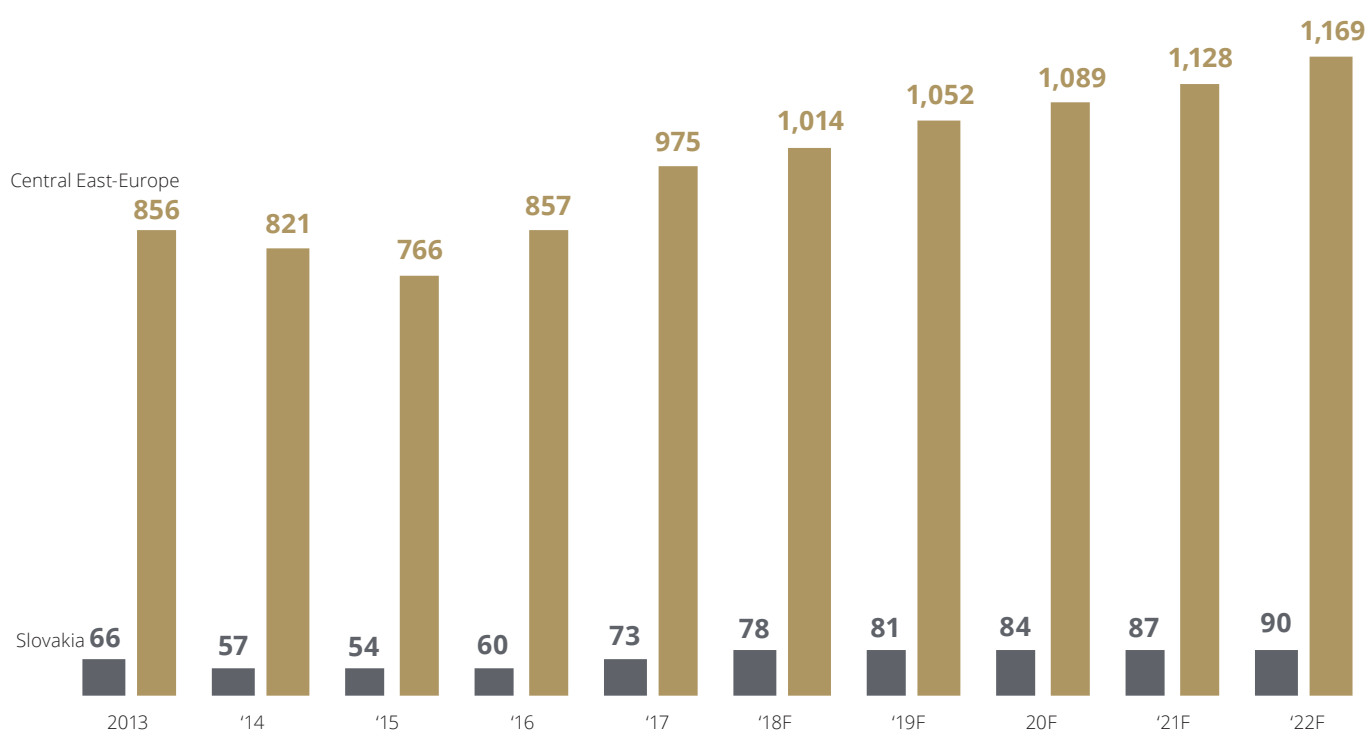
GDP per capita

17,605 USD 2017

Credit Rating

Fitch **A+** (Stable)

Foreign direct investments in Slovakia and in the Region, USD bln



Source: Economic Intelligence Unit, 2018
 East-central Europe: Czech Republic, Hungary, Romania, Bulgaria, Poland, Slovakia

Slovakia Healthcare

Trends

Slovakia has a developed healthcare sector that provides high quality services. Healthcare is financed by health insurance, which is obligatory for every citizen. The country has a mandatory employee and employer contribution system to state owned or private insurers. Healthcare spending amounted to over 7.1 percent of GDP in 2017 and is forecast to increase to 7.3 percent of total GDP by 2022. Based on WHO data, 80 percent of total health spending was publicly-funded in 2015.

Growth Drivers

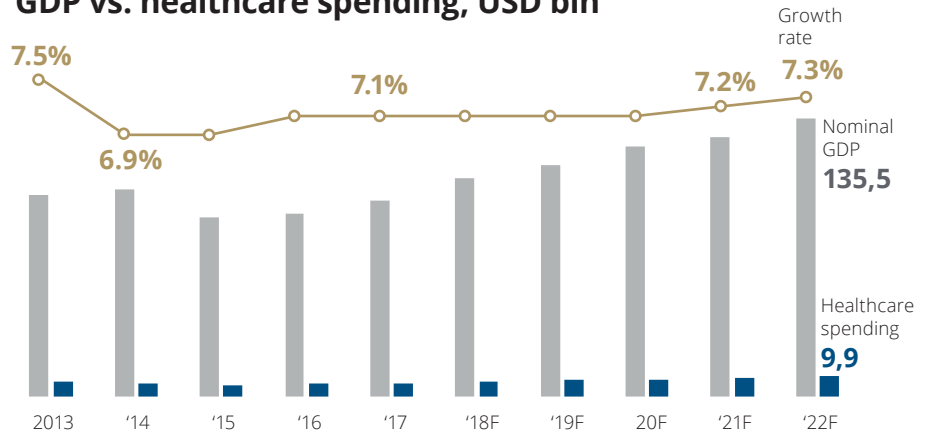
- The government and the medical trade union reached an agreement to raise nurses salaries in 2019.
- There are plans to build a new hospital in Bratislava for 250 EURO mln.
- The government is planning to build 140 new health centers in urban areas, also financed with EU funds.

Industry employment

Doctors and nurses in Slovakia are not well paid by European standards, encouraging skilled labor to migrate to other European countries. The number of doctors is expected to increase from 3.5 per 1,000 people in 2017 to 3.7 in 2022.

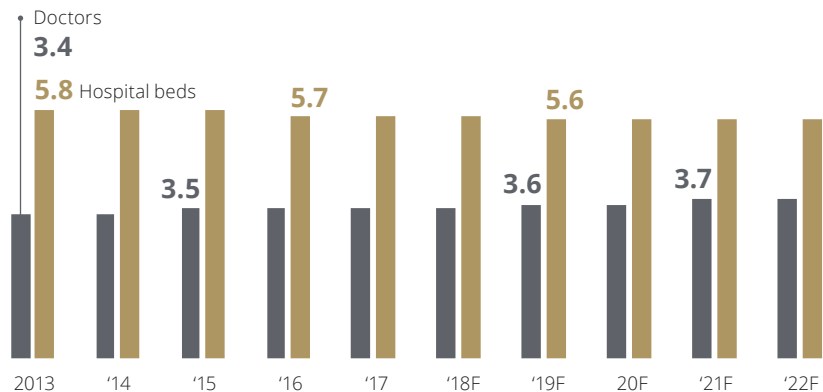
Direct labor costs include: total wage bill, payments for days not worked, payments to employees' savings schemes, bonuses for being on call to work outside the workplace, bonuses based on profit after taxation, the wages and salaries of apprentices and other direct costs for employees.

GDP vs. healthcare spending, USD bln



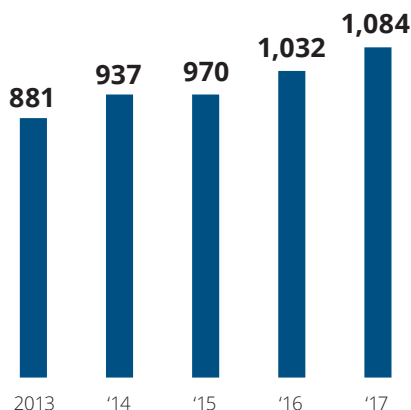
Source: Economic Intelligence Unit, 2018

Doctors and hospital beds per 1,000 people



Source: Economic Intelligence Unit, 2018

Direct monthly labor cost per employee, USD



Source: Statistical office of the Slovak Republic, 2018



Regulations

2002-2004

Shock therapy reforms between introduced market principles into the healthcare sector.

2008

Several reforms aimed at controlling costs and improving efficiency since 2008.

2016

Number of cost-saving measures were introduced, such as price referencing of healthcare products.

2017

Public spending accounts for 80% of total health spending, which is on par with the EU average (79%).

