



USAID
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**THE USAID ECONOMIC
SECURITY PROGRAM**

SECTOR AND VALUE CHAIN ANALYTICS

THE FIFTH ANALYTICAL REPORT

(QUARTER III of 2021)



Research

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ACRONYMS

ACCA	Association of Chartered Certified Accountants
ADE	Architecture, Design and Engineering
BPO	Business Process Outsourcing
BSO	Business Service Organization
CIS	Commonwealth of Independent States
CPA	Classification of Products by Activity
CRM	Customer Relationship Management
DMO	Destination Management Organizations
EG	Enterprise Georgia
EU	European Union
F&A	Finance and Accounting
FDI	Foreign Direct Investment
FTE	Full-Time Equivalent
GAFA	GEORGIAN APPAREL AND FASHION ASSOCIATION
GEL	Georgian Lari
Geostat	National Statistics Office of Georgia
GITA	Georgia's Innovation and Technology Agency
GIZ	DEUTSCHE GESELLSCHAFT FÜR INTERNATIONALE ZUSAMMENARBEIT
GMGA	Georgian Mountain Guides Association
GNTA	Georgian National Tourism Administration
GoG	Government of Georgia
HORECA	Hotels, Restaurants, and Cafes
HRM	Human Resources Management
HS	Harmonized System
HuRoGuRe	Huts, Routs, Guides, Rescue
HVM	High-Value Markets
ICT	Information and communications technology
ISET	International School for Economics at TSU
IT	Information Technology
MEA	Middle East Airlines
MOH	Ministry of Labour, Health and Social Affairs
MSME	Micro, Small & Medium Enterprises
NACE	Statistical classification of economic activities in the European Community (Nomenclature statistique des activités économiques dans la Communauté européenne)
PMCG	Policy and Management Consulting Group
PPD	Public-Private Dialogue
PPE	Personal and Protective Equipment
PPP	Public-Private Partnership
UAE	United Arab Emirates
UK	United Kingdom
UNWTO	United Nations World Tourism Organization
US	United States
USAID	United States Agency for International Development
USD	USD – United States Dollar
VC	Value Chain
WCO	World Customs Organization
WHO	World Health Organization

EXECUTIVE SUMMARY

This quarterly report provides an analysis of economic trends, as well as denoting the challenges and opportunities (in local, regional, and global contexts) in selected value chains within six sectors to improve evidence-based decision-making by providing quality information and analytics. The specific sectors covered are tourism; creative industries; light manufacturing; shared intellectual services; solid waste management and recycling; and cross-cutting sectors. The analysis tracks trends from the third quarter of 2021.

The following is a synopsis of the findings for this quarter:

Tourism. In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. A full recovery is not expected until at least the end of 2024 and Georgia, being a heavily tourism-dependent country, has been hit especially hard. In the first three quarters of 2021, the first signs of recovery became visible. With the alleviation of COVID-19-related restrictions since Q2 2021, the reopening of land borders, and the revival of many flight routes, positive expectations about a recovery increased. By June 2021, the number of international visitors³ to the country had recovered to 32% of pre-pandemic levels. The third quarter saw a continuation of this trend, with the number of visitors recovering to 39% in July, 37% in August (a slight dip compared to July due to the epidemiologic situation), and 43% in September. The fourth quarter again witnessed continuing recovery, with the number of international visitors reaching 47% of pre-pandemic levels in both October and November, and 46% in December.

However, despite these positive developments, major risks hindering the full recovery of the sector still exist due to the uncertainty surrounding the pandemic. Moreover, among benchmarked countries⁵ (Albania, Croatia, and Greece), Georgia has had the least effective tourism recovery so far and has also fallen behind Turkey in this respect. Although the private sector still finds it difficult to make informed predictions, several presumptions have been made that from the second quarter of 2022, between April and May, the sector could enter a new phase of the pandemic with reasonable hope for the alleviation of any restrictions and a return to stability. Nevertheless, even in this case, there is concern about how the private sector will withstand a possible boom, as happened in July 2021 when demand suddenly overtook supply and businesses were highly unprepared, which had a negative influence on the quality of services.

Overall, most of the respondents think that while the quality of goods and services in the tourism sector had been declining already before the COVID-19 crisis (partly due to the influence of mass tourism), in the post-pandemic period the country has an opportunity to make substantial changes to its tourism sector strategy, raising quality through promoting more sustainable forms/categories of tourism

Creative Industries. The creative industries were affected by the pandemic significantly. In particular, the media content production and post-production value chain had recorded impressive growth prior to 2020, with expansion in terms of turnover, employment, and all other indicators. The pandemic affected the value chain considerably, causing contractions in all indicators from which it has yet to recover. Meanwhile, the aggregate sector of information and communication, in contrast, has recovered and even surpassed pre-pandemic levels.

After being heavily hit by COVID-19, the media content production and post-production value chain has started its recovery from record-low numbers, recording its first growth in Q2 2021 after the start of the pandemic. The growth continued in Q3, with the VC's turnover also expanding when compared to the previous quarter. The launch of the redesigned cash rebate program was mentioned

by respondents as an important positive step forward in regaining investors' attention. However, according to many respondents, the terms of the program had been significantly tightened. For example, they emphasized a decrease in the period for submitting an independent audit report and an increase in the period for reimbursing 20% of the qualified expenses, as well as limiting the period in which projects should be completed to one year. None of the companies interviewed for this report have yet applied for the updated program, while many reported that companies which had attempted to register for the program had experienced various technical problems. Nevertheless, overall, the interviewed companies remain optimistic about the future of the redesigned cash rebate program.

The artisan VC also saw the first signs of recovery in Q2 and Q3 of 2021, with more than half of its firms reporting increased turnover. However, full-fledged recovery is still not in sight, as substantial part of the value chain has completely halted their operations even with tourism reopening in Q2 2021, and the increases in turnover for firms remaining operational have been modest, even when compared to Q2 2020. According to the interviewed stakeholders, from the beginning of summer 2021, with the revival of tourism, the demand for artisanal products increased but revenues have not yet returned to pre-pandemic levels. Meanwhile, sales were positively affected by the fairs organized by the Georgian Heritage Crafts Association. Finally, challenges related to transportation and material availability remain the key impediments to the artisan value chain.

Light Manufacturing. According to the quarterly data, turnover in all value chains in this sector demonstrated positive nominal growth in Q3 2021 compared to Q3 2020, with the highest growth observed in the packaging value chain (32.7%). Employment has also increased in every value chain, with the highest growth reported in construction materials (18.5%). Moreover, the highest number of hired employees as Q3 2021 was registered in the construction materials value chain (9,329 employees), while the lowest was observed in the furniture value chain (3,226 employees). Improved performance should be partly attributed to the base effect. Survey results for the PPE value chain and the wooden toys business activity suggest that the majority of PPE (78%) and wooden toys (63%) manufacturers reported an increased turnover in Q3 2021, compared to Q3 2020. As for employment, 50% of PPE value chain and wooden toys manufacturers reported no change in their number of employees in Q3 2021, compared to Q3 2020, while 25% and 50%, respectively, reported an increase in employment over the same period.

There has not been significant progress made to counter the critical impediments persisting in the value chains under this sector. This may be considered surprising considering the number of active associations/clusters present in the light manufacturing sector. In some cases, more than one association is active per value chain. However, as has been noticed, progress towards overcoming long-lasting challenges is seldom being achieved. There are still prominent impediments in the sector that are complex and might require years of work before they are effectively dealt with. One particularly significant challenge among these is that of an unskilled workforce, which is a central barrier that limits the upgrading potential of all value chains in the light manufacturing sector. In certain cases, however, according to the relevant association representatives, despite the offered initiatives targeted toward upskilling the labor force, the private sector has been reluctant to engage in the suggested support schemes.

Individual interviews and FG discussions highlighted that there are clear opportunities to better utilize the cooperation between private and public sectors, as the overcoming of many regulatory challenges existent in these value chains will necessitate the active involvement of state institutions. The specific public agency that has been continually active and positively involved in the development of the light manufacturing sector has been Enterprise Georgia. As the analysis has revealed, precedence for

partnership with Enterprise Georgia is especially well-established in the packaging and construction materials value chains.

Overall, the light manufacturing sector seems to have successfully adjusted to the reality of the ongoing pandemic. Significantly, some of the barriers outlined during previous quarters are likely to no longer pose significant threats to the economic health of this sector.

Solid Waste Management. According to a quantitative assessment of the quarterly data, turnover in the solid waste management and recycling sector demonstrated positive nominal growth (YoY) in Q3 2021 compared to Q3 2020 (34.7%). Employment has increased slightly (YoY) in the sector, with an annual growth rate of 1.1%. In contrast to employment, the average monthly salary for Q3 2021 grew significantly (10.7% YoY). Productivity in the sector also surged upward remarkably, with an annual growth rate of 64.4%.

The qualitative assessment showed no significant progress being made to counter the central impediments to have limited the upgrading of this sector overall. Regulatory challenges are still at the center of the private sector agenda. In particular, the implementation of the Georgian Waste Management Code is improper, the Extended Producer Responsibility (EPR) legislation has not yet been enacted. Nevertheless, growth in all business activity parameters is projected once these regulatory changes are in force. The businesses that make up the solid waste management and recycling sector are claimed to have significantly higher production capacities compared to the current scale of operation. However, the shortage of recyclable waste in Georgia is regarded as a critical barrier in this direction. A permanent waste shortage also deters domestic and foreign investors in this sphere. Meanwhile, limited access to finance continues to be highlighted as a barrier to growth. There is some precedence for partnerships with the public sector, but this has been sporadic in nature so far. The Waste Management Association (WMA) of Georgia has attempted to collaborate with Rustavi municipality to distribute separable recycle bins across the municipality but this process was interrupted due to municipal elections.

Shared Intellectual Services. Under the shared intellectual services sector, this report observed the economic trends in business processes outsourcing (BPO) value chain. Two business activities of the BPO value chain are covered in this quarterly analysis: human resource management (HRM); and customer relations management (CRM).

As the survey results for the CRM and HRM value chains show, the majority of surveyed companies under both business activities were small businesses, with turnover below GEL 100,000 per year. Moreover, a significant proportion of the CRM and HRM value chain companies (57% of HRM companies, and 83.3% of CRM companies) reported an increase in turnover compared to Q3 2020. Despite the positive tendencies, on average HRM posted a 10% decline in turnover, while CRM recorded a moderate increase of 10%. As for employment, all HRM companies reported no change in their number of employees compared to Q3 2020, while 71.4% of CRM companies indicated growth in employment.

Cross-cutting Sectors. The rebounding economy in the second quarter of 2021 coincided with a rebound in cross-cutting sectors, even when the loosening of pandemic-related restrictions threatened to have a negative effect on the ICT and e-commerce value chains, both of which enjoyed a slight boost on account of the pandemic-related restrictions. This recovery continued further in Q3 2021, hinting at a possible permanent shift towards a digital economy. However, this rebound in turnover has not affected employment numbers. The ICT value chain experienced growth in all key indicators except for employment in Q2 and Q3 2021. This combination of rising turnover and output and falling employment has resulted in significant growth for the value chain's productivity.

Meanwhile, e-commerce transactions have continued their strong growth trajectory which started in Q2 2020, both in terms of quantity and value of transactions. Interestingly, the share of the gambling sector in total virtual transactions has declined significantly compared to pre-pandemic levels, and it represented 69% of the number of transactions in Q3 2021 compared to 86% in Q2 2020. Overall, the expected decline in the quantity of transactions after the loosening of restrictions has not materialized, with the number of transactions decreasing by just 0.1 million (from 24.6 million to 24.5 million).

In the transport and logistics value chain, the airline industry has been hit hardest by the pandemic as it had no flexibility in contrast to other value chains of the sector, with the decline continuing throughout Q1 2021. The transport and logistics value chain experienced its first year-on-year growth since the start of the pandemic in Q2 2021, growing by 25.9% in turnover, and again in Q3, growing by 4.2% YoY. This recovery has coincided with the rebound of external trade in Q2 and Q3 2021. Moreover, the value chain's other key indicators, such as employment, average monthly salary, and productivity have also increased when compared to Q3 2020 and Q2 2021. This strong recovery has been fueled by the rebound of air transport, which had previously been subdued up until Q1 2021.

METHODOLOGY

DATA AND METHODOLOGY

The quantitative analysis is mostly based on secondary data gathered from multiple local and international sources as well as a survey administered for the value chains where official data were either not available or were presented at an uninformative level of aggregation.

Table I summarizes the key indicator dimensions used throughout the report to quantitatively assess economic development across the selected value chains along with the respective data sources.

Table I Main indicators and respective data sources

CRITERIA	INDICATORS	DATA SOURCES
Trade in Goods and Services	Global trends in the trade of goods and services	UN Comtrade International Monetary Fund Balance of Payments Statistics
	Regional trade trends: - import and export of goods and services for selected countries in the region.	UN Comtrade
	Georgian trade trends: - import of goods and services; and - export (re-export; domestic export) of goods and services.	Geostat, Trade Portal National Bank of Georgia, Balance of Payments Statistics.
Sales, Output, Value-added, Employment, Productivity, Wages, and Investments in the Private Sector	Sales (turnover) in selected value chain as well as in aggregated industries; Trends in outputs and value added; Dynamics of investments in fixed assets and inventory; Developments in the number of hired employees; Share of women in employment; and Labor productivity and wage dynamics.	Geostat, Survey of Enterprises
Dynamics in the Number of Active Enterprises	Dynamics in the number of active enterprises (by size) in Tbilisi and outside Tbilisi.	Geostat, Business Registry

The process of data collection and analysis is outlined below:

- I. Data analysis for the economic sectors at the two-, three- or four-digit level of NACE was based on Geostat's Survey of Enterprises. Economic data received from Geostat include sectoral indicators such as turnover, outputs, value-added, employment, wages, and investments. Certain indicators, such as value-added and investments, are not possible to measure on a quarterly basis. According to Geostat, meaningful investment data are gleaned only from its annual survey of enterprises due to a number of objective reasons.

Geostat's statistical survey of enterprises ensures the representativeness of business indicators for the majority of activities at the three-digit level and for some activities at the four-digit level. However, given the specific and small-scale nature of some of the targeted value chains (e.g., wooden toys, artisan), Geostat data were not available for all economic activities under consideration.

Appendix I presents the target value chains matched with the relevant NACE codes. Economic activity classification is further disaggregated by the types of data. When there are no data for narrowly defined NACE codes, the available best-matching aggregation level from Geostat is used. However, if the level of aggregation is uninformative for the purpose of our analysis or if the data are not available for certain value chains, the analysis of such value chains is based entirely on the qualitative survey administered within the current project.

- II. The numbers of active enterprises operating in each value chain are taken from Geostat’s Business Register. This allows us to observe the dynamics in the number of active enterprises located in or outside Tbilisi by main kind of economic activity (available at a narrower level of NACE codes).
- III. For trade data, the correspondence analysis was performed to link NACE sectors (through CPA product classification, which is also used by the EU) with foreign trade data (through Harmonized System (HS) classification at the six-digit level). Importantly, the applicable HS codes for the personal and protective equipment value chain were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization (WCO) and the World Health Organization (WHO)¹.

Survey

Geostat’s business data, as the primary source of information for the report, are based on quarterly and annual sampled surveys which are supposed to be representative at the section level per region. Thus, Geostat’s business statistics samples are constructed so that data on, for instance, key construction indicators for Guria region are valid. In addition, much more data are available for relatively large subsections at the national level (two-digit division level or even three- and some four-digit subdivision level).

Data analysis of the results of Geostat’s business survey shows that a number of relatively small value-chains are not representative. These sectors include:

- 1) Artisan VC (Creative Industries Sector)
- 2) Personal and Protective Equipment (PPE) VC (Light Manufacturing Sector)
- 3) Wooden Toys VC (Light Manufacturing Sector)
- 4) Catering VC (Tourism)
- 5) Customer Relationship Management VC (Shared Intellectual Services Sector)
- 6) Human Resources VC (Shared Intellectual Services Sector)

To cover the data gaps, it was decided to obtain the key business indicators describing development in the above six value chains through a short quantitative survey. For this purpose, the business register of Geostat¹ as well as the list of stakeholders² were used to map the six value chains to NACE classification of economic activities and to select enterprises. As a result, the following mapping was undertaken:

Table 2 Value Chain Mapping

Value Chains	NACE Codes
--------------	------------

¹ HS classification reference for Covid-19 medical supplies 2nd Edition. WCO.WHO (2020)

Personal and Protective Equipment (PPE)	14.12 Manufacture of workwear 32.99 Other manufacturing n.e.c.
Customer Relationship Management	82.20 Activities of call centers
Human Resources	78 Employment activities
Wooden Toys	32.40 Manufacture of games and toys Stakeholders' list
Artisan	Stakeholders' list
Catering	Stakeholders' list

To determine that the companies surveyed were actually involved in the above activities, screening questions were asked about the main goods/services they produced.

The survey was conducted by phone by PMC RC and ISET staff. Despite a significant number of companies turning out to be unreachable, more than 100 companies were surveyed, and the obtained data provided information on the situation and trends in the six value chains with regard to turnover, employment, wages, and respective year-on-year changes. To capture potential differences between companies within each value chain, questions on the level of turnover³ and wages were also asked. Additional comments collected by the interviewers provided interesting insights into certain aspects of the value chains' activities (Appendix 2).

It should be noted that a substantial pool of data was obtained for the companies in the PPE value chain. As a result, although the data on turnover were collected for the purpose of grouping companies and observing differences in trends, the numbers obtained also allowed for PPE market estimations.

QUALITATIVE ANALYSIS

The qualitative research was designed with the following two distinct objectives: (1) to complement the quantitative research by addressing the questions that could not be answered using quantitative research methods; and (2) to interpret and further explain the results of the quantitative analysis. Therefore, the qualitative research asks the following questions:

- What are the supply chain linkages in the domestic market?
- What are the dynamics with regard to the presence of business associations?
- How ready is the private sector to invest?
- What changes have been made to gain a competitive advantage against key competitors in the domestic or export markets?
- What changes have been observed in opportunities addressing productivity gaps?
- How has competitiveness been improved?
- Are the required human resources available?
- What are the key determinants of the latest industry trends?

The following methods have been used by researchers to answer the questions listed above:

Focus groups and individual interviews with enterprises (Appendix 3): Focus groups were formed of representatives of companies within the same or similar value chains. Each individual group was

composed of participants from companies of similar size and characteristics to ensure the maximum openness and responsiveness of the respondents. Focus groups with the same composition of participants will be interviewed in subsequent quarters to ensure respondents' commitment and more consistent tracking of the trends in the value chains. In addition to the focus groups, which are composed of homogeneous enterprises, researchers conducted individual interviews with companies that do not share common characteristics to widen the range of perspectives obtained from within the value chains (Appendix 4).

Given the large number of interviews and the tight timeframe of the reporting period, we allocated sectors to different quarters. Specifically, we interviewed stakeholders in three sectors (tourism, light manufacturing, and creative industries) for the first reporting period, and those from the other two sectors (shared intellectual services and cross-cutting sectors) will be interviewed in the next quarter, so that stakeholders of each sector will be interviewed twice a year.

Individual interviews with associations: Parallel to the interviews conducted with the private sector, semi-structured interviews with sectoral and multisectoral associations were conducted to assess the overall business climate and ecosystem, market opportunities, and key constraints within each value chain, as well as to characterize value chain actors and services provided by the associations (Appendix 5).

During the stakeholder interviews special attention was given to the impact of COVID-19, as well as their response strategies and expectations.

I. TOURISM

SECTOR SUMMARY

This chapter provides a quantitative and qualitative analysis of the tourism sector in Georgia, as well as an overview of the first signs of a recovery from the heavy blow it suffered in 2020. This study on the tourism sector has been categorized into the following four main value chains: accommodation; adventure tourism; gastronomic tourism; and cultural tourism².

In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. A full recovery is not expected until at least the end of 2024 and Georgia, being heavily tourism-dependent country has been hit especially hard.

In the first three quarters of 2021 first signs of recovery became visible. With the alleviation of COVID-19-related restrictions since Q2 2021, the reopening of land borders, and the revival of flight routes, positive expectations about a recovery increased. By June 2021, the number of international visitors³ to the country had recovered to 32% of pre-pandemic levels. The third quarter saw a continuation of this trend, with the number of visitors having recovered by 39% in July, 37% in August (negatively affected by the epidemiologic situation) and 43% in September. The fourth quarter again went on with the recovery, with 47% recovered in both October and November, and 46% in December.

Moreover, as of December 2021, the number of flight routes has recovered to 93% of 2019 levels. Air travel carries much higher importance for tourism in Georgia in 2021 and has contributed to the recovery of source markets such as Belarus, Ukraine, Kazakhstan, Gulf States and Israel, while the number of visitors from neighboring countries remained relatively limited. In addition, domestic tourism has increased significantly even when compared to 2019.

The analysis of trends in travel services reveals that it has been the most hit VC by the pandemic. The accommodation VC has also been hit hard, with the number of accommodation facilities⁴ declining by 37.3% in 2020. However, the signs of recovery are evident for accommodation and food services VCs, having seen a Year over Year (YoY) increase in their turnover in Q3 2021, by 183.7% and 49.9%, respectively. The accommodation VC was 10.1 lower when compared to Q3 2019, while the similar figure for food services VC's turnover increased by 5.6%. Moreover, the prices of hotels have started to rebound in the third quarter, especially for 5-star hotels, while it again dipped in the fourth quarter.

However, despite these positive developments, major risks hindering the sound recovery of the sector still exist due to uncertainty surrounding the pandemic. Moreover, among benchmarked countries⁵

² The following methods of quantitative analysis were used: firstly, a study of the industry's general trends for two distinct periods 2015-2019 and 2020, with a focus on 2020, expressed in FDI flows, expenditure by visitors from target countries, loss of revenues in 2020 from the target countries, trends in domestic tourism in Georgia, regional and international comparison of Georgia, analysis of sales in top Georgian destination. Secondly, trends in priority value chains, incorporating dynamics in turnover, output, employment, and productivity are also analyzed. While qualitative analysis observes attitudes, perceptions, and expectations of respective stakeholders relating to the market competition and competitiveness potential, public-private partnership (PPP), the sector's potential for upgrading, and finally, the core challenges and impediments faced.

³ An international visitor is a traveler taking a trip to a main destination outside his/her usual environment, for less than a year, for any purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. The usual environment of an individual, a key concept in tourism, is defined as the geographical area within which an individual conducts his/her regular life routines. For the purposes of defining "usual environment" in Georgia, travelers conducting 8 or more trips are excluded from the data.

⁴ This refers to officially registered accommodation facilities, and the source for the analysis is Geostat.

⁵ Please see the detailed analysis of the benchmark countries on page 24.

(Albania, Croatia and Greece), Georgia has had the least effective tourism recovery, also falling behind Turkey.

Among the existing impediments and challenges identified within the qualitative study, several have been substantial and common for each priority value chain.

Scarcity of a workforce in Gastronomic VC and in the hospitality industry, in general, still remains a major headache for employers. According to most of the respondents, compared to the last quarter, the situation has even worsened. A recruitment process has become twice more time-consuming, and the problem is much more severe in the regions. Furthermore, a distinct trend has been observed recently - a migration of qualified personnel from Georgia, a larger share of which is heading to Qatar (linked to the 2022 FIFA World Cup tournament to be held in Qatar this summer).

With regard to green passport regulation, three main challenging directions have been addressed by gastronomic tourism VC respondents: Primary, creating a 'green zone' loses its meaning when hospitality business actors are required to host only those guests with a green status, while this does not apply to their personnel; Secondly, interviewed respondents have been concerned why this regulation has become mandatory only for the hospitality sector and shopping malls and public transport have been overlooked; Finally, in the opinion of the majority of respondents, the enforcement of this regulation is not carried out properly.

According to our respondents from hospitality VC, In September and October 2021 hotel occupancy rate was 45-50%, 30% in November; and 35% in December. Average Daily Rate (ADR) has reduced during this period. Besides, the recent trend is that the demand for 5* branded hotels has increased, when before the pandemic there was an opposite tendency when the guests preferred to go to small hotels and guesthouses in search of local and authentic. Such a shift in this trend is logically related to prioritized safety against COVID-19.

Although, private sector still finds it difficult to make predictions, several presumptions have been made that from the second quarter of 2022, between April and May, the sector could be entering a new phase in the pandemic with reasonable hope for stabilization. Though, in this case, the concern is about how the private sector will withstand the possible boom, as it happened so in July 2021, when demand suddenly outpaced the supply and businesses were very unprepared, having a negative influence on the quality of services.

Based on many years of consistent and result-oriented work of a number of stakeholders from the private, public sectors, VC associations, and professional guides of a different generation, and after 30 years of waiting, Georgian Mountain Guides Association (GMGA) officially became the 25th member of the International Federation of Mountain Guides Associations (IFMGA). This means that firstly, a mountain guide obtaining the diploma issued by Adventure Tourism School (ATS) and certified by the GMGA automatically becomes an international mountain guide, allowing him/her to work in 25 member countries of IFMGA. Secondly, Georgia acquires regional functionality - ATS can already accept international students and grant them an international diploma. Last but not least, the country will create attractiveness on the global mountain tourism map. All of the interviewed respondents confirm this is an achievement of paramount importance for Georgia, which should be applied immediately and effectively in the process of positioning the country internationally. This fact should become one of the most significant elements in the development of the country's promotion strategy.

Overall, most of the respondents think that while the quality of goods and services in the tourism sector had been declining over time before the COVID-19 crisis (influence of mass tourism), in the post-pandemic period the country holds an opportunity of making substantial changes in tourism

sector strategy, aimed at raising quality through promoting more sustainable directions of the tourism sector.

According to the actors of cultural tourism VC, although a decrease in the number of visitors, the revenues of Georgian museum-reserves in 2021 was around only 10% behind the similar figures of 2019. As mentioned in the previous report, this was mainly caused by the agency's decisions made before the pandemic to increase service tariffs by 100% (ticket prices, guide services, and other services). If the crisis had not taken place the new plan envisaged an increase in revenues by 100% from GEL 3.4 million in 2019 to GEL 7 million in 2020. There is no tool to accurately differentiate between local and foreign tourists at Georgian museum-reserve, however, the respondents believe the main defining contingent is international tourists, the estimated share of foreign tourists in total visits being 60-70%.

However, interviewed respondents are concerned that rehabilitation works of significant cultural heritage monuments of Georgia have been suspended recently. For instance, the restoration process in Nokalakevi - a new fast-growing historical-architectural museum-reserve, fortress city village in Senaki municipality - has been paused. The same applies to Georgia's unique site of Mutso, where the rehabilitation-conservation activities are no longer carried out. The enhancement process of some important infrastructural elements which had been planned earlier is quite valuable for the development of the cultural monuments. According to our respondents, every stakeholder should put every effort to resume the process as rapidly as possible.

Important to note, that since December 2021, Enguri HPP arch dam has officially become a certified member of the European Route of Industrial Heritage of Cultural Routes Program (of Council of Europe). Enguri HPP Dam is the first object from Georgia to join the European Route of Industrial Heritage. Referring to the respondents' opinions, such regalia and recognition will have a positive impact on attracting tourist flows, both foreign and locals.

Finally, in December 2021, Georgian 10-year ecotourism strategy and action plan were approved. The objective of the ecotourism strategy is to make Georgia a leading ecotourism country in the Caucasus region by 2030, which, through its rich living culture, nature, and high-quality services, will provide ecotourism offers for all four seasons. According to the interviewed respondents, the strategy is a crucially important document, as ecotourism in Georgia provides an authentic experience for tourists, benefits local communities, and contributes significantly to the country's economic well-being. The strategy was prepared with the support of the German Society for International Cooperation (GIZ) incorporating the GNTA, the Agency for Protected Areas of the Ministry of Environment and Agriculture (APA), and the National Forestry Agency (NFA), as well as the Georgian Ecotourism Association.