SWOT analysis



Strengths

- A strategic geographical location in the heart of Europe for medical tourism
- A qualified and low-cost workforce (especially nurses)
- A positive and very attractive business environment for foreign investors, including a favorable tax system
- EU membership allows for access to Common European Markets as well as technical assistance for further healthcare reform
- Radical healthcare reforms in 2004 have improved the healthcare industry
- The government is committed to improving the overall business environment and implementing business-friendly reforms, including a flat-rate income tax



Weaknesses

- Labor shortages (the unemployment rate is 5.5%)
- The geographical distribution of health professionals is a concern; the number of doctors is high in the capital Bratislava, with 6.8 physicians per 1,000 people while the other regions have an average of 3 per 1,000 people
- Small but consolidated domestic sector, offering limited opportunities for new entrants via mergers and acquisitions compared with neighbouring markets



Opportunities

- There is room for improvement in the use of hospital resources; Slovakia was identified as one of the EU countries with the greatest potential to make major gains in health outcomes if resources were allocated differently and services provided more efficiently (European Commission, 2015)
- Increasing the number and use of nurses can increase health system efficiency
- The use of copayment, though politically contentious, could ease tensions between the government and the pharmaceutical sector over national insurance debts



Threats

- While there does not seem to be a general shortage of physicians in Slovakia, the falling number of nurses per capita is of concern
- Considerable national healthcare insurance debt will continue to put downward pressure on government spending
- Slovakia is losing its appeal as a key foreign direct investment destination in the region due to stringent labor sector regulation and the lack of transparency in public sector tenders

Slovakia Hospitality

Trends

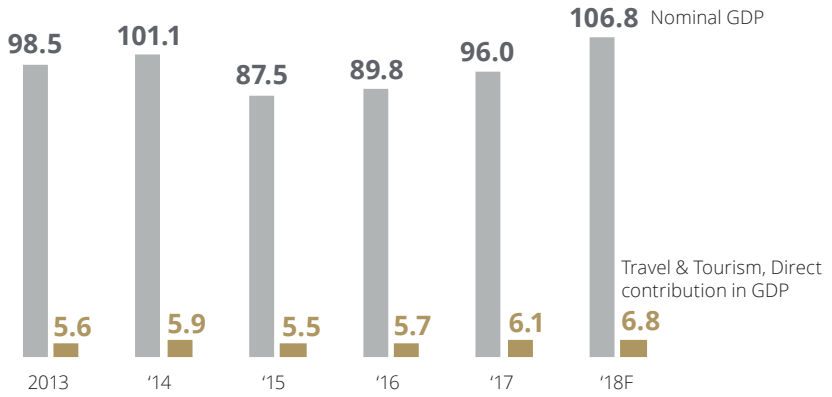
The hospitality sector is expanding in Slovakia. Travel and tourism contributed 6.1 USD bln or 6.35 percent of overall GDP in 2017, and is forecast to rise to 7.2 percent of GDP in 2022.

Growth Drivers

Leisure travel spending generated 70.4 percent of direct travel and tourism turnover in 2017 compared to 29.6 percent for business travel spending. Domestic travel spending generated 49.3 percent of industry turnover in 2017 compared with 50.7 percent for foreign spending.

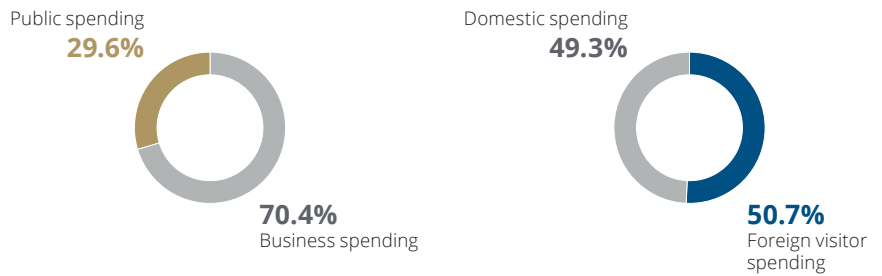
The number of tourist arrivals in Slovakia has been on the rise, increasing by 7 percent in 2017 compared to the previous year. Foreigners accounted for 40 percent of all accommodation bookings in 2017.

Direct contribution of travel & tourism in GDP, USD bln



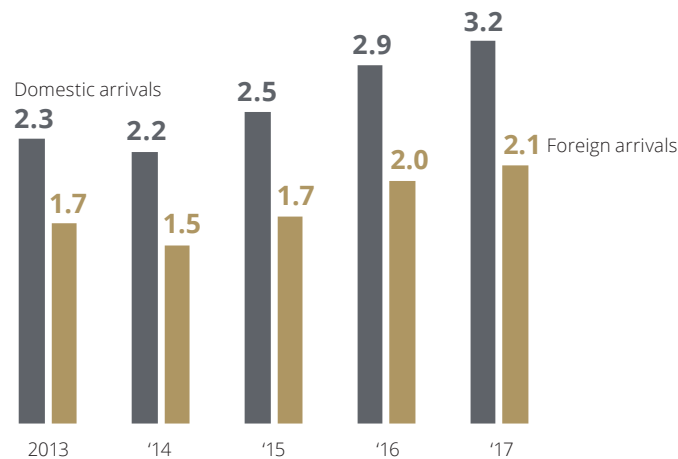
Source: World travel and tourism council, 2018

Spending breakdowns



Source: World travel and tourism council, 2018

Total arrivals in accommodation²⁸, mln people



Source: Eurostat, 2018

²⁸Accommodation includes Hotels; holiday and other short-stay accommodation; camping grounds, recreational vehicle parks and trailer parks

Spas and Wellness

Slovakia is well situated to develop spa and wellness tourism with ample mineral and thermal water resources.

Spa and wellness plays important role in total tourism revenue and development. During 2006-2015, average revenue per year from spa and was 49.96 EURO million, of which domestic spending was 65 percent and foreign – 35 percent. In 2006-2015, the spa and wellness tourism made up 7.3 percent of total visit share and 22.3 percent of overnight stays.

The Slovak Ministry of Health said that the country had 29 spas hotels and 23 spa resorts. The largest share of foreign tourists were from the Czech Republic (43.6 percent), Germany (12.2 percent), Israel (9.3 percent), and Russia (5.2 percent) in 2015.

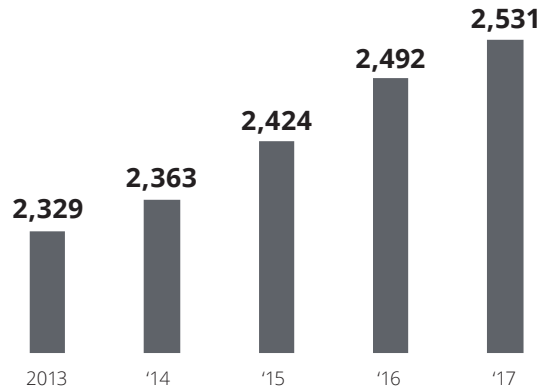
The development of spa reports has long history dating back to the 16th century. The spas were initially established by the nobility and were further developed from 19th century.

As the spas were profitable, most were privatized in 1995–1997.

Thermal aqua parks have also contributed to the increase in spa tourism in Slovakia. The largest, opened in 2003 is the biggest in Central Europe. (Tatralandia)

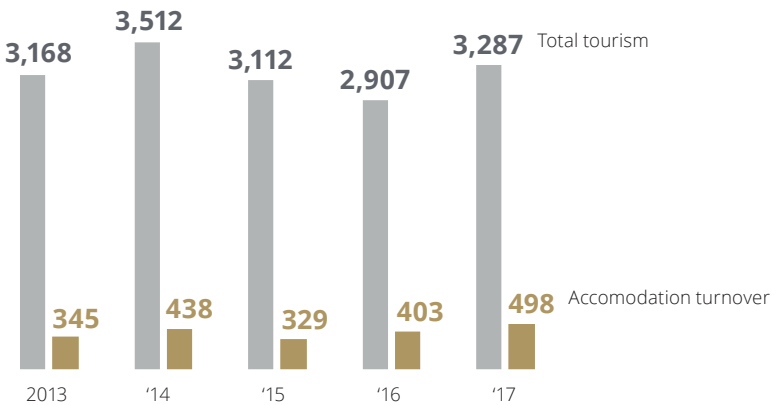
Source: Anton Kasagrada – Spa and Wellness Tourism in Slovakia.
Among Famous Spa And Wellness Resorts Are:
Spa Resort Piestany , Trnava Region
Spa Resort Trencianske Teplice, Trencian Region
Spa Resort Bojnice, Trencian Region, etc.