SECTOR TRENDS

Tourism developments in Georgia⁶

After a challenging 2020 and early 2021 for the tourism sector, various positive developments, such as the alleviation of restrictions, were seen in the tourism sector in Georgia in the second and the third quarter of 2021, which saw no significant pandemic-related restrictions in place in Georgia, with both land and air borders open for eligible visitors⁷.

⁶ Please see the detailed overview of the developments in the Georgian tourism sector in 2020 in the first analytical report, page #25.

⁷ <https://www.geoconsul.gov.ge/HtmlPage/Html/View?id=2131&lang=Eng>

The prospects of the tourism sector's recovery in 2021 have received a significant boost from developments in the aviation industry. According to Mariam Kvrivishvili, Deputy Minister of the Ministry of Economy and Sustainable Development, as of December 2021, 93% of direct flight routes had been recovered, compared to 2019 levels. In addition to those airline carriers that have renewed, expanded, or started operations in 2021 before September 2021⁸, several airlines have started or expanded operations in Georgia since then, such as Air Arabia⁹, Wizz Air (starting a new route to Abu Dhabi¹⁰, Iranian Zagros Airlines and Qeshm Airlines¹¹. On a more negative note, Georgian Airways is facing a bankruptcy.

During the third quarter of 2021, the GNTA has organized various information tours and promotional activities:

- Promotional activities focused on experience-based travel were conducted via international travel platform Steller¹²
- An article was produced by CNN, with a focus on Georgian wildlife¹³
- An article was produced by National Geographic¹⁴
- Conducted a winter tourism promotional campaign via platforms CNN, National Geographic, Expedia, Vogue, Conde Nast Traveler, TimeOut, Wego and AD¹⁵
- Info-tour in Akhmeta¹⁶
- Info-tour in Samtskhe-Javakheti¹⁷
- Trainings were provided to up to 2000 rural tourism representatives¹⁸
- Press-tour from Portugal¹⁹
- Press-tour from Serbia²⁰
- Press-tour from Dubai²¹
- Press-tour from Italy²²
- Press-tours for boosting domestic tourism²³

Apart from these, several notable events during the reporting period include:

- Georgia represented by GMGA officially became the 25th member of the International Federation of Mountain Guides Associations (IFMGA).

⁸ The list of those airlines is provided in the fourth analytical report, page 14.

⁹ <https://bm.ge/ka/article/air-arabia-tbilisidan-regularul-frenebs-zrdis/96605/>

¹⁰ <https://bm.ge/ka/article/15-dekembridan-qutaissa--abu-dabis-shoris-regularuli-reisebi-sheuruldeba/97154/>

¹¹ <https://bm.ge/ka/article/tbilisi-teirans-shoris-regularuli-frenebi-iwyeba/94501/>

¹² <https://bm.ge/ka/article/qvrivishvili-facebook-is-instagram-is-da-svxa-socqselebis-blogerebs-da-influenserebs-shexvda/100190/>

<https://gnta.ge/ge/%e1%83%a2%e1%83%a3%e1%83%a0%e1%83%98%e1%83%96%e1%83%9b%e1%83%98%e1%83%94%e1%83%a0%e1%83%9d%e1%83%95%e1%83%9c%e1%83%a3%e1%83%9a%e1%83%98-%e1%83%90%e1%83%93%e1%83%9b%e1%83%98%e1%83%9c%e1%83-53/>

¹³ <https://bm.ge/ka/article/cnn-saqartvelos-zamtris-kurortebisa-da-dgesaswaulebis-shesaxeb--/98667/>

¹⁴ <https://www.nationalgeographic.com/travel/article/paid-content-from-the-mountains-to-the-sea-in-georgia>

¹⁵ <https://bm.ge/ka/article/zamtris-sezonistvis-turizmis-administracia-axal-marketingul-kampanias-iwyebis/94547/>

¹⁶ <https://bm.ge/ka/article/axmetashi-turizmis-erovnuli-administraciis-info-turi-gaimarta/98078/>

¹⁷ <https://bm.ge/ka/article/turistuli-kompaniebis-20-warmomadgeneli-samcx-e-javaxetshi-info-turit-imyofeboda-/94665/>

¹⁸ <https://bm.ge/ka/article/wels-momsaxurebis-sferos-2000-mde-warmomadgeneli-gadamzadda---turizmis-administracia/98684/>

¹⁹ <https://bm.ge/ka/article/turizmis-erovnuli-administracia-portugaliidan-blogerebs-maspindzlobs-/94283/>

²⁰ <https://bm.ge/ka/article/turizmis-administraciis-organizebit-saqartvelos-serbuli-mediis-warmomadgenlebi-stumrobdnen/93864/>

²¹ <https://bm.ge/ka/article/turizmis-erovnuli-administraciis-organizebit-saqartvelos-dubaidan-blogerebi-ewvivnen/95699/>

²² <https://bm.ge/ka/article/turizmis-administraciis-italiis-samogzauro-gamocema-belleuropa-s-fotografs-umaspindzla/96077/>

²³ <https://bm.ge/ka/article/turizmis-administracia-shida-turizmis-xelshewyobis-miznit-aqtiur-kampaniebs-awarmoebs/98672/>

- Georgia officially became a member of UNWTO council²⁴

Despite all these positive developments, which have also contributed to the rapid recovery in terms of visitors, especially since Q2 2021 (with a slight slowdown in August), the epidemiologic situation still has had its toll on the number of international visitors. In terms of international visitors, just 20% of 2019 level was recovered in 2021, while in terms of revenues from tourism, 38% of 2019 levels was recovered.

Moreover, despite the rollout of a general vaccination program, and a specific program for the tourism sector²⁵, the vaccination process has not been fast enough so far, with most of the sector and the country still unvaccinated. The private sector has been pushing for mandatory vaccination. While the introduction of the Green Passport should have acted as one of the incentives for vaccination, problems associated with its implementation did not allow so and the food facilities have suffered from the lack of visitors.

The sector still struggles with overall instability, manifested in unstable bookings and the deficit of personnel. These issues have already been exacerbated by the rapid spread of the Omicron variant. Also, the start of the winter tourism season has not been the most favorable in two of the ski resorts in Georgia: In Mestia, there were problems with the electricity, so the skiing lifts were not working for a significant period, while in Bakuriani ski lifts did not work until mid-January as the snow was not enough. Still, the New Year Eve events, as well as the period of January 1-10 was mostly described as successful.

As the peak period of Omicron's spread is likely to coincide with the winter season, leading to overall negative expectations about the upcoming months for tourism. Introduction of further COVID variants could prove to be disrupting to the recovery of tourism in 2022.

Number of visitors in 2021

As already mentioned, COVID-19 and the related restrictions on mobility in and between countries have had a tremendously negative impact on the number of international visitors to the country. When compared to the average for the corresponding months of 2017-2019, Georgia counted drop of more than 90% in the number of foreign arrivals every month between April 2020 and February 2021. Since March 2021, with the gradual alleviation of COVID-19-related safety measures, the number of visitors started to grow each month, and in December 2021 it recovered to 46.2% of the average level for the previous three years. In absolute numbers, in the fourth quarter of 2021, 533 008 international visitors entered the country, while in the fourth quarter of 2020 the corresponding figure was 143 335. The average number of visitors during the same period in 2017-2019 amounted to 1.6 mln. As for the future flows of visitors, the GNTA forecasts that the number of visitors will not return to 2019 levels until 2024, which is in line with international expectations.

Chart 1.1 Monthly visitors from Q3 2020 to Q4 2021 and its growth rate compared to the average of 2017-2019

²⁴ <https://bm.ge/ka/article/qvrivishvili-unwto-s-sabchos-wevrad-archeva-saqartvelostvis-didi-gamarjveba-da-agiarebaa/96722/>

²⁵ <https://bm.ge/ka/article/vaqcinaciis-prioritetebis-nusxas-turizmis-industriashi-dasaqmebulebi-daemata/81707/>



Source: Georgian National Tourism Administration

It is worth noting that pandemic has also modified the patterns of border crossing types. In particular, 49.7% of visitors in the fourth quarter of 2021 came by land, while 49.5% came by air. In Q4 2020, the corresponding figures were 90.4% for air and 7.9% for land arrivals, which is attributed to the closure of land borders from March 2020 until June 2021, emphasizing the role of air travel as a source of visitor inflows throughout the above-mentioned period and beyond. On the other hand, to compare with pre-pandemic level of Q4 2019, the proportion of visitors coming by land was equal to 20.4%, while air travelers amounted 78.2% of total visitors.

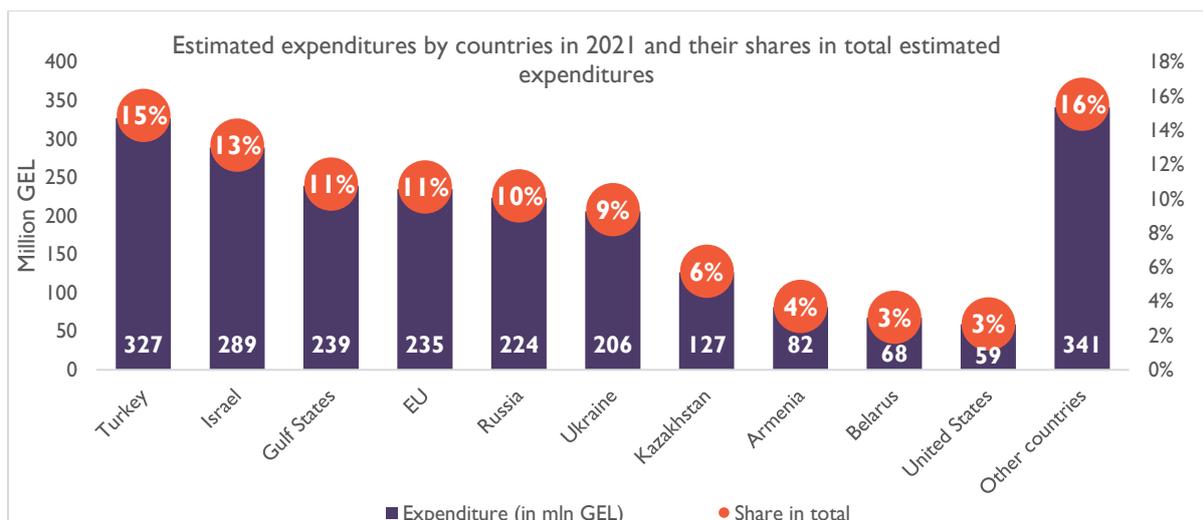
Estimated revenues by country in the third quarter of 2021

In the second analytical report, we estimated the average expenditure per visit by country of origin based on the expenditure data provided by the GNTA. By multiplying this number for each country by the number of visitors from that country, revenues by country in 2021 have been estimated. We estimate that expenditures by visitors to Georgia in 2021 amounted to GEL 2.2 billion. The biggest shares of this expenditure were attributed to visitors from Turkey (15%), followed by Israel (13%), Gulf States (11%) and EU (11%).

The top 10 countries or countries/regions also included Russia, Ukraine, Kazakhstan, Armenia, Belarus, and United States (in that order). Other countries contributed 16% of total expenditures in this period, including Azerbaijan, Iran, India, Philippines, and China.

It must be noted that there has been a significant recovery in terms of number of visitors from some of the major inbound tourist markets of Georgia, contributing to the higher share of those countries in visitor expenditures. In particular, the number of visitors amounted more than 60% of their 2019 levels from Saudi Arabia (84%), Belarus (81%), Ukraine (70%), United Arab Emirates (67%), Kazakhstan (64%), Kuwait (63%). However, the recovery figures of the number of visitors from the following countries remain relatively low – Armenia (12%), Russia (15%), Turkey (28%), EU (29%) and Israel (49%).

Chart I.2 Estimated expenditures by countries in 2021 and their shares in total estimated expenditures



Source: Georgian National Tourism Administration, author's calculations

Key macroeconomic indicators in Q3 2021

According to the analysis of FDI patterns in the hotels, restaurants, and cafes (HORECA) sector, since the continuous disinvestment from Q4 2020, investment level turned positive and reached USD 6.8 million in Q3 2021, increasing the investment level when compared to Q3 2020 (USD 1.5 mln). For comparison, the FDI in HORECA sector amounted 36.7 mln in the Q3 of 2019.

The analysis of GDP patterns in the HORECA sector reveals that it contributed GEL 602.3 million in Q3 2021, which is 13.6% lower compared to Q3 2019 (GEL 697.0 mln) and 76.8% higher compared to Q3 2020 (GEL 340.6 mln). The share of the HORECA sector's contribution to total GDP of Q3 2021 was 3.8%, compared to an average share over the course of 2014-2019 of 3.4%.

Domestic tourism in 2021

According to World Tourism Organization domestic tourism is set to recover faster towards pre-pandemic levels than international travel in selected markets²⁶. The observation of the total number of domestic visits before (2019) and throughout the pandemic revealed that since the end of 2020, the number of domestic visits not only reached pre-pandemic levels of corresponding periods but there has been a significant year-over-year increase. After the rapid YoY increase (109.5%) in the number of domestic visitors in Q2 2021, in Q3 2021 the number of visitors was 20.0% and 13.3% higher when compared to Q3 2020 and Q3 2019, respectively.