Hospitality Employment, thousand



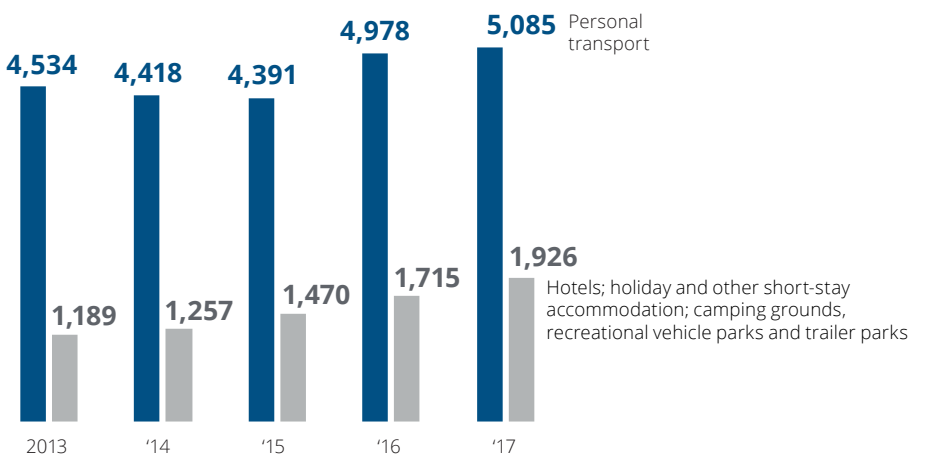
Source: Eurostat, 2018

Turnover, USD mln



Source: Eurostat, 2018

Number of accommodation units



Source: Eurostat, 2018

SWOT analysis



Strengths

- Slovakia has an open and transparent business environment which is attractive for real estate investors
- Slovakia is renowned for its natural mineral and thermal waters
- A good location in the center of Europe



Weaknesses

- Slovakia's economy in 2009- 2010 reduced the demand for commercial real estate
- Slovakia has one of the highest minimum wages in the EU as well as high labor taxes, which increases the cost of investment



Opportunities

- Increase the attractiveness for medical tourism and prioritize foreigner tourism over domestic
- Develop rural tourism: both domestic and foreigner tourists are interested in locally-produced wine. Of the total number of "rural tourists" in 2017, 117,000 were Slovaks and 33,000 foreigners (2017 was a record year for the rural tourism market)



Threats

- A Eurozone economic downturn would affect the country's hospitality market and damage investor confidence
- Any interest rate increases will lower demand for hotel construction



New Regulations

The Slovak government approved the new law on travel operators and services related to tourism, drawn up by the Economy Ministry. The new law stipulates that all travel operators have to be registered as sole traders and every travel agency has to be protected against bankruptcy by either insurance or a bank guarantee.

Selected Cities Analysis

Benchmark Cities

For the selected sectors analysis and understanding of potential opportunities for development, insights and lessons that could also be relevant for Tbilisi. Three cities were pre-selected by City Hall being successful in gaining rapid growth and scale: Prague, Lviv and Istanbul.

Prague

Comparable to Tbilisi in terms of population and size, Prague is the economic center of the Czech Republic and has a considerable experience in developing the sectors in the research. The city has Europe's tenth largest hotel market with tourist numbers steadily rising every year. Prague also has a strong pharmaceutical industry, which was boosted by government spending more than 2.5 EURO bln on research initiatives.

Lviv

While smaller than in Tbilisi, the city's economy is comparable. Lviv is one of Ukraine's cultural centers and home of historic sites and architecture. Lviv municipal government adopted an economic development strategy in 2009 that identified key focus areas for the future, including tourism, retail and creative industries.

Istanbul

A much larger city than Tbilisi, Istanbul has seen vast improvements in all key sectors in recent years. While the size difference is substantial, the general lessons and key growth fundamentals that helped Istanbul make such significant progress are also applicable to Tbilisi.

Prague

Population

1.3 mln people
(2017)

Land area

496 km²

Average Salary

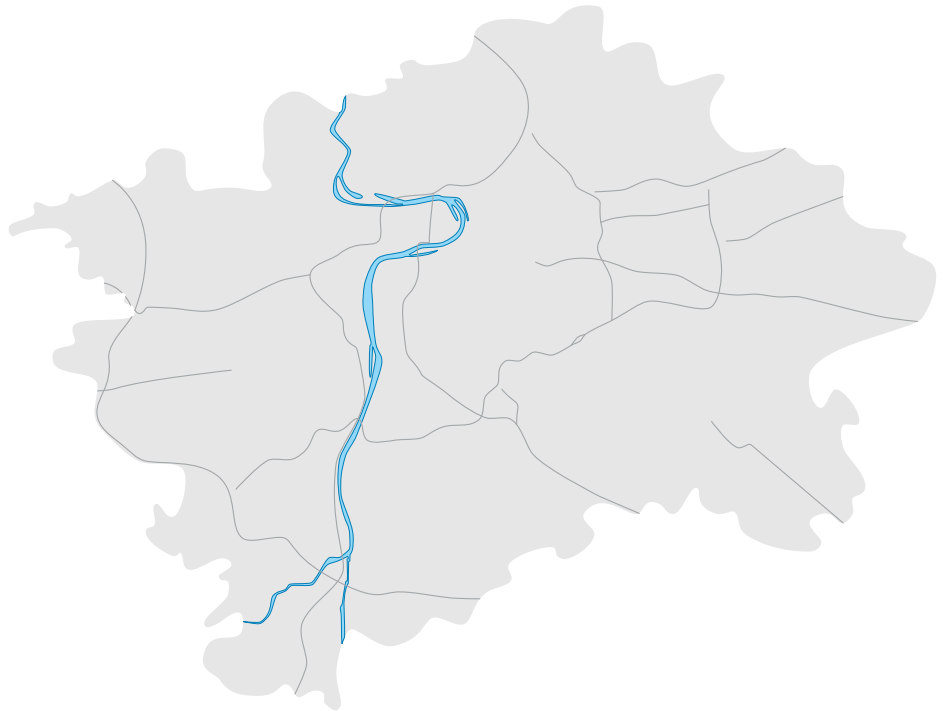
1,156 USD/month
2017

Unemployment Rate

2.9%
(2017, CZSO)

Number of tourists

7.7 mln
(2017, CZSO)



Government Support

The Czech Republic is one of the most developed economies in the CEE region, with a strong inflow of foreign investment since in the 1990s securing the highest FDI per capita in the region. The country is also a member of several alliances and organizations such as the Organization for Economic Co-operation and Development (OECD), the European Union (EU) and the Multilateral Investment Guarantee Agency (MIGA), making the Czech Republic a safe and secure country for investment.

The Czech government is dedicated to creating a comfortable and investor-friendly business environment by providing financial aid of up to 25% of the eligible costs of an investment project. Although most of this aid comes from national incentive schemes, should an entities wish to invest in R&D, innovation IT or software development, financial support could also be provided by the EU Structural and Investment Funds.

Other examples of state support include:

Tax incentives

Full corporate tax relief for up to **10 years** for new companies and partial relief for existing companies

Job-creation grants

Financial support for job creation in certain regions, going up to almost **12,000 EUR per new job**

Training and retraining grants

Up to **50%** of the training costs are subsidized for training and retraining new employees in certain regions

Cash grants for capital investments

Financial aid of up to **10%** of the entire project investment's worth strictly in the areas of manufacturing and technology centers

Property tax incentive

Property tax incentive for up to **5 years** in the Special Industrial Zones

²⁹www.czechinvest.org

Prague Pharmaceuticals

The life sciences industry in Czech Republic covers the pharmaceutical market and has grown considerably over the years. The country has already established itself as a center for research & development and is renowned as the birthplace of the principles of heredity, for introducing contact lenses to the world and developing compounds now used in anti-AIDS drugs.

Prague is the country's economic center, where all key business operations take place. Many major pharmaceutical companies have moved to the capital to take advantage of the city's position as a transportation hub and develop streamlined logistics chains, to ensure optimal distributor satisfaction. Today, pharma's biggest international players such as Sanofi, Novartis and Johnson & Johnson all have bases in Prague.³⁰ Government plans, outlined in the Prague Regional Innovation Strategy (RIS3) (approved by the City Council in 2014), focus on making the capital city a region for the development of research centers and innovation. The aim is to attract partners in this area and promote Prague's R&D ecosystem in fields including life sciences. In all of Czech Republic:

- 25% of all organizations carrying out R&D are located in Prague
- 26% of innovating firms are in Prague
- 75% of the Czech Academy of Sciences' institutes are in Prague
- 48% of universities (public and private) are in Prague
- 34% of all other research institutes are located in Prague

The factors that have driven development in this now highly saturated market are:³¹

Institutions. The government has invested EUR2.5 billion in state-of-the-art new research facilities over the past 10 years, giving the sector a major boost. The rationale for allocating public funds in this way was to ensure the long-term development of research infrastructure (particularly molecular genetics and

biotechnologies). The most recent project in Prague was BIOCEV – Biotechnology and Biomedicine Center of the Academy of Sciences and Charles University in Vestec. Other institutes and research centers have been completed in Brno, Olomouc and Plzeň.

Education. The high standard of education has been credited for the success of companies operating in Prague. Over 50,000 students were enrolled in life sciences programs, including at the highly respected Charles University in Prague (which produces the most university graduates annually). Another is the Czech Technical University in Prague, which boasts famous alumni such as Vladimir Prelog, Nobel laureate in chemistry, and contact lens inventor Otto Wichterle. The university is split into four faculties: chemical technology, environmental technology, food & biochemical technology and chemical engineering. The availability of high quality industry-specific education guarantees a skilled workforce, giving Prague a competitive advantage over other European cities. The country is able to provide highly skilled staff at a competitive cost in comparison to its neighbors.

Effective patent protection. The Czech Republic was one of the first countries to implement the EU's Directive on Legal Protection of Biotechnological Inventions, creating a secure environment that protected patent laws for inventors.

Guidelines and regulations. Adoption of good manufacturing practice (GMP, covering the design, monitoring, and

control of manufacturing processes and facilities), good laboratory practice (GLP, regulating the quality and integrity of research) and good clinical practice (GCP, governing the ethical and scientific quality of clinical trials). In addition, genetic engineering legislation is relatively liberal in the country.

Knowledge sharing. Strong ties and knowledge transfer between research institutes, universities and industry.³²

Licenses. Licenses issued in the Czech Republic apply to the whole EU, opening up access to its 500 million consumer market (medicaments can potentially be sold in every EU member state) and allows for more international research collaboration.

Growing FDI has pushed up demand for new projects and research in the country. Many of new and well-established companies have transferred their main development activities to the Czech Republic. Some major companies that have successfully invested in the Czech Republic include:

- Lonza, Switzerland
- Nanotherapeutics, USA
- Otsuka Pharmaceutical, Japan
- Sanofi, France
- Teva Pharmaceutical Industries, Israel³³

³⁰ www.czechinvest.org

³¹ www.cbreproperties.cz

³² www.mzv.cz

³³ www.czechinvest.org

Prague Hospitality

In 2017, Prague ranked number 10 in Europe for the largest hotels market according to Cushman & Wakefield. This upward trajectory is expected to continue in the future and Prague has even been described as at risk of overtourism, reportedly hosting 7.7 million tourists in 2017³⁴ alone. Factors contributing to the influx of foreign visitors are:

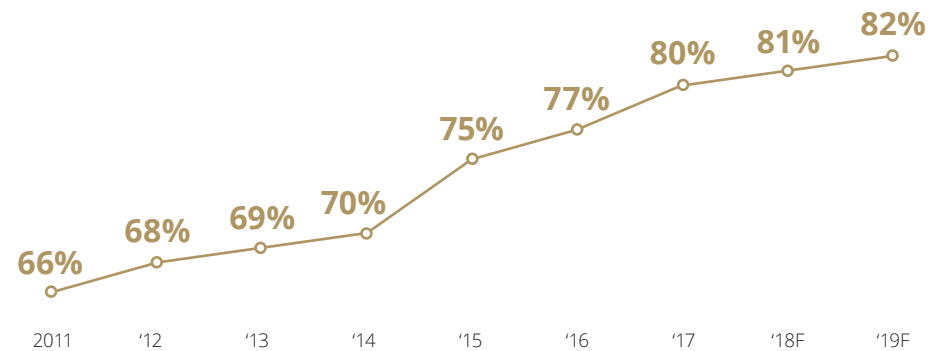
- Relatively inexpensive hotel room prices
- Schengen zone membership, providing visa free-access for most European visitors
- Prague's history and beauty

Marketing. A survey conducted between 2014 and 2017 showed that 70% of visitors to Prague were there for the first time and stay for an average of 4 days. This means that trips are generally centered on the Old Town. Prague City Tourism, a marketing agency funded by the City of Prague, is promoting longer visits to the capital and was able to diversify tourism to the city in 2017 through:

- Targeting European markets for tourist attraction
- Changing the marketing message to push destinations outside the historical center including cafes, restaurants, markets and fairs
- Marketing sectors such as retail for the primary purpose of the visit
- Promoting tourism for conference and business purposes (with 4,127 conferences held in 2017, a third of all countrywide events)³⁵
- Advertising seasonal and community events in the city (Christmas markets, music festivals, etc.)

Prague City Tourism has contracted Touch Branding in an effort to repackage and re-brand Prague to targeted groups of potential tourists. Minor adjustments to the style, language and message were already evident in 2017 booklets, guidebooks, social media and other advertising channels.

Occupancy rate of hotels in Prague from 2011 to 2019⁴³



Source: www.statista.com, 2018

The city's marketing organization also works closely with tourist agencies around the world to help develop the perfect sightseeing trips to Prague, cooperates with domestic media outlets, acting as a resource for information about tourism, and is highly visible at various congresses and exhibitions to stress the importance of attracting foreigners to the city.³⁶

The Prague Strategic Plan, developed for 2009-2015, was an earlier attempt to re-brand the city. The project aimed to strengthen Prague's position in Europe as a respected partner in investment, culture, tourism and politics. One of the program's key missions was to transform the city's cultural landscape and promote Prague's history and heritage.³⁷

Accommodation. With a constant stream of tourists flowing through the city, it is essential to provide visitors with appropriate accommodation. The government has set tighter regulations on Airbnb rentals (which already has approximately 7,200 hosts) in an attempt to address complaints from hotel owners struggling to compete with the online accommodation platforms (also including FlipKey, HomeAway, House Trip, Vacation Rentals and Vrbo). The planned measures will involve the mandatory disclosure of

guest information and applying time limits for the period in which the guests wish to stay. If implemented, these restrictions would push down the supply of available Airbnb accommodation, forcing the prices up and increasing the occupancy rates of hotel rooms.³⁸

Transportation. Public transport has always been a priority for Prague. The municipal government spends around one fourth of its annual budget on public transport to increase the quality service and expand the existing public transport infrastructure. Metro and tram lines have been extended over the last decade and paid parking zones now cover more of the city. This has and will continue to incentivise both residents and tourists to use public transportation rather than cars and is a key factor behind Prague's low proportion of car commuters in comparison to other developed cities.

³⁴ www.czechinvest.org

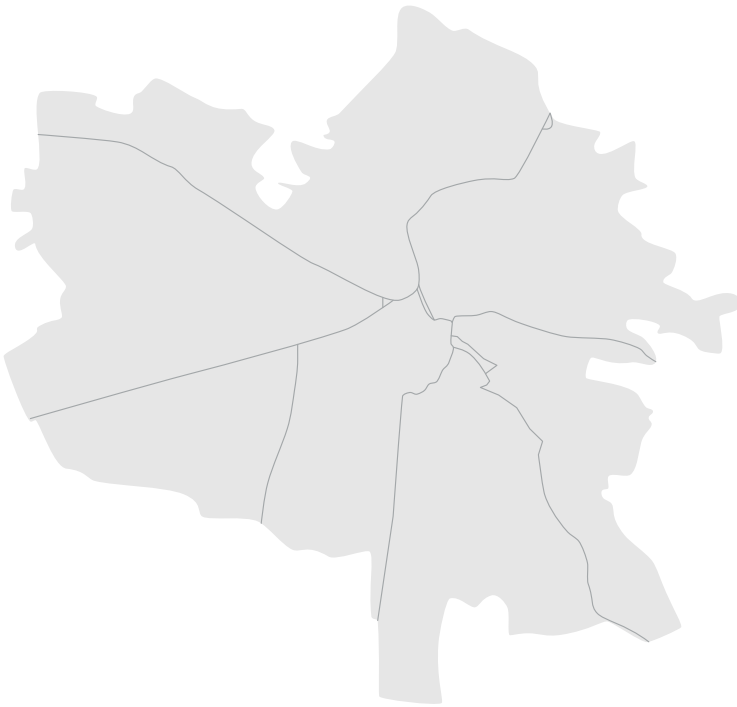
³⁵ www.radio.cz

³⁶ www.statista.com

^{36, 37} www.pragueconvention.cz

³⁸ www.iprpraha.cz

Lviv



Population

705k people
(2017)

Land area

171 km²

Average

251 USD/month
(2017, Derzhstat)

Unemployment Rate

7.5%
(2017, Derzhstat)

The city of Lviv, located in the western Ukraine, is the capital of Lviv Region and is the seventh most populous city in Ukraine. Located just 60 km from Ukraine's western border with Poland, the city has very strong Ukrainian and Central European roots partly due to the fact that Lviv region was only incorporated into the Soviet Union after the Second World War.

Government Support

Lviv started formalizing its growth strategy in 2005, and has continuously developed and updated its economic and social development targets to enhance the city's development. The city identified several priority areas in its final economic development strategy:

- Tourism
- Retail
- IT
- Creative and Fashion
- Business Services

These economic development priorities are part of an comprehensive strategy to

develop a sustainable and comfortable city. The growth outlook was planned for 10+ years and was an integral component of the strategy to boost city revenues, in turn paying for future infrastructure improvements and city services.