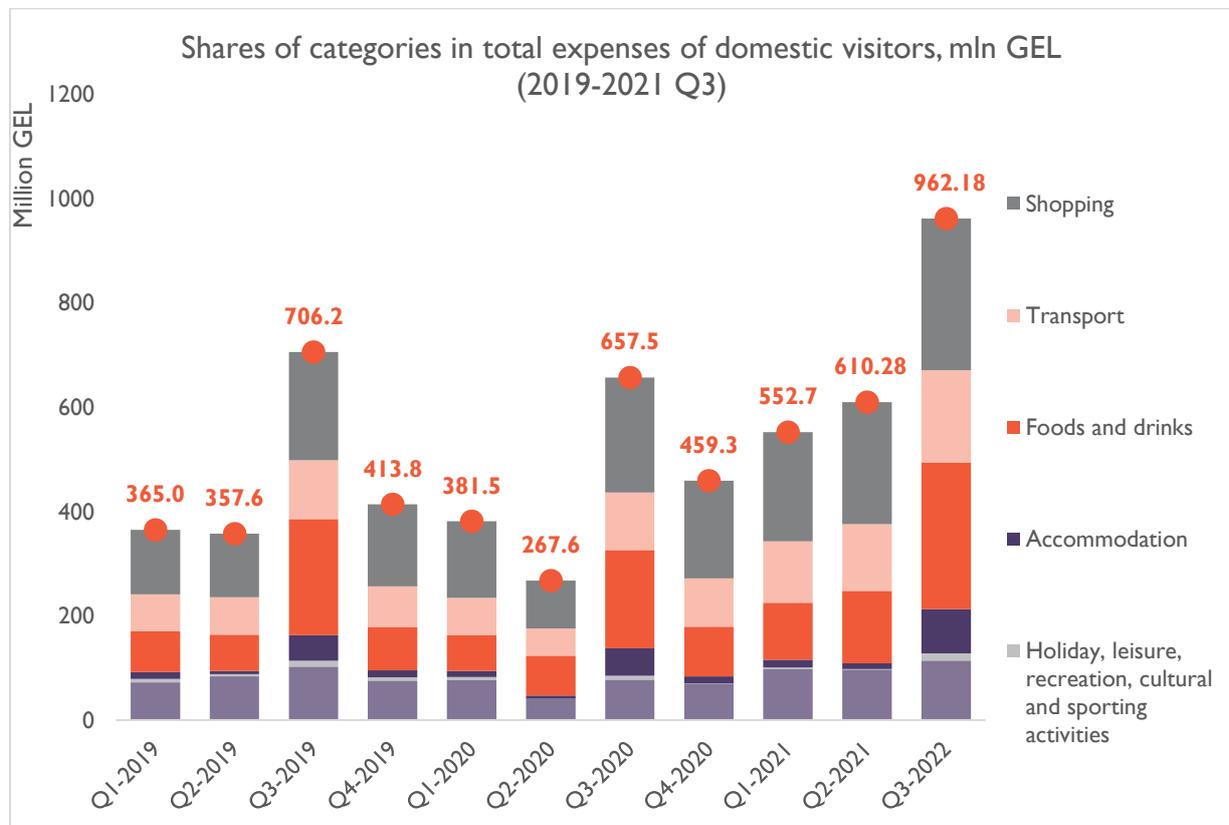
There have been some changes in the travel purpose structure of domestic visitors during the pandemic, however, "visiting relatives/friends" remained as the category with the highest share in total visits even with the significant decline throughout 2020 attributed to travelers' fears of spreading the virus and the imposed lockdown measures. Apart from that, partially due to ongoing restrictions and rising COVID-19 cases, the share of recreation has also shown a considerable decrease throughout the pandemic with slight fluctuations.

The expenses of domestic visitors throughout the reporting period show some variability. However, it must be noted that compared to 2019 and 2020 levels, the expenses throughout the recovery period of tourism (Q4 2020 – Q3 2021) has been significantly higher, which can partly be explained by the inflationary trends, considering that the top categories include shopping, foods and drinks, and transport in the total structure of expenses. Still, total expenditures of visitors in Q3 2021 amounted

²⁶ <https://www.e-unwto.org/doi/epdf/10.18111/9789284422111>

to GEL 962 million, which is impressively 36.3% higher than in the corresponding period of 2019, and 46.3% higher than in Q3 2020.

Chart 1.3 Shares of categories in total expenses of domestic visitors, mln GEL (2019-2021 Q3)



Source: National Statistics Office of Georgia

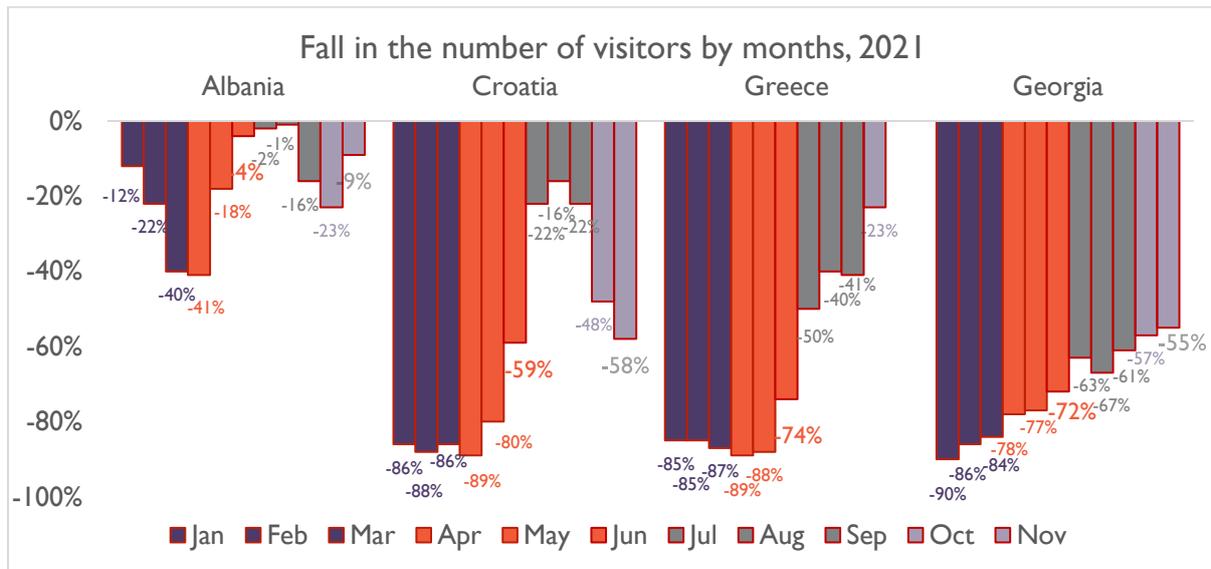
International Benchmarking

In this and following reports, we will track the performance of the Georgian tourism sector in comparison with three selected benchmark countries: Albania, Croatia, and Greece²⁷.

While since May 2021 the recovery in number of visitors was evident in each of the four countries, Albania experienced the most impressive one, almost recovering to 2019 levels in June, July and August, and getting with 75% of recovery in September, October and November. While Croatia had harsh second quarter, it saw an impressive recovery to approximately 80% of 2019 levels in July, August and September, with the number of visitors falling again in October and November. Greece followed the similar pattern, albeit the magnitude of the recovery was lower in Q3. However, November saw the highest recovery for Greece. Finally, while Georgia managed to have a continuous recovery, it still recovered the least of its visitors when compared to 2019 levels overall, with the highest recovery being recorded in November (45% of 2019 levels).

²⁷ Please see the details about the selection process in second analytical report, page 23

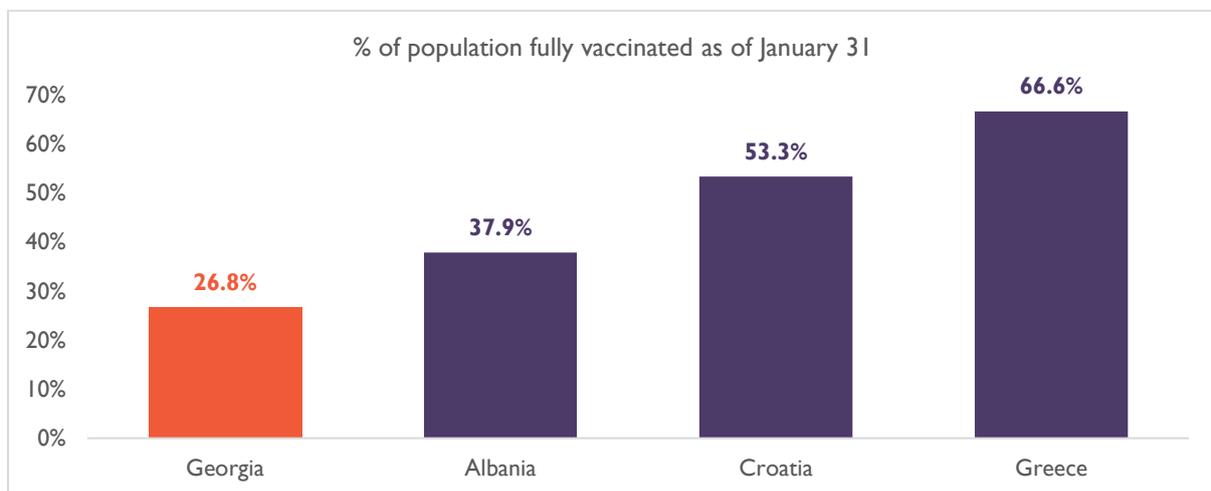
Chart I.4 Dynamics of the fall in the number of visitors in benchmark countries by the months of 2021 (compared to 2019)



Source: UNWTO

It is interesting to observe vaccination status in benchmark countries. Greece has fully vaccinated more than two thirds of its population, followed by Croatia (53.3%) and Albania (37.9%). It is not a coincidence that Georgia, which had the least effective recovery among the four in terms of number of visitors, also has the lowest rate of fully vaccinated population, at 26.8%. It is also worth noting that the rate of growth of the indicator was the lowest for Georgia as well, if compared to the results presented in the fourth analytical report.

Chart I.5 % of population vaccinated in the benchmark countries as of January 31

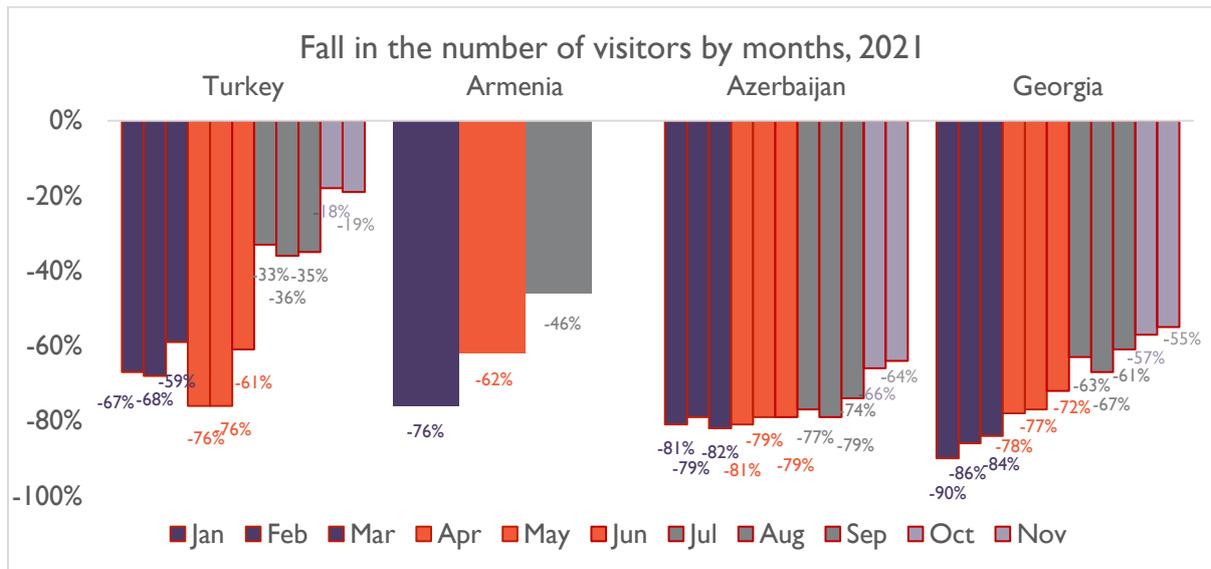


Source: Multilateral leaders task force on COVID-19

Regional Benchmarking

Within the regional context, Azerbaijan has not experienced a major recovery of tourism. Georgian dynamics has been quite similar to Azerbaijan; however, the magnitude of recovery has been higher. As for Armenia, it performed slightly better than Georgia in each quarter of the year and managed to recover 54% of visitors in Q3 2021. Turkey has experienced the highest recovery in Q3 and the first two months of Q4, having recovered approximately two thirds' of 2019 levels in Q2 and up to 80% of 2019 levels in October and November.

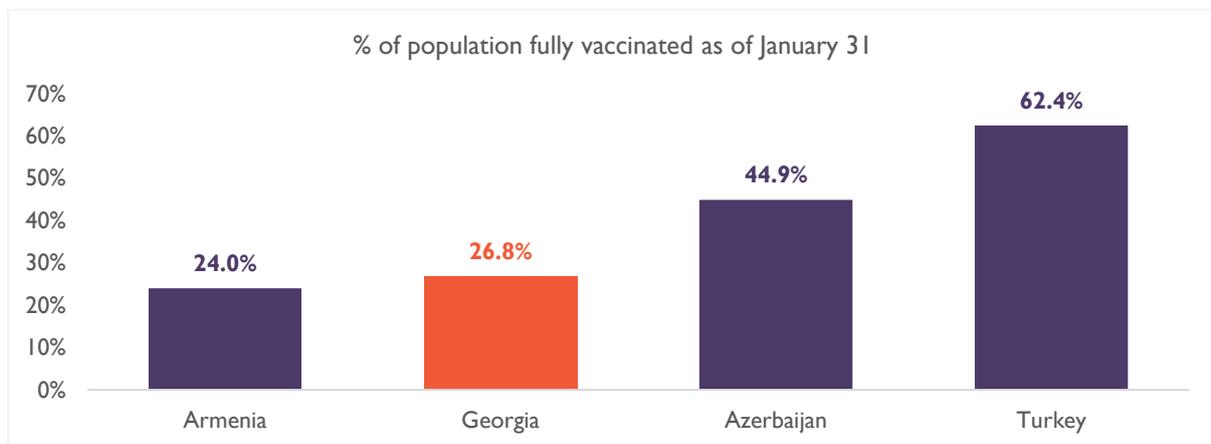
Chart I.6 Fall in the number of visitors in 2021 in the countries of the region



Source: UNWTO

High vaccination rate in Turkey has definitely aided the recovery process, while it has been hindered in Georgia. Relatively higher vaccination rate in Azerbaijan on the other hand, has not been translated to higher number of visitors, mainly due to employing strict policies regarding COVID-19. Armenia has the lowest number of vaccinated people in the region, having vaccinated 24.0% of its population, however, it is worth noting that Armenia also saw the biggest progress since the fourth analytical report, vaccinating more than 15% of their population in just three months.