The city and the business community agreed to focus on local issues affecting the city and region given their limited ability to control national factors that affect business environment in the city. The following key issues and solutions were identified during these discussions:

- An exorbitant number of permits and the city's inefficient and unmotivated bureaucracy was keeping much of the economy in the shadows and was severely restricting investment: the city government would reform its internal institutions to make them more business-friendly and accessible to the community
- While the educational system was robust, the skills offered did not match the needs of the business community:

the municipal government will pressure the regional educational authority to work with the business community to develop curriculum that would ensure a sustainable supply of qualified personnel for priority segments

- A large number of UNESCO registered landmarks, a significant asset for attracting tourism, were in a poor state of repairs: the city would maximize its resources to maintain these landmarks and give priority to investors seeking to privatize or restore them
- To improve skilled labor retention, the city would actively work on infrastructural issues to modernize the services and improve the quality of life in the city

Lviv Hospitality

Government Support

While the steps above apply to all priority areas, the government’s main involvement was in the tourism and retail sectors.

With the help of strategy consultants, the city identified several niches that would initially provide the base of the city’s nascent tourism sector. As the industry matures, further efforts will be made to attract diverse visitor categories.

The outcome of this strategy was the development of Lviv as the “Europe at home” experience for young Ukrainians and other younger tourists from the CIS region. Specific emphasis was placed on development of the historical city center, not only from the perspective of hospitality but in terms of the overall travel experience. Understanding that large part of the economy will remain in the gray, the city leaders focused on supporting investors in developing high margin real estate projects of the old town and toward bars, restaurants, cafes and shops to create specific “Lviv” experience. The hospitality sector grew informally through direct apartment rentals, with national hotel chains moving in later alongside the growth of hostels for budget-conscious travelers.

The city’s communal enterprise “Center for Tourism Development” (CTD) headed the work on Lviv’s tourist brand. The CTD engaged the local academia and creative community to develop the visual identity for the city, work on target audience segmentation and promotion, and was in charge of monitoring and analyzing the tourist flows. To improve the local creative community’s motivation, the city has provided the some of the buildings of the

former Lviv Radio-Electronic Factory to be refurbished as studios, workshops and office space. To further advance the brand, the government of Germany sponsored the development of city’s brand book

Success stories.

Between 2009 and 2017 Lviv’s hospitality sector grew almost four fold in terms of visitors and almost three fold in terms of turnover. The average spend per visitor in 2017 was 86 USD per day which is 25% less from the all time high of 106 USD per day in 2012. Average stay in the city lasted 4.4 days. Return visitors accounted for 58% of all tourists.

National expansion of such brands as:

Lvivski Pliatski

bakery, cafe

Lvivska Maysternai Chokoladu

confectionery

Pravda

microbrewery

3.7x visitor growth between 2009 and 2017

2.7x turnover growth for the sector between 2009 and 2017

Average daily spend per visitor

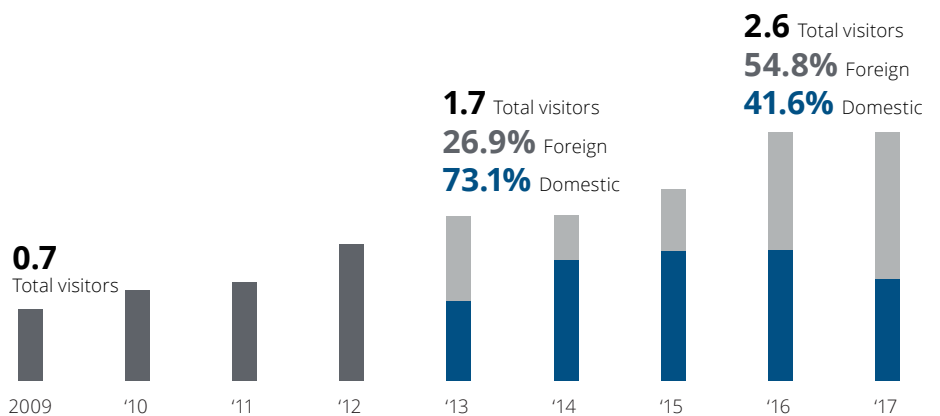
86 USD 2017

Duration of the average stay

4.4 days in 2017

58% return visitors 2017

Number of visitors to the city of Lviv, mln



Source: Center for Tourism Development, 2018

Lviv Retail

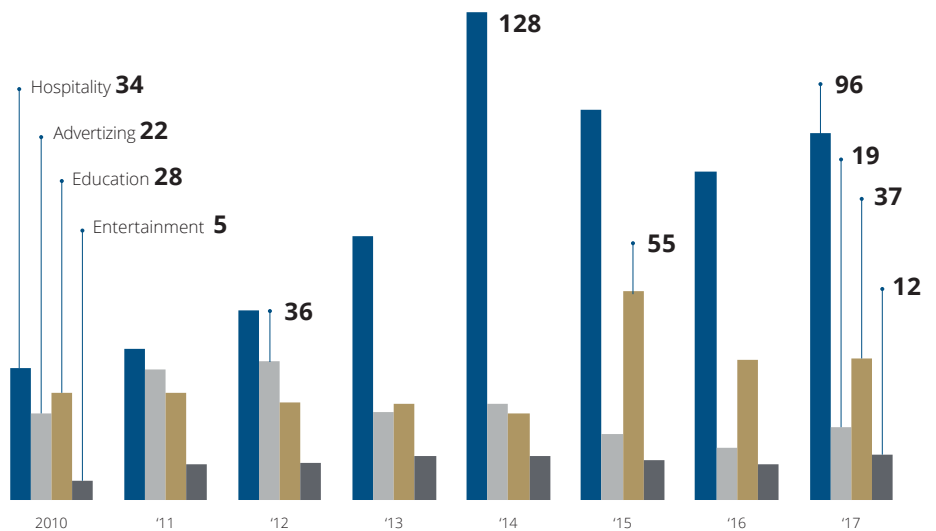
Government Support

Understanding that tourists often shop during their stay, part of the city's strategy was to establish preferential treatment of local entrepreneurs who would establish shops that would highlight the identity of Lviv the tourist areas of the city. These were bookstores, craft type shops, and stores selling consumer goods produced in the region. The preferential treatment was in the form of simplified zoning and administrative regulations.

Success Stories

As the result of these efforts, several brands blossomed that later successfully franchised to other parts of the country. Among them are: Lviv Candles Manufacture – candles and accessories; Mastak Leather – leather goods.

Sectoral turnover in Lviv Region, USD mln



Source: Derzhstat, 2017

Lviv Creative

Government Support

During the development of the overall city strategy, a general gap in communication between the city, business community and academia. To facilitate this dialogue, the city decided to develop thematic clusters.

In the West, clusters are understood as small focused ecosystems that develop in particular geographic areas and that reach a critical level of horizontal or vertical integration to undergo rapid growth and expansion. Clusters are usually informal, unless specifically organized in economic zones. These clusters often cross trade resources, have strong supply chains, and enjoy economies of scale that would not be possible for individual players.

The clusters in Lviv, while still benefiting from the cross-pollination of resources, are formalized trade associations with the active participation of the municipal government. The clusters aim to build a bridge between the business community, local educational institutions and the activities of the city's government.

At the outset, the city had an IT cluster. Shortly after identification of tourism as a priority area, the Tourism cluster was formed on the basis of CTD. Several years later, additional clusters popped up, including Lviv fashion cluster, and Lviv creative cluster.

Lviv fashion cluster has leverage substantial resources of the region (annual turnover 11 USD mln in 2010, and 12 USD mln in 2017) to capture greater part of the textile and apparel value chain.

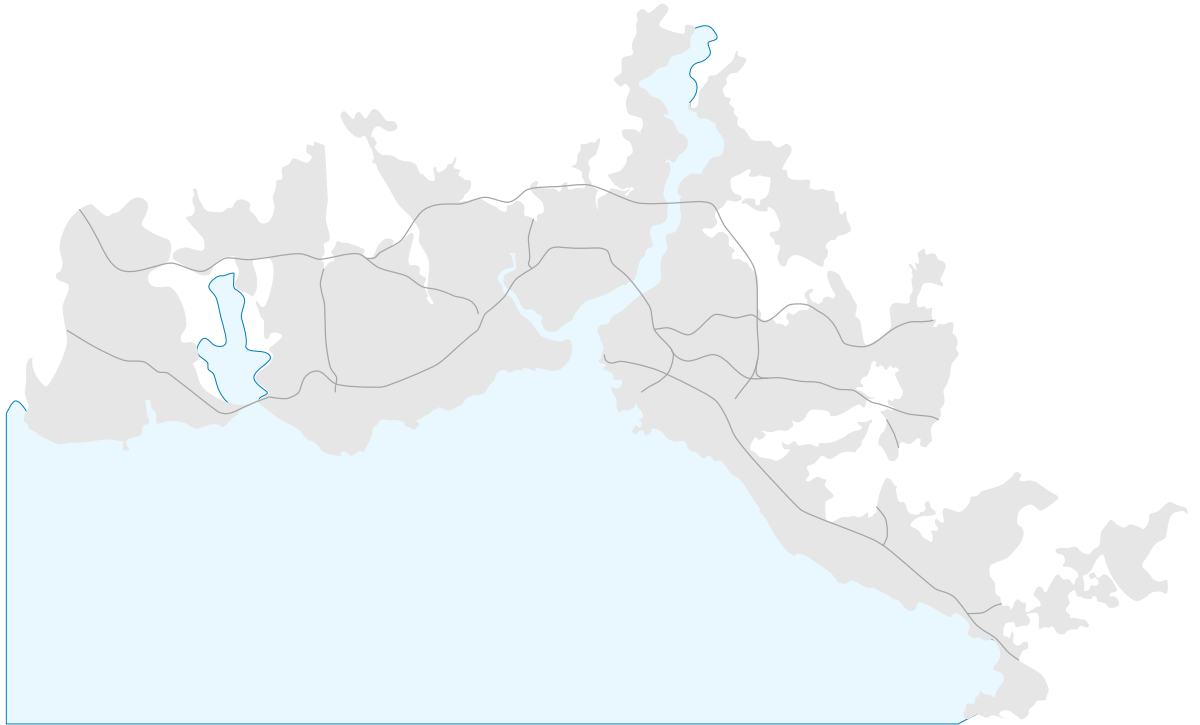
The creative cluster of Lviv started out as a forum of creative agencies that helped shape brand of the city. Following the release of the buildings of radio factory to the creative community it helped attract other artists, artisans and sculptors. Today the cluster is not only a physical location but a community of academics and practitioners who work together to develop the industry and the city.

Success Stories

Today Lviv has a vibrant creative community that not only helps support the tourism and IT sector but also has a strong influence on urban development. This influence helped shape four creative zones:

- Jam Factory Art Center – largest art space in Lviv
- Prostir (inside Lviv city park of Bohdan Khmelnytskyi) – open sky creative zone
- Factory (former Radio Factory territories)
- !FEST (former glass factory) – transformed to a restaurant, office, studio and co-working space
- Lviv's creative industry gets a substantial share of Ukrainian commercial production and has a good following amongst movie makers with recent filming of a German action film "The Glorious Seven"

Istanbul



9th Major European City
regarding Business Friendliness

Labor Force

6.6 mln

GDP

449 USD bln

GDP per capita

31 USDk

International Trade Volume

216 USD bln

Median Age

31

The Youngest among Top European Cities

Vocational and
Technical Schools

1,354

Technological
Development Zones

11

Istanbul Retail

Retail density in 2018

313 m²
per 1000 inhabitants

Active shopping centers in 2018

118
totalling 4,627,633 m²

Shopping centers
under-construction

22
totalling 875 k m²

Istanbul not only serves as Turkey's economic center but as a hub for the Middle East and Eastern Europe in general. Istanbul is home to more than 15 million people, with a booming youth population. This coupled with the huge inflow of tourists every year and the city's long tradition of commerce makes Istanbul one of the largest markets in the region. Retail density rose from 286 square meters per 1,000 inhabitants in 2017 to 313 square meters in 2018.

The development of the sector has been fairly organic and did not involve government intervention. The high population, economic expansion, and the development of lending have paved the way for robust growth in the retail sector. However, demand for new retail space has slowed in the past four years due to political instability and lira devaluation.

Despite a generally robust market, international retailers started pulling out in 2013, while domestic brands have gained a foothold. International companies were prompted to exit the market by the lack of government transparency, strong competition from domestic players, and the inability to expand without the support from a local partner.

Entertainment: Theme Parks

While the steady flow of tourists meant that the entertainment sector always had strong potential in Istanbul, it still took the city a relatively long time to develop and open a successful theme park attraction. Entertainment areas were generally built inside shopping malls and were therefore constrained in size and scope.

Pioneering projects

Vialand Theme Park- is the first project to bring a major theme park in Istanbul. Covering more than 600,000 square meters in the Eyup district, Vialand is one of the largest theme and commercial parks in Europe. The park includes 250 shops in addition to more than 50 rides and attractions, as well as a concert venue that can accommodate up to 10,000 people. The park opened its doors in 2013 and has been success ever since. The park is located next to two highways, one to the north and the other to the south. The park also operates shuttle services to various districts in Istanbul.

Success Stories

While retail and entertainment are sectors that rely on the population growth, economic prosperity and open trade policies more than government intervention, there are still lessons to learn in terms of how municipalities can help the industry grow.

As we have seen in Istanbul's retail sector, transparency in government regulations and fair dealings are especially important for major international retailers. Another major factor in the development of retail has been proximity shopping. Gas prices are relatively high in Turkey and traffic is a persistent problem. The location of the retail centers and the well-developed public transportation system play a key role in the sector's development.

Transportation is also very important for the development of the entertainment sector, and especially for themes parks. As we have seen in the case of Vialand, location and access via multiple transportation options have played a big role in the park's popularity. Any theme park development must pay close attention to zoning and access to major transportation arteries.

Istanbul Hospitality

Istanbul is one of the world's oldest metropolises. The city's rich history, culture and architecture attracts tourists from around the world. According to MasterCard's 2016 Global Destination Cities Index, Istanbul ranked third in Europe's Top 10 Destination Cities by International Overnight Visitors and Cross-Border Spending. In 2017, 10.8 million foreign tourists visited Istanbul (accounting for 30% of total arrivals in Turkey).

Istanbul has 716 hotels, of which 40% are four and five star hotels. According to a municipal report, foreign visitors prefer five star hotels (52%), followed by four (31%) and three star hotels (14%).

Istanbul's travel connections are expanding rapidly. There are three main airports: Istanbul Ataturk Airport and newly opened Istanbul New Airport on the European side and the Sabiha Gokcen Airport on the Asian side. The airports form Istanbul's international air hub with more than 200 destinations from Istanbul airports to Europe, Asia, Africa and Americas.

- **New Istanbul Airport** – located in Black Sea coast on Istanbul's European side. The airport is set to be the largest airport in the world with 90 million annual passenger capacity, reaching 200 million passengers in the future

Recognition – Istanbul is a popular city break destination, with numerous regional and global transport connections. Istanbul is famed for its historic cultural attractions and was selected as European Capital of Culture in 2010.

Turkish Tourism Investors Association – Turkey's largest investors formed an association in 1988 to bring investors together and help coordinate future plans. Istanbul is the leading destination for investment from the association.

Association of Turkish Travel Agencies – the association was founded in 1972 to support travel agencies operating in Turkey. The association is focused on promoting its travel agencies and attracting tourists.



Government investment incentive – Turkey named investment in tourism accommodation in Cultural and Tourism Preservation and Development regions as a priority sector. The government has introduced an incentive scheme covering: 1. VAT exemption; 2. Customs duty exemption; 3. Tax reduction (by 80%); 4. Contribution to investment (40%-50%); 5. Social security premium support; 6. Land allocation and 7. Interest rate support (2%-5%). The initiative was introduced in 2013.

Visa-free travel – Turkey lifted visa requirements for Middle East countries in 2010, boosting tourist arrivals.

E-visa system – The government implemented an e-visa system in 2015 which enabling foreign tourists to obtain a visa prior to arrival.

Government support during attacks in Istanbul – there were two attacks on tourists in Istanbul in 2016, which had a significant impact on tourist arrivals, with numbers down 1.24 million compared to 2015. The government provided a subsidy of 6,000 USD per charter flights to Turkey to entice airlines and tour operators. A government proposal permitted hotels to postpone the repayment of 98 USD mln in loans⁴⁰.

⁴⁰Source: www.bloomberg.com

Success in numbers

Medical tourism – Turkey believes that medical tourism is a promising sector for the country. The country issued a VAT exemption on medical treatments for foreigners. Medical tourism increased by 31% compared to the previous year³⁹.

Tourism training – The Ministry of Culture and Tourism launched educational programs to raise the skills and qualifications of tourism professionals with 4,257 participants in 2014.

National and local branding and marketing – the Culture and Tourism ministries launched a joint social media tourism promotional campaign in 2014. The campaign communicates Turkey's brand and its cultural, historical and tourism values. New accounts were created on social media channels for promotional activities cumulating in the fourth biggest social media tourism campaign in terms of budget and scope.