Chart I.7 % of population vaccinated in the countries of the region as of January 31



Source: Multilateral leaders task force on COVID-19

ACCOMMODATION

Value chain trends²⁸

The quarterly analysis of turnover of the accommodation value chain and comparing it to the corresponding aggregated sector reveals that the value chain faced a massive hit in 2020 and Q1 of 2021, showed the first signs of the strong rebound in Q2 2021, and the recovery accelerated even

²⁸ In the first analytical report, we also analyzed Hotel Price Index for 3, 4 and 5-star hotels in Georgia over time. For details, please see page #34 in the first report

more in Q3 2021. In Q3 2021 the turnover increased by 183.7% compared to Q3 2020, directly attributed to low base effect due to the existing lockdown measures in Q3 2020. When compared to Q3 2019, the VCs turnover declined by 10.1%. The VC has fared worse than the aggregated sector of accommodation facilities and food service facilities, however, it must be noted that throughout first two quarters of 2021 the YoY growth rate of VC turnover has been significantly higher compared to the aggregated sector.

Chart 1.8 Turnover of the accommodation value chain and the corresponding aggregated sector

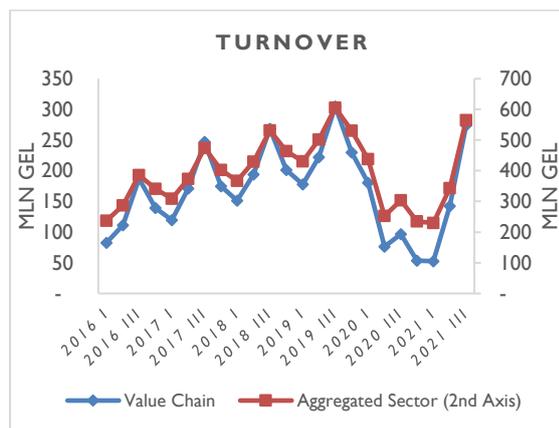
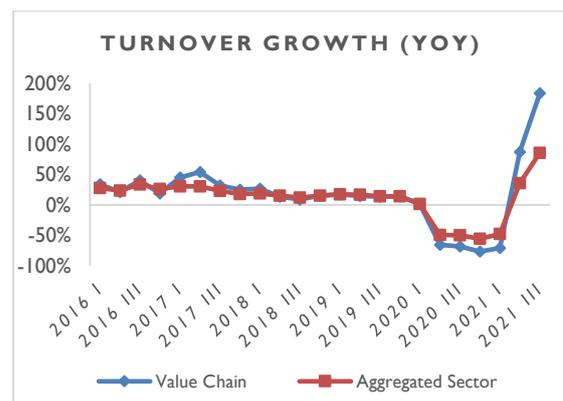


Chart 1.9 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Output in the accommodation value chain has shared the dynamics of its turnover, having increased 158.4% in Q3 2021 compared to Q3 2020 and having declined by 8.1% compared to Q3 2019. As in the case of turnover, the aggregated sector registered declines of slightly less magnitude, but demonstrated lower output growth rates in Q2 and Q3 2021.

Chart 1.10 Output of the accommodation value chain and the corresponding aggregated sector

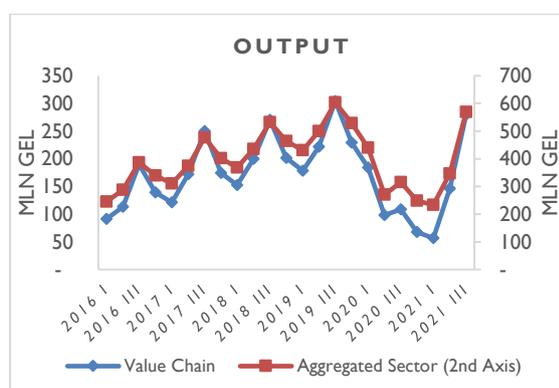
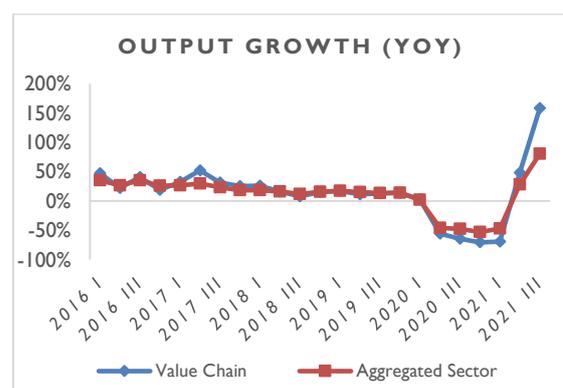


Chart 1.11 Annual growth rate of output for the accommodation value chain and the aggregated sector



Source: National Statistics Office of Georgia

Employment in the accommodation value chain seemed to be more resilient to the shock in 2020 at first sight, compared to the abovementioned key indicators, having decreased by 15.6%, 26.2%, and 39.2% in Q2, Q3, and Q4 of 2020, respectively. The figures were slightly better for the aggregated sector²⁹. In Q1 2021, average quarterly employment declined further - by 56.2% compared to Q1

²⁹ This rising sharpness of decline over the course of the year could be explained by the following: In the second quarter, a substantial number of firms, still optimistic about the near future, decided not to let go of their employees. However, as the year progressed and situation got even worse, the firms could not afford to maintain majority of their employees.

2020, and by 52.4% compared to Q1 2019³⁰. In Q2 2021, a strong rebound in VC's employment was evident in comparison with previous quarter, however, when compared to Q2 2020, employment has grown by just 1.1% while in comparison with Q2 2019, has declined by 14.7%. In Q3 2021 employment has shown significant 15.4% annual growth reaching 13,756 official employees (twice as much as in Q1 2021), however, the employment still stayed well below 2019 level showing an 14.8% decline compared to Q3 2019. Employment in the aggregate sector shared similar dynamics.

Chart I.12 Employment in the accommodation value chain and the corresponding aggregated sector

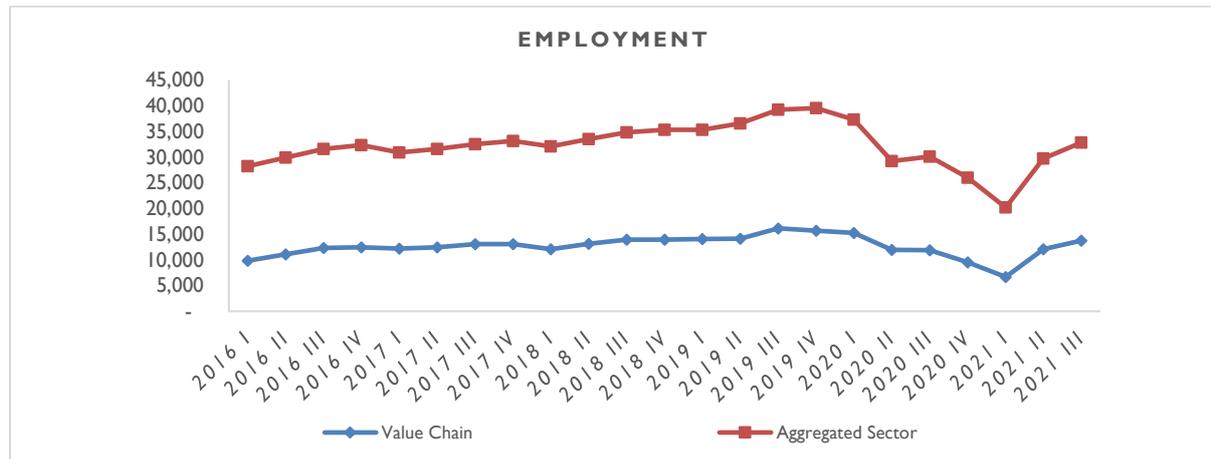
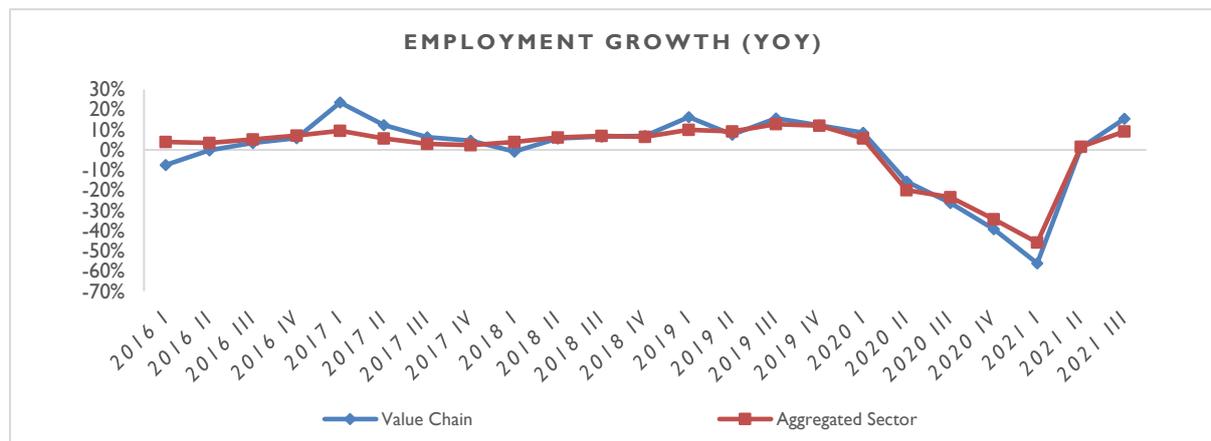


Chart I.13 Annual growth rate of employment in the accommodation value chain and its aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the accommodation value chain experienced a decline in 2020, albeit, less substantial than other key indicators. The decline in the aggregated sector was less significant. In Q1 2021, average monthly salary showed first signs of growth, while in Q2 2021 it increased by 25.6% when compared to Q2 2020, and by 0.3% compared to Q2 2019. In Q3 2021 the annual growth rate accelerated and reached 40% when compared to Q3 2020, and by 8.6% when comparing to Q3 2019. This increase could possibly be explained by raised costs due to the rising inflation, as reported by various respondents. Despite this growth in average monthly salaries, the total salary fund of the value chain declined by 7.6% in Q3 of 2021 when compared to Q3 2019.

³⁰ It has to be noted that a substantial amount of value chain employment is unobserved, as many accommodation facilities are not officially registered; thus, the impact of the pandemic on the VC's employment is not fully reflected by the official statistics presented above.

Productivity of the VC, as measured by output divided by the number of employed people, also suffered significantly in 2020 and Q1 2021, with the less significant decline in the aggregated sector. In Q2 2021, productivity increased by 46.9% compared to Q2 2020, still being lower than Q2 2019 level (by 22.8%), however in Q3 2021 the labor productivity exceeded Q3 2019 level by 8.0%, while showing an 123.9% increase compared to Q3 2020. The rise in the productivity was attributed to a higher increase of output compared to the increase in employment. Changes in the productivity of the aggregate sector had relatively lower magnitude.

Chart I.14 Average monthly salary in the accommodation value chain and the corresponding aggregated sector

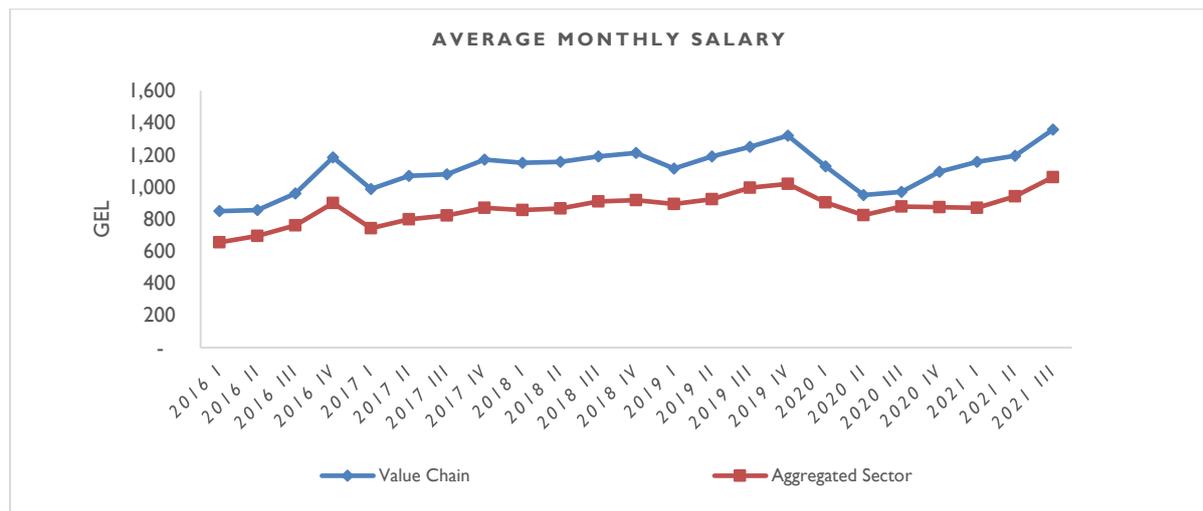
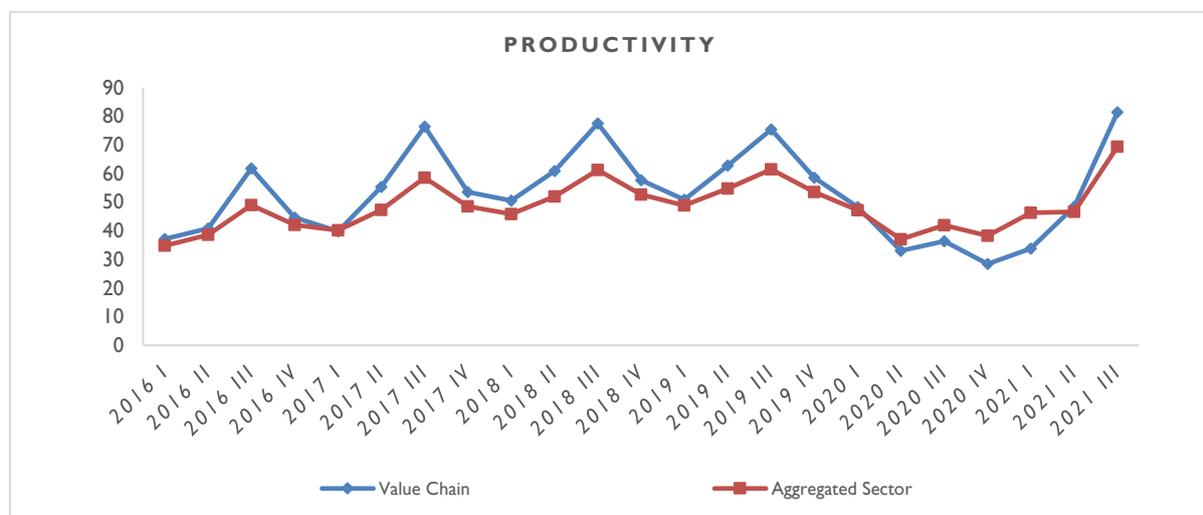


Chart I.15 Productivity in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Hotel price dynamics in Georgia

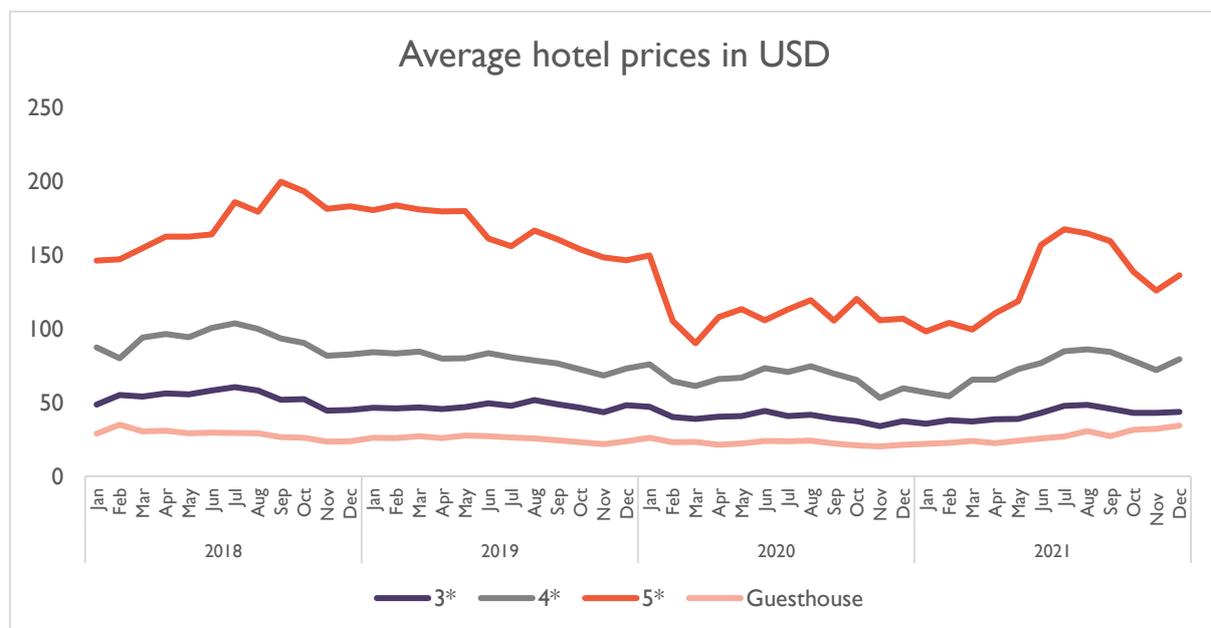
PMC Research Center conducts monthly research on accommodation prices based on www.booking.com and publishes the Hotel Price Index, which serves as an indicator of average price

changes in hotels³¹ and guesthouses. Meanwhile, the Yearly Hotel Price Index shows how the average prices change compared to the corresponding months of the previous year.

The average prices³² within each category peaked in the summer season (Jun-Sep) of 2018. Due to abrupt shocks in 2019 (Russian flight ban) and 2020 (the outbreak of the COVID-19 pandemic), prices have been experiencing a negative trend since June 2019. While the prices in 2020 and early 2021 are the lowest in the analyzed period. However, since May 2021 the prices within each category have been rising, highlighting the recovery of prices towards 2019 levels.

Looking category by category, 5-star hotels, which are the most reliant on international tourists, experienced the highest price volatility during the covered period. It must also be noted that the recovery of the prices towards pre-pandemic levels was most explicit for 5-star hotels from the second quarter of 2021, however, since then prices declined significantly. On the other hand, among the categories, prices for the guesthouses have not shown sharp drop throughout the third quarter of 2021 and continued to grow steadily. Looking at specific categories, the price increase throughout 2021 has been most significant for 5-star hotels (by 12.1% compared to 2019 and by 51.4% compared to 2020), while for 3-star hotels the price increase has been least significant (by 4.8% compared to 2019 and by 20.1% compared to 2020).

Chart 1.16 Average hotel prices calculated in USD for 3, 4, and 5-star hotels



Source: PMC Research Center

Apart from analyzing the average prices of hotels/guesthouses, PMC Research Center also calculates the Hotel Price Index (HPI) each month. The yearly HPI shows how the prices for hotels have changed compared to previous years, allowing for month-on-month comparison (e.g. June 2020 v. June 2021). As mentioned already, the average prices peaked in 2018, before dropping in 2019 and 2020. This trend is also reflected in the HPI dynamics, registering positive yearly index with only three months in 2019 and one month in 2020 recording an increase compared to the corresponding month of the previous year. The highest drops were reported in February, March, and July of 2020. It is worth

³¹ The study contains a random sample of 71% (312) of all 3, 4, and 5-star hotels and 25% (456 guesthouses) of all guesthouses registered on www.booking.com. The stars were assigned to the hotels due to the booking.com category and does not correspond to international classification of hotels. The calculation of the Hotel Price Index is based on the recommendations given by the International Monetary Fund (IMF). The elementary aggregate price index is calculated according to the Jevons Index (Consumer Price Index Manual-Theory and Practice (2004), Practical Guide to Producing Consumer Price Indices (2009)).

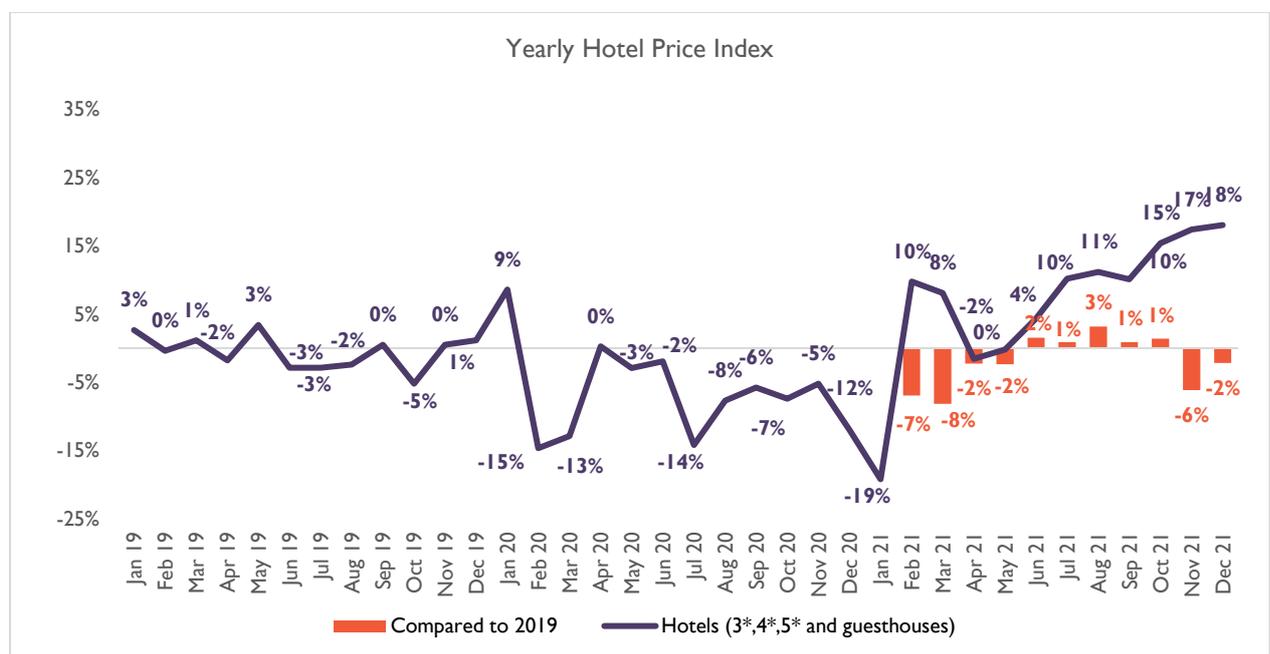
³² Price is calculated for 2-person room per night

mentioning that because many hotels kept their prices unchanged during the lockdown, the index might understate the magnitude of the fall in prices in 2020.

In January 2021, the yearly HPI was -19%, which was due to the lockdown being enforced at the time, as well as the high base effect (in January 2020 the prices were relatively high). Since February 2021, we have started to produce an alternative yearly HPI, which measures changes in 2021 in relation to 2019 instead of 2020, as we think that the 2019 prices are much more relevant when it comes to tracking the recovery of hotel prices.

Since June 2021, the HPI has been positive both in comparison to the corresponding month of 2020 and 2019 for the first time since January 2020, however, in November and December of 2021 the hotel prices were slightly lower compared to corresponding months of 2019, while compared to 2020 the prices were showing significant yearly increase.

Chart 1.17 Yearly Hotel Price Index for 3, 4 and 5-star hotels



Source: PMC Research Center

ADVENTURE TOURISM³³

Among the three priority value chains of the tourism sector identified by the program, adventure tourism is significant in terms of value, potential for increased revenues, high-value job creation, and investment attraction.

Visitors in national parks, natural monuments, and protected areas of the country

Many visitors interested in adventure tourism also tend to visit national parks, natural monuments, and protected areas of the country. Therefore, it is worth observing the evolution of the number of visitors to selected national parks, natural monuments, and managed reserves³⁴.

³³ Please see the detailed analysis of activities related to program's 3 priority VCs discussed below in the first analytical report, page #37

³⁴ In addition, adventure tourism included skiing and winter sports as well. Please, see the analysis of Georgia's mountain resorts in the first analytical report, page #39.

In 9M 2021, based on the data provided by Agency of Protected Areas, Martvili Canyon and Prometheus Cave led the way in number of visitors, with 101 836 and 86 617 visitors, respectively. Those were followed by Kazbegi National Park (56 109) and Okatse Canyon (44 071). To compare the total amount of visitors in National parks and protected areas in 9M 2021 to 9M 2019, a recovery of 46.3% of visitors is evident.

It is worth noting that currently, Agency of Protected Area and GNTA, along with the other stakeholders, are engaged in a working group regarding the adaptation of United States Visitor Spending Effect Model Tool. The project is implemented by United States Department of Interior's International Technical Assistance Program and supported by the USAID.

Overview of the existing challenges and opportunities

This section summarizes the opinions expressed by the actors from the private sector, business associations, and field experts within the adventure tourism value chain.

According to the conducted field research, the following key impediments, existing opportunities, and the most important subjects have been highlighted during the field research:

World recognition of Georgian mountain guides

After 30 years of waiting, in November 2021, Georgian Mountain Guides Association (GMGA) officially became the 25th member of the International Federation of Mountain Guides Associations (IFMGA). This means that a mountain guide diploma issued by the Adventure Tourism School (ATS)³⁵ and certified by the GMGA will gain international status. According to the respondents, this is an achievement of paramount importance, based on many years of consistent and result-oriented work of a number of stakeholders from the private, public sectors, VC associations, and professional guides of a different generation. With this recognition, professional diploma issued by ATS gains accreditation according to international standards, meaning that: Firstly, a mountain guide obtaining this diploma, automatically becomes an internationally accredited professional, allowing him/her to work in 25 member countries of IFMGA: Secondly, Georgia acquires regional functionality - ATS can already accept international students and grant them an international diploma. Last but not least, the country's attractiveness on the global mountain tourism map will increase - any person actively and professionally pursuing this field, looking at qualified guides in the country, will definitely be attracted by the country's new status as a member of IFMGA. According to the vast majority of respondents, this is a huge step put forward in adventure tourism VC.

Newly developed curricular for adventure tourism professions

According to the Georgian Incoming Tour Operators Association (GITO) representative, when the country hasn't yet developed training standards in the adventure tourism field professions, the tour operators, involved in adventure tourism services, bypass some of the important professions and it certainly deteriorates the quality of services. For example, when we see paragliders during traveling to the regions, this service is mostly used by more neighboring and Gulf countries, but none of the regular Western European tour operators try to include this service in their travel packages in Georgia, because they do not know how safe it is, or how professionally it is being provided.

³⁵ ATS was established in 2016 jointly by GMGA, MTA LLC and the Ministry of Education and Science of Georgia.