Hotels

There are **716 hotels in Istanbul** and the top global hotel chains have a strong presence including Divan Group, Titanic Hotels, Limak Hotels, Accor, Best Western, Radisson Hotel Group, Hilton, Hyatt, InterContinental Hotels Group, Marriott, Wyndham, and more.

Airports

Istanbul has **three major airports**, which make **flights over 200 destinations**

Number of beds

147,000

Travel agents

3,234

Tourist entertainment installations

349

³⁹Source: www.dailysabah.com

⁴⁰Source: www.bloomberg.com

Istanbul Pharmaceuticals

Government initiatives

1. Tax incentives:

- **Corporate tax reduction:**
Reduced tax rates on investor's income (50%-90%) until the total deduction reaches a certain percentage of capex (15%-65% of capex or up to 200% of capex in the case of project based incentives). All R&D expenditures are deducted from tax base for R&D investments
- **VAT exemption:** Investment in machinery and equipment imported and/or locally provided covered by the incentive certificate will be VAT exempt
- **Customs duty exemption:** Investment in machinery and equipment imported covered by the incentive certificate will be customs duty exempt

2. Interest Rate Support:

The government will cover a certain portion of the interest on investment loans. (37 percentage points for TRY-denominated, 1-2 percentage points for forex-denominated loans) (500,000-900,000 TRY).

3. Land Allocation:

Government land will be allocated for investments if no land is available in Organized Industrial Zones (OIZs).

4. Law on Technology Development

Zones: provides for the partial compensation of expenses on land acquisition, construction of infrastructure as well as exemption from all duties, fees and taxes

5. Law on Supporting Research and Development Activities:

provides for incentives and support in the form of an allowance, insurance premium support, technological entrepreneurship capital subsidy and tax exemptions

Istanbul Development Agency (IDA)

was established by Cabinet enactment 2008/14306 dated 10 November 2008 based on the Law no 5449 with a view to "accelerating regional development, ensuring sustainability and reducing the interregional and intraregional disparities in accordance with the principles and policies set out in the National Development Plan and programs, by enhancing the cooperation among the public sector, private sector and non-governmental organizations, ensuring the efficient and appropriate use of resources and stimulating the local potential". The IDA commenced was established in August 2009 and started hiring in December.

Clustering

The Istanbul Health Industry Cluster (ISEK) is a collaboration between various companies and the relevant university research centers, public institutes and NGOs in the Istanbul Metropolitan Region and includes a well-established medical device production cluster comprised of more than 50 pharma producers.

In light of its potential to create positive technological externalities in areas such as biotechnology, the sector can be considered a strategic niche of scientific and research driven by industrial development. The Turkish Scientific and Technological Research Council (TUBITAK) has listed the cluster among its high development priorities by. Considering the relatively small number of firms, and its relatively high concentration of value added, the sector is dominated by large national and multinational companies.

Incentive Schemes

Main Incentive Tools

	General	Regional	For priority investment	For large scale investments	For strategic investments	Project based	R&D
Corporate Tax Reduction		•	•	•	•	•	•
VAT/Custom Duty Exemption	•	•	•	•	•	•	•
Social Security Premium Support		•	•	•	•	•	•
Income Tax Withholding Support	•	•	•	•	•	•	•
Interest Support		•	•		•	•	
Land Allocation		•	•	•	•	•	
Partnership (Equity Investment by Government)						•	
Guarantee of Purchase by Government						•	
Energy Cost Support						•	



Success story

The Novartis Group has four manufacturing facilities in Turkey, producing key products, several of which are exported worldwide. The group employs more than 2,300 qualified people. Novartis shipped 150 USD mln worth drugs to more than 100 countries, making them Turkey's largest pharma exporter; a clear example of Turkey being used as a manufacturing and export base. To date, Novartis has invested over 240 USD mln in its four Turkish sites. The facility in Kurtköy, Istanbul, is one of Novartis' 10 global centers of excellence. In 2015, the Kurtköy plant was selected as the main manufacturing center for the anti-malaria drug as part of the company's Malaria Initiative, one of the pharmaceutical industry's largest access-to-medicine programs, focusing on treatment, access, capacity-building, and R&D. This demonstrates Novartis' commitment to Turkey as a center for pharmaceutical investments. The drug is being exported across the world, to more than 50 malaria-endemic countries. The Kurtköy plant is front and center in the global fight against malaria, with an annual output capacity of 100 million treatments. The Novartis Group is also the leading pharma clinical research company in Turkey, investing more than 144 USD mln over the past seven years, accounting for 20% of all clinical trial investment by multinational corporations in the country.

Istanbul Healthcare

Government initiatives

1. The government is adopting policies to increase access to healthcare services resulting in major investment into healthcare infrastructure
2. Human Capital

Istanbul Medipol University (IMU) is a non-profit private university founded in 2009 by Turkey Education, Health and Research Foundation (TESA). The university has a strong culture of entrepreneurship and continuous development. The university also aims to produce graduates that will make significant contributions to the community and science.

The university has 13 faculties: Medicine, International School of Medicine, Pharmacy, Dentistry, Health Sciences, Engineering and Natural Sciences, etc. The university also has four Graduate Schools with 35 Masters and 25 Ph.D. programs, 58 undergraduate programs and 66 vocational school programs.

The IMU Technology Transfer Office (TTO) aims to deliver permanent improvements in science and technology production, and supports transfer of these technologies to industry and the community. TTO also aims to develop the entrepreneurship and inventiveness of its academics and students supporting them throughout their research projects.

IMU TTO provides services from six main offices:

1. Sponsored Research Offices
2. Individual Supports Offices
3. University-Industry Collaboration Offices
4. Research Infrastructure Supports Offices
5. Intellectual Property Rights & Licensing Offices
6. Finance and Support Offices

Clustering

The Istanbul Health Industry Cluster (ISEK) is a collaboration of various industrial companies with the related university research centers, public institutes and NGOs in Istanbul Metropolitan Region. Cluster residents range from large-scale corporations to SMEs and start-ups with a focus on medical devices and biotechnology as well as pharmaceuticals. ISEK comprises 140 firms, 17 universities (relevant research centers), 13 NGOs, two public institutions and one hospital.⁴¹ ISEK's missions are:

- Increasing the dialog and improving cooperation between industrial companies and universities, and developing and strengthen the existing academic research and service infrastructures to meet the urgent and specific needs of the local health tech industry
- Providing joint labs, support spaces and other common purpose infrastructures for pre-competitive research needs;
- Focusing on new entrepreneurs, establishing focused pre-incubators, advanced incubators and specific pilot production infrastructures
- Providing support services to project teams in capacity building, technical consultancy, technology transfer, intellectual property; either in-house or via effective referral to its supporting partners
- Organizing events (seminars, meetings and workshops) to facilitate collaboration by bring people together in focused events and offering new training programs to help, expand and improve the regional industrial workforce
- Developing shared exhibition/demo areas and specific national/international marketing strategies for the whole cluster
- Assisting in the development of regional healthcare industry innovation districts and physical infrastructure, including industrial parks dedicated exclusively to health tech

Success stories

Hair transplantation

Getting a hair transplant is not just a medical procedure in Turkey. Almost every clinic in Istanbul offers a package deal: the clinic will organize a private transfer to your hotel from the airport. Your hotel room will have already been booked by the clinic and transportation on the day of the procedure will be all taken care of.

Some of these hospitals are also becoming increasingly active in trying to co-ordinate forward and backward links with businesses, such as visa arrangements, patient flights, strategic alliances with private health insurers in potential client countries, websites and health tourism promotion, and lobbying efforts targeted at institutions and health providers in potential client countries.⁴²

Ophthalmology

Eye treatment is a very well developed in Turkey due to the abundance of skilled specialists and good integration with the overall medical infrastructure.