In response to this challenge, the GITO, in collaboration with the Adventure Tourism School, has developed curricula for the adventure tourism professions, including equestrian, cycling, paragliding, and more. In December 2021, tour operators, represented as potential employers, were also involved in the process and the presentation was held with the Ministry of Education and Science of Georgia. According to the respondents, this is not a short-term process and may take several years, however, the country will get a new generation, who will have passed the professional course, gained experience and certification. Further on, the local tour operators will have an opportunity to offer them to foreign tour operators. In 3 months, the first course will be held, and the first students in the Adventure Tourism School will go through the same curriculum that the private sector and the state have developed together.

Unorganized labor market for guides from abroad

Part of the interviewed respondents is worried that the trend of foreign guides entering the country is still maintained. Specifically, these are either amateur or professional guides (mostly from Russia, Ukraine, Poland) in adventure tourism, who are not registered, do not follow the regulations, and courtesy of the country's liberal economic and labor policy, have no restrictions nor limits affecting their economic activities. Referring to the opinions shared by part of respondents, after the law on tourism is in force, the sector will have a legal basis to request foreign guides for strict adherence to the law. A different view was also expressed that, although this trend carries undesirable influences, it may at some extent have a positive impact on improving the quality in the value chain. The majority of the respondents point to the need of improving the private-public dialogue in this context.

Country's new international positioning opportunities

According to the respondents, by joining IFMGA, the country's adventure tourism has gained significant international recognition, which should be applied immediately and effectively in the process of positioning the country internationally. This fact should become one of the most significant elements in the development of the country's promotion strategy. In addition, part of the respondents again underlined the importance of addressing specific destinations rather than positioning and representing a country in general (yet again, Turkey's example was brought, as a country performing rather successfully in this direction, using destination marketing when promoting specific destinations). Overall, most of the respondents think that in the post-pandemic period the country holds an opportunity of making substantial changes in tourism sector strategy aiming at raising quality through promoting more sustainable directions of the tourism sector. Referring to stakeholders' opinions, while the quality of goods and services in the tourism sector has been declining over time before the COVID-19 crisis (influence of mass tourism), adventure tourism is regarded to have substantial potential when it comes to enhancing quality, giving it a competitive advantage.

New opportunities of positioning Georgian as an attractive destination for adventure tourism

Recently, the Adventure Tourism School has launched implementing one of the projects - Empowering Youth and Promoting Gender Equality in Adventure Tourism Through Professions- of the TVET support 2021 program by the US embassy. The core objectives of the project are to showcase the adventure tourism professions, promote gender equality, empower women, develop labor skills for youth, connect adventure tourism school graduates with employers, and promote domestic adventure tourism.

Within the project, the school runs a marketing and communication campaign – ‘become a guide’ - aimed at demonstrating the skills of adventure tourism and presenting the country’s all relevant elements across different disciplines: water, mountain, rock, skiing. The adventure tourism representative believes that it can become a landmark event to promote adventure tourism in Georgia. Furthermore, the additional purpose of the Adventure Tourism School is to bring this concept to the Worldskills - the world championships of vocational skills held every 2 years - where many countries come together and compete with each other in different professions. But among the professions, there is no adventure direction, so the school aims to create an ‘adventure skills’ concept and introduce it as a new discipline. If this is done, Georgia will be positioned as a pioneer country in the new direction of adventure skills, and it will eventually have practical benefits for the sector as a whole.

ECOTOURISM

Alarming practices of hunting in Georgia

According to the representative of Georgian Ecotourism Association, there are a number of significant problems relating to hunting practices in the country. With regards to licenses, the state sub-agency department of environmental supervision of the Ministry of Environmental Protection and Agriculture of Georgia is one of the issuers of hunting licenses in Georgia. It sets and defines rules, seasons, quotas, and other information for licensing, however, there is a lack of enforcement or monitoring mechanisms. Also, international hunting licenses are not yet being issued and there are frequent cases when hunting with unregistered rifles takes place. Besides, there also exist bad practices when tourism agencies apply illegal hunting and fishing (poaching) activities as tools for attracting tourists, which is an alarming tendency and needs to be properly and strictly supervised.

According to the respondent, the loss of biodiversity is huge and rapid, thus considering the current situation and existing poor enforcement mechanisms, no quantitative studies available about the distribution of animals in Georgian forests, hunting concept, and existing practices are unacceptable in the reality of Georgia.

Georgian Ecotourism strategy approved

In December 2021, the country has developed and approved a 10-year ecotourism strategy and action plan. The objective of the ecotourism strategy is to create competitive products and services, diversification, improving quality and development. The ambition of the strategy is to make Georgia a leading ecotourism country in the Caucasus region by 2030, which, through its rich living culture, nature, and high-quality services, will provide ecotourism offers for all four seasons. According to the interviewed respondents, overall, ecotourism in Georgia provides an authentic experience for tourists, benefits local communities, and contributes significantly to the country's economic well-being. In particular, the strategy envisages 5 main goals:

1. Based on the country’s diverse nature and rich living culture, authentic, high quality, four-season-tourism products and services are developed.
2. Locals actively provide ecotourism services and gain benefits from them. Ecotourism resources are maintained through the involvement of local communities in the development of ecotourism.
3. Marketing and communication meet the requirements of ecotourism target markets and increases the ecological awareness of visitors.

4. The development of ecotourism contributes to the long-term preservation of its main resources - the diverse nature of the country and the rich living culture.
5. Management of ecotourism at all levels provides a multi-sectoral, interdisciplinary, and participatory approach based on national legislation.

The preparation of the strategy and action plan launched in 2020 and involved: the GNTA, the LEPL National Forest Agency, the LEPL Agency of Protected Areas, and the Georgian Ecotourism Association. The strategy was developed with the financial support of the German government and the technical support of the German Society for International Cooperation (GIZ).

CULTURAL TOURISM

The development of cultural tourism can contribute to both preserving Georgia's cultural and natural heritage and creating authentic and unique tourism experiences, allowing the country to compete globally in this regard.

Visitors in national museums and historic site museum-reserves of Georgia

In the first analytical report, we analyzed the number of visitors to Georgian museum-reserves from 2015 to 2019 (page #45). Uplistsikhe and Vardzia emerged as two top sights with this regard, with the average share of the two in total visitors to museum-reserves standing at 57% and 32% in 2019, respectively.

While Uplistsikhe and Vardzia remained the top museum-reserves to visit in 2021, the number of visitors has not been comparable to those of 2019. In Q3 2021 41 528 visitors visited Uplistsikhe and 34 003 visitors went to Vardzia. In total, 91 516 visitors explored historic Georgian museum-reserves. For comparison, in 2019 Uplistsikhe and Vardzia were visited by 312 and 173 thousand visitors, respectively.

Travelers interested in cultural tourism, apart from visiting museum-reserves, tend to visit museums. Based on the data from the Georgian National Museum, 12 290 visitors explored the Simon Janashia Georgian National Museum in Tbilisi in Q3 2021, while 11 695 visited Svanetian History Museum in Mestia. The combined total of 44 023 visitors visited all museums managed by Georgian National Museum in Q3 2021. For comparison, this is just 41.4% of the number of visitors in these museums in Q3 2019.

Overview of the existing challenges and opportunities

This section unites stakeholders' opinions relating to the cultural tourism value chain operation which were gathered from individual and focus group meetings incorporating representatives from the private sector and business associations.

The following represent the most important challenges and opportunities identified in the cultural tourism value chain:

Increased revenues of the Georgian Museum-reserves through introducing a new tariff policy

Although a decrease in the number of visitors, the revenues of Georgian museum-reserve in 2021 were around only 10% behind the similar figures for 2019. As mentioned in the previous report, this was mainly caused by the agency's pre-pandemic decision about increasing service tariffs (ticket prices, guide services, and other services) by 100% (recalling that the new plan envisaged an increase in

revenues by 100% from GEL 3.4 million in 2019 to GEL 7 million in 2020 if the crisis had not taken place). The figures have been shared by a respondent from the Georgian National Agency for Cultural Heritage Preservation during the individual interview. In line with our respondent's opinion, the practice showed that doubling a ticket price had a minor influence on the number of total visits, meaning that the visitors were ready and willing to pay an increased fee for this service. According to the interviewed respondent, there is no tool to accurately differentiate between local and foreign tourists, however, he estimates that the share of foreign tourists in total visits is approximately 60-70%. Thus, the main defining contingent is international tourists.

Challenges on the supply side in cultural tourism

According to the respondents, there exists a demand for cultural tourism currently and potentially exists, but the impediments are on the supply side. As highlighted, for instance, tours in museum-reserves are short and are not enough to fully meet the visitors' expectations and thus, there is a need to diversify different multimedia and entertainment elements, arrange attractions that will bring more benefits. It is important that the service and entertainment elements are put together into one service and combined into a specific package for the tourists. According to the respondents, yet again, with the more active involvement of the private sector, the potential and perspective are much greater than in terms of public administration. That's why private businesses need more activity. There are numerous examples of similar successful practices in the world.

Enguri HPP arch dam in the list of international cultural routes

Since December 2021, Enguri HPP arch dam has officially become a certified member of the European Route of Industrial Heritage of Cultural Routes Program (of Council of Europe). Enguri HPP Dam is the first object from Georgia to join the European Route of Industrial Heritage. The tourist route of the Enguri Dam is two hours long and visitors have the opportunity to see the dam bridge, tunnel, reservoir section, and other interesting places. The tourist route practically covered almost the whole part of the territory covered by the de facto administration of Georgia. Both in terms of visiting hydraulic engineering facilities and installations, as well as visiting engineering facilities along the conditional border with Abkhazia, which really is impressive and eye-catching. Referring to the respondents' opinions, such regalia and recognition will have a positive impact on attracting tourist flows, both foreign and locals. According to GNTA, the next stage in the construction of the Enguri HPP dam tourist zone infrastructure will include the construction of overlooking grounds, a ropeway, a science and discovery center, an open-air concert space, and the world's tallest elevator to the dam.

Suspended rehabilitation works of cultural heritage monuments

In line with the information provided by cultural value chain representatives, unfortunately, the rehabilitation process in Nokalakevi - a new fast-growing historical-architectural museum-reserve, fortress city village with a total area of 37 hectares in Senaki municipality - has been suspended. Therefore, the expectations about Nokalakevi, being envisioned as one of the most lucrative and important tourist sites on the Georgian cultural tourist map, are now ambiguous.

The respondents confirmed practically the same process interruption in the case of the unique site of Mutso, where the rehabilitation-conservation activities are no longer carried out. In this case, our respondents assume that the process will resume and come to a certain logical conclusion. However, given the acquisition of several infrastructural elements for Mutso, which had been planned and is quite valuable and important for the development of the cultural monument, its perspective seems vague from today's point of view.

According to our respondents, stopping this type of activities would be a big mistake and every stakeholder should put every effort to resume the process as rapidly as possible.

VC in need of the private sector's active engagement

Yet again, the VC's interviewed stakeholders point out the crucial importance of the private sector's engagement and new investment attraction in cultural tourism development. In their opinion, providing private sector targeted actors evidence-based information about the tourism potential of specific museum-reserves (for instance Nokalakevi) could become the main stimulator for their involvement in several development projects including the expansion of entertainment, gastronomic, accommodation, and logistics infrastructure at different cultural tourism sites of Georgia. Besides, our respondents underlined the importance of improving entrepreneurial skills and activating entrepreneurial activities at the local communities' level, which in turn may acquire the most important functional load for the successful operation of a particular site.

GASTRONOMIC TOURISM

Gastronomic tourism has been ranked as a top priority by the program among the key value chains in the tourism sector in terms of competitiveness potential, systemic impact, and feasibility. Incorporating culinary and wine business activities, by and large, this value chain is expected to create extensive market opportunities, including importantly for HVM visitors which is a priority for the program. The importance of gastronomic tourism in Georgia's tourism sector is highlighted by the fact that 70% of visitors in Georgia engaged in tasting local cuisine and wine.

Overview of the existing challenges and opportunities

A qualitative study on gastronomic tourism was conducted through in-depth interviews and focus group meetings with representatives from the private sector and business associations of the gastronomic tourism value chain.

The primary challenges, existing opportunities and the most important subjects discussed during the field research are summarized below:

'Green Passport' regulation complications:

Respondents highlighted three main problematic issues related to the introduction of green passport regulation: First, they think the idea of creating a 'green zone' makes no sense when hospitality business actors are required to host only those with a green status, while this does not apply to their personnel; On the other hand, it is unacceptable for most respondents why this regulation has become mandatory only for the hospitality sector and why shopping malls, shops and public transport have been left out of the list; Finally, in the opinion of the majority of respondents, the enforcement of this regulation is not carried out properly. With such an approach, diligent and responsible companies are being put in unequal conditions with those dishonest businesses not adhering to the new guideline. As a result, there have been recalled cases when the guests facing green passport control barriers, expressed dissatisfaction, arguing that other restaurants or hotels do not have such austerity. Besides, as reported, there are occasions when information about a single employee infected by the COVID-19 is hidden by the business entity management so as not to be disclosed.

Respondents found it difficult to assess the extent to which the introduction of the green passport regulation encouraged the vaccination process across the population. However, most of them noted

that the new regulation has had a significant negative impact on the gastronomic VC. Part of them stressed that the revenues of those restaurants strictly following the new regulation had halved.

Low vaccination roll-out

As our field research revealed, the vaccination process among employees in the value chain is still slow. Business entities strive to encourage their employees for vaccination, but most have yet found it difficult to find an effective tool. According to some of the respondents, the imposition of cash bonuses remains the most effective approach among others. For example, according to the Association of Restaurateurs, encouraging a vaccinated person with cash bonuses eventually gives good consequences. In several instances, such campaigns (mostly awarding GEL100 per vaccinated person) resulted in a rapid shift in the vaccination rate from 80% to 100% in a week period. However, according to the respondents, most of the small size entities of the value chain cannot afford it. The majority of the respondents highly recommend the GoG to intensify a vaccination promotion country-wide campaigns, looking at new approaches that may change peoples' minds - especially important today during a highly contagious Omicron variant, having an extraordinary degree of transmissibility.