⁴¹ i-sek.org

⁴² OECD

Recommendations

The research and interviews with industry experts has identified several common trends that may become key drivers of accelerated development in the hospitality, healthcare, pharmaceutical, retail, entertainment and creative sectors in Tbilisi. Several essential development areas are critical for boosting and supporting growth for all sectors

Infrastructure

- Develop and implement Sustainable Urban Mobility Plan
- Improve the bus network: optimize routing, upgrade the bus fleet and introduce bus lanes for key arteries and to priority investment sites
- Ensure enforcement of parking violations that severely hamper pedestrian tourism
- Formalize the priority of pedestrian traffic and pedestrian areas that foster European tourism environment
- Continue to develop bicycle infrastructure to improve mobility between city neighborhoods
- Draw up a citywide regional development infrastructure plan: including long-term zoning strategy

Human Capital

- Establish partnerships between the city government and the business community to develop educational institutions jointly and ensure a steady supply of human capital
- Develop channels to facilitate the commercialization of knowledge in universities and technology transfer between universities and the private sector
- Align the curriculum with current business needs to produce a labor force with in-demand skills. Coordinate research priorities with key business stakeholders and secure funding to drive the enhancement of expertise, technology and policy in key priority areas
- Develop technology transfer offices (TTOs) in all universities aimed at facilitating the transfer of knowledge, R&D and technology from universities to industry and innovation clusters
- Diversify the curriculum of vocational colleges to train the mid-level employees for the hospitality, healthcare and creative sectors that investors need

Strategy

- Develop a long-term cohesive vision of city priorities that balances quality of life with economic development
- Set up a cluster of development agencies in City Hall: (hospitality, healthcare, creative) and provide platforms for clusters to collaborate
- Support clusters in Tbilisi industries and services in priority sectors and ensure their development and sustainability
- Use clusters to enhance industrial efficiency, competitiveness and opportunities for adding value
- Improve the institutional capacities of small- and medium-sized enterprises operating in priority sectors, promoting cooperation and the formation of networks
- Foster communication and cooperation between public institutions and priority sectors, e.g. by establishing a development council

Sectoral Recommendations



Hospitality

- Diversify the tourism offering by prioritizing the most value added segments in the long-term and focusing on niche sectors such as wellness, medical, culinary and wine tourism.
- Collaborate with the retail and entertainment industries to create a unique family-oriented Tbilisi experience
- Boost opportunities for MICE tourism by hosting major regional sporting, business and cultural events
- Expanding tourist activity to areas outside the city center e.g. potential Vake fashion route, Tbilisi Sea recreational zone
- Develop a brand for the city, emphasizing investment in tourism and becoming a draw on par with global tourist hotspots
- Introduce additional training programs to boost the quality of service and develop hospitality-focused vocational centers
- Expand the offering for cultural tourism, attracting more visitors to folk festivals and highlighting Tbilisi's creative character
- Focus development incentives on the surrounding areas of Tbilisi, with the priority on spa and wellness



Healthcare

- Promote all-inclusive packages to attract more medical tourists:
 - Establish partnerships with major airlines, hotels and travel agencies to provide discounted packages for medical tourists and introduce incentives such as VAT refunds for partner companies and tourists
 - Strike agreements within the region to target medical tourists according to the each country's medical strong points
 - Foster close relationships with major hospitals to provide streamlined packages for medical tourists, especially those with long-term care needs
 - Intensify efforts to develop plastic surgery and cosmetic procedures, a key growth area for medical tourism
- Increased focus on disease prevention and early diagnosis to make the UHS system more cost-effective
- Develop a well-structured and transparent emergency service that efficiently allocates patients to the relevant hospitals
- Create a cohesive and closely aligned network of oncology centers that can provide better treatment at every stage
- Adopt standardized performance indicators for healthcare institutions to regulate service quality and ensure new practices are rolled out consistently
- Improve care and rehabilitation services by developing alternative care models, addressing the lack of infrastructure and meeting staffing requirements
- Promote in vitro fertilization and other fertility treatments in Eastern Europe and the Middle East, highlighting high quality practice, relaxed regulation on surrogacy and strong data protection laws
- Develop physical rehabilitation centers in Tbilisi and improve links with hospitals across the CIS



Pharmaceuticals

- Relocate production facilities from various historic and residential inner-city districts to areas where they can cluster and develop, while ensuring solid plans to redevelop the vacated sites
- Promote Georgia's expertise in bacteriophage therapy on the world stage,; launching products and services on international markets with support from the Georgian government
- Support the wider use of bacteriophage therapies across various sectors in Georgia such as health, agriculture, veterinary and so on



Retail & Entertainment

- Develop specific retail and entertainment zones as part of an overall citywide strategy
- Organize cultural, artistic and social activities, especially outside the city center and in underdeveloped parts of the city to promote community cohesion
- Draw up a long-term vision for focused subsectors that play to Georgia's strengths, such as small- and medium-sized retailers, artisan handicrafts and designers goods
- Establish a streamlined unit within City Hall to manage the bureaucratic workload more effectively and deal with lengthy procedures more efficiently, by this we imply development of specific guidelines for public use, and implementing internal processes that would allow better institutional memory and improved new hire adaptation
- Promote the involvement of small and medium retailers in e-commerce by creating targeted platforms and training programs



Creative

- Alleviate the current skills mismatch on the market by developing courses and programs at educational institutions that better match business requirements and allow students to continue refining their skill at the employer
- Nurture home-grown design and support the creation of international brands to move up the global value chain with high value added products and services
- Create incentives and provide premises for talented Georgian creative (e.i. fashion designers) professionals in the Diaspora to return and develop their brand in Georgia
- Make efficient use of existing local assets by including them in film, fashion, design, television and publishing projects to improve the city's profile and image
- Promote products (clothes, craft, furniture, product design) designed and produced in Tbilisi with global brand value and use them to market Tbilisi
- Engage local educational sector, business, IT and creative community to work on the city development initiatives (e.g. advertisement)
- Provide opportunities for creative sector to shape city's urban environment policy. This will help retain talent in the city

Annex 1

Business Entities in Georgia

Georgian law offers the following legal forms for business entities, each with its specific legal and tax implications:

Private Entrepreneur (equivalent to a sole proprietor / sole trader in Anglo-American law) – a private individual doing business for profit and carrying liability covered by his/her personal assets. This legal form may qualify for Micro Business status, which enjoys preferential tax treatment.

General Partnership (formal name: “Society of Joint Liability”) – a legal entity formed by a group of individuals engaged in doing business for profit who share the rewards from such activity and carry the corresponding liability covered by their personal assets. This legal form may be chosen to fulfil various statutory and collateral requirements.

Limited Partnership (formal name: “Command it Society”) – a legal entity formed by a group of individuals engaged in doing business for profit who may have full personal liability, in the case of the principals, or who may carry liability covered by their respective contributions to the partnership, in the case of limited partners.

Cooperative – a legal entity formed by a group of individuals engaged in doing business for profit but whose liability is limited to their respective contributions to the cooperative. The cooperative may only be created for undertaking agriculture-related business activities. A major benefit of this particular legal form of doing business is that any dividends paid out are tax exempt.

Limited Liability Company (LLC/LTD) – a legal entity engaged in doing business for profit in which the founders' liability for the enterprise's activities is covered by their contributions to the entity. Typically, this is the most common form of business enterprise in Georgia. The entity cannot issue ownership shares that could easily be transferred to other parties.

Joint Stock Company (JSC) – a legal entity created for doing business for profit in which the founders, or owners, carry liability for the enterprise's activities that is covered by their respective equity stakes. In contrast to an LLC, ownership of a JSC is proportionally split according to individual equity shares, which may be privately held or publicly traded.

Although Georgian law provides for several types of non-commercial entities, only one merits attention as a potential vehicle for doing business.

Non-Entrepreneurial (Non-Commercial) Entity – a legal entity engaged in economic and non-economic activities with a purpose other than generating profit. The entity can own property and conduct activities just like a business entity, with the amount of liability capped by the value of the entity's property. Such entities enjoy tax breaks on any activities financed by grants or donations.

Annex 2

Procedures for Registering a Business in Georgia

The process for establishing a business in Georgia has been extensively simplified over the past decade, with the enactment of improved legislation and the introduction of a one-stop service center. Today, a business can be registered in one day by paying a fee equivalent to about 40 USD and submitting several documents to the NAPR.

The registration procedure is very straightforward: The applicant shall submit their corporate charter documents or fill in NAPR's standardized corporate charter template and have a legally registered local address. If the applicant does not speak Georgian, a translator will be necessary during registration. If any of these criteria are not met, the company must first obtain a local address and notarized Georgian translations of its constituent documents, after which it can proceed with registration.

Under the Georgian Law on Entrepreneurs, the charter, or corporate registration documents, must contain information on the company's name and legal address, as well as the names of its founders and the company's legal form, etc. In addition, limited liability companies and limited partnerships must submit information on the contributions made by each founder and their respective shares. The NAPR is responsible for the registration procedure. Under Georgian law, the company's authorized capital can be set at any amount and there are no formal requirements for having a local partner in order to establish an enterprise.

The process for establishing a branch of a foreign company in Georgia is also straightforward. The foreign company must submit the following to the NAPR: a formal management decision to establish a branch in Georgia, the application for registering the branch, copies of the parent enterprise's and the branch's corporate by-laws and the formal decision on appointing the branch manager together with the latter's passport.



Economic Development Office is one of the ten Municipal Departments under Tbilisi City Hall management. The aim of the Office is creating favorable environment for the sustainable economic development of the city. The Office largely carries out activities in order to identify the economic potential of the city, to encourage investment activities as well as to promote it on local and international level. The Office consists of four departments:

Investment Support & Promotion

Tourism Support & Promotion

Research & Analytics

Business Development & Innovations Support



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