The ongoing tendency of shortage of qualified labor force:

As the qualitative study shows, scarcity of a workforce in Gastronomic VC and in the hospitality industry, in general, remains a major issue for employers. According to most of the respondents, compared to the last quarter, the situation has even worsened. A recruitment process has become twice more time-consuming, and the recruiters find it hard to find employees both at high and professional, as well as at lower-paying positions. Yet again, the problem is much more severe in the regions.

Besides, as reported by part of the respondents, a distinct trend is being observed already that a qualified staff leave the country, a larger share of which is heading to Qatar. This is linked to the 2022 FIFA World Cup tournament to be held in Qatar. Overall, they aim to go down in history as a country with one of the top tournaments hosted and managed ever. Thus, the country spends an enormous number of resources in perfecting its hospitality services and thus the recruitment process from Qatar is being managed in a very intensive way. Following the stakeholders' common opinion, this event, at one glance, could eventually be beneficial for Georgia, since high-level and intensive hospitality training sessions are already underway, and once the tournament is over, already highly qualified staff could return back home. On the other hand, there is a chance for Georgian personnel to find an opportunity in Qatar and stay and continue working even after the championship. According to the respondents, most of them might try so, since, for instance, the salaries are 6-7 times higher in Qatar compared to Georgia. Notably, there already are companies in Georgia being involved in this recruiting process.

A downward trend in the quality of services

According to most respondents, while the occupancy rate of gastronomic facilities has increased, the number of service personnel decreased on the contrary, which reduced the quality of service. As mentioned in the interviews, due to a scarcity of human resources, the managers themselves perform the duties of waiters and this is a common practice already. According to the majority of value chain actors, if the same is repeated in the spring of 2022 as it happened in the summer of 2020 during a boom of tourists, the businesses are not ready for this day. For example, in July 2020, when the number of tourists suddenly increased significantly and the demand exceeded the supply significantly, harming the level of services. Eventually, a low-quality service was reflected in the ratings at hotel rental

platforms, which, by the opinion of the part of the respondents, also worsened the international rating and image of the country.

Uncertainty in expectations

The private sector still finds it difficult to make predictions about what will happen in the short run. According to them, every decision will depend on the further expansion of the virus. However, several presumptions have been made that from the second quarter of 2022, between April and May, we could be entering a new phase in the pandemic with reasonable hope for stabilization. Though, in this case, part of the respondents is concerned about how the private sector will withstand the possible boom, as it happened so in July 2020, when demand suddenly outpaced the supply and businesses were very unprepared, having a negative influence on the quality of services, as mentioned above. According to the Georgian Gastronomic Association, there has been a recent trend of emerging new restaurants, which, on the one hand, may be related to the positive expectations of private sector actors in the wake of increased demand, however, on the other hand, it is also a fact that many restaurants went bankrupt during the crisis. Overall, the vast majority of interviewed respondents still refrain from making concrete predictions.

Recent trends in hospitality VC

According to our respondents from hospitality VC, In September and October 2021 hotel occupancy rate was 45-50%, 30% in November; and 35% in December. Average Daily Rate (ADR) has reduced during this period. Besides, the recent trend is that the demand for 5* branded hotels has increased, when before the pandemic there was an opposite tendency when the guests preferred to go to small hotels and guesthouses in search of local and authentic. Such a shift in this trend is logically related to the prioritized safety against COVID-19.

Increased utility and input costs:

Yet again, the vast majority of our respondents are disturbed about the rapid shifts in utility expenses and operational costs. Most of the respondents expressed concern that they were not able to adjust prices in parallel with the increase in operating costs, and most of them continue operating by applying the pre-crisis prices. This obviously means that most of them were to reduce their gross margins. According to one of the respondents, for some of the dishes, the restaurant was forced to reduce portions, which eventually has an impact on consumer satisfaction. To summarize again, since January 2021, for corporate customers, utility costs - gas and electricity tariffs have increased by 28% and 50-70%, respectively. In addition to an increase of input costs for intermediate goods and operational costs (compliance with imposed regulations).

Promoting country's one of the national symbols

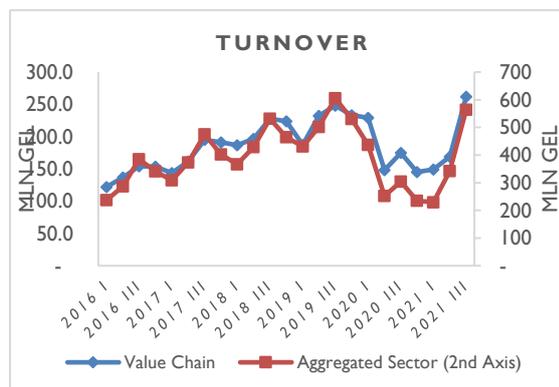
The founder of Georgian Hotel Restaurant Café Federation came up with the initiative to bring Georgian grapes to the forefront in Georgian gastronomy and hospitality, even more, applying them in the gastronomy of branded hotels. In particular, the idea relies on adding Georgian natural grape juice (Badagi) among mandatory juices at branded hotel breakfast menus. At present, along with international standards, all branded hotels are required to have orange juice (together with other non-specific varieties of juices) at breakfast. On average, a medium-size branded hotel consumes around 130 liters of juice per day, out of which 50 liters are pure Georgian grape, this would create additional

demand for the grapes and benefited the farmers. According to the respondent, Georgia being positioned as the birthplace of winemaking and home to more than 500 varieties of indigenous grapes, this initiative could have also been used as an interesting messaging when positioning Georgia internationally.

Trends in food services

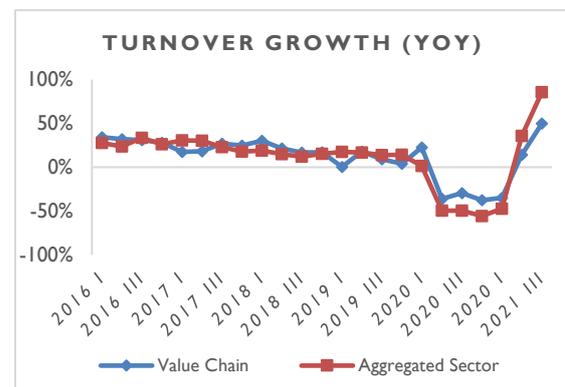
The turnover of enterprises in the food services value chain faced a massive hit in 2020. In Q1 2021, the VCs turnover declined both compared to Q1 2020 and to Q1 of 2019, due to movement restrictions in place in January and February. In Q2 2021, the VCs turnover recovered with reopening of the economy. It is also worth noting that Q2 2021 marks the first positive growth rate for the VC since Q2 2020. However, with restrictions such as curfew still in place, the recovery was not strong enough to return the VC to 2019 levels. On the onset of further easing of the restrictions, in Q3 2021 turnover of the food services VC increased significantly by 49.9% compared to Q3 2020 and apart from that, it exceeded Q3 2019 level of turnover by 5.6%. While the aggregate sector showed stronger recovery compared to Q3 2020 (85.7%), it fared worse when compared with Q2 2019 (-6.8%), explained by the fact that the aggregate sector of accommodation and food services was more heavily impacted by the pandemic than the food services VC alone.

Chart I.18 Turnover of the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart I.19 Annual growth rate of turnover for the food services value chain and the aggregated sector



Output in the food services value chain mirrored the dynamics of the value chain's turnover in 2020 and 2021, having grown by 50.0% in Q3 2021 compared to Q3 2020 and by 6.0% compared to Q3 2019. As in the case of turnover, the aggregated sector registered higher YoY growth (80.6%) and a decline (-5.6%) when compared to Q3 2019.

Chart I.20 Output of the food services value chain and the corresponding aggregated sector

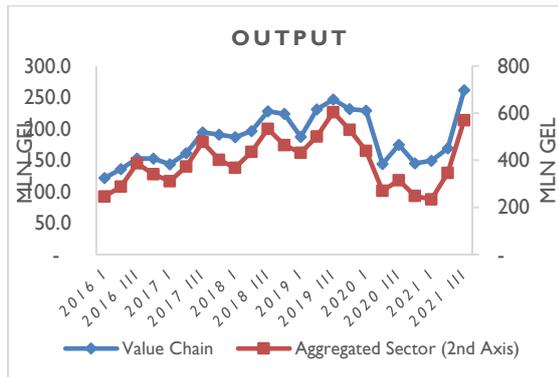
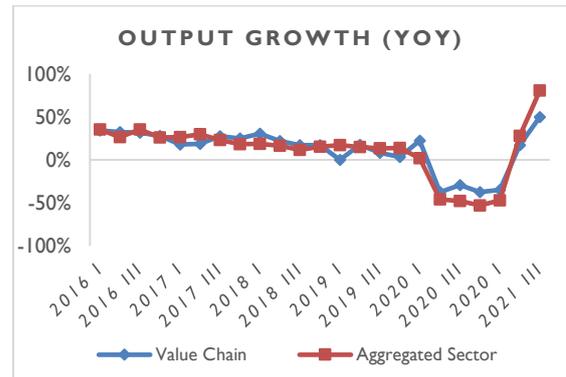


Chart I.21 Annual growth rate of output for the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

Employment in food services value chain declined significantly in 2020, and the figures were worse for the aggregated sector. In Q1 2021, the decline continued. In Q2 of 2021 however, a strong uptick in employment was observable compared to the previous quarter. Employment has shown a further, a 9.8% YoY increase, while compared to Q3 2019 employment in food services value chain declined by 2.9%.

Chart I.22 Employment in the food services value chain and the corresponding aggregated sector

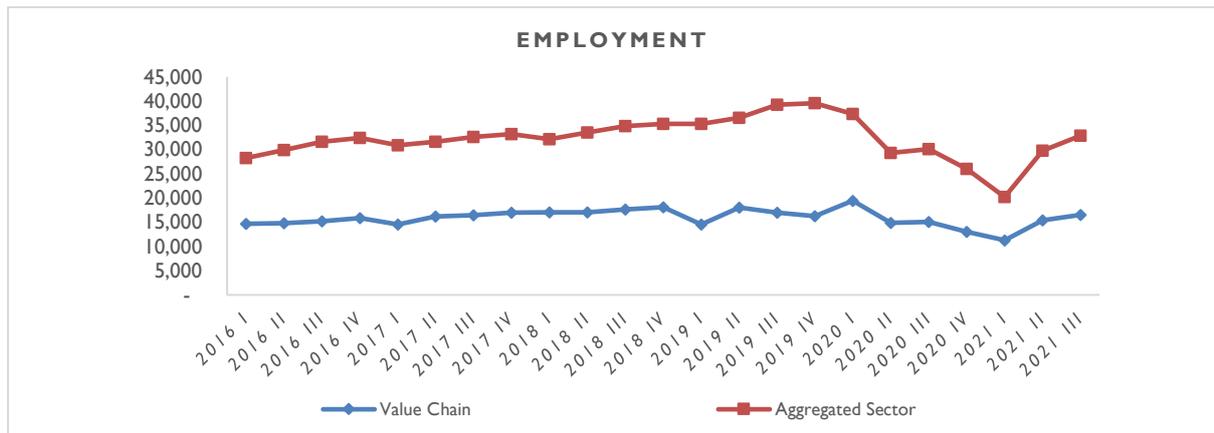
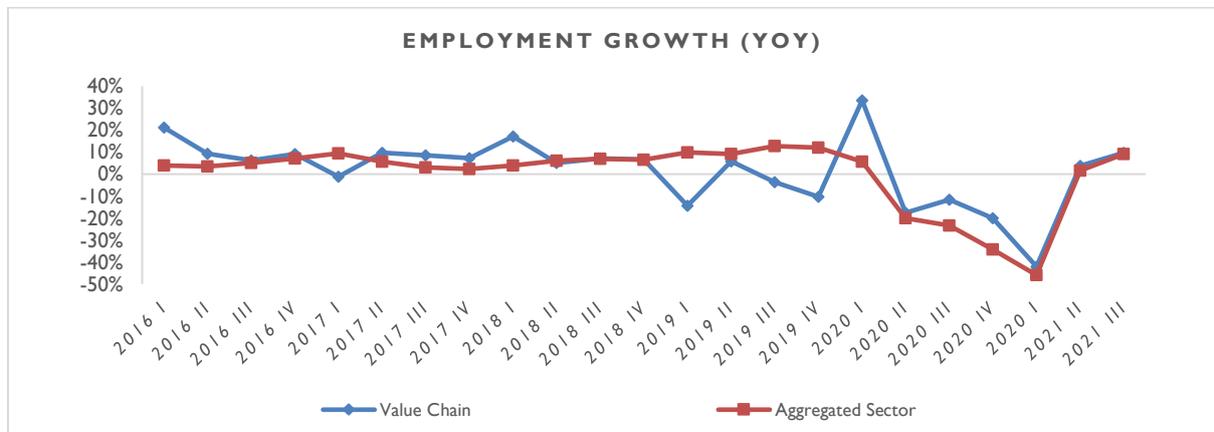


Chart I.23 Annual growth rate of employment in the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

In 2020 and Q1 2021, the decline of the average monthly salary in the food services value chain was less substantial than other key indicators. In Q2 2021, the average salary in the VC started increasing and in Q3 YoY increase reached 6.6%, while compared to Q3 2019 the average monthly salary has increased by 10.7%. The increase in the aggregated sector was similar. Notably, the total salary fund of the value chain increased by 17.0% in Q3 2021 compared to Q3 2020 and by 7.5% when compared to Q3 2019.

In 2020, productivity of the VC, as measured by output divided by the number of employed people of suffered significantly. In Q1 2021 productivity increased as the number of employed people declined. In Q2 2021, productivity of the sector declined compared to the previous quarter, which can be directly attributed to increased employment in Q2. In Q3 2021, productivity increased sharply showing a 36.6% increase when comparing to Q3 2020 and 9.2% increase compared to Q3 2019, which can be explained by significantly large increase in output of the VC.

Chart I.24 Average monthly salary in the food services value chain and the corresponding aggregated sector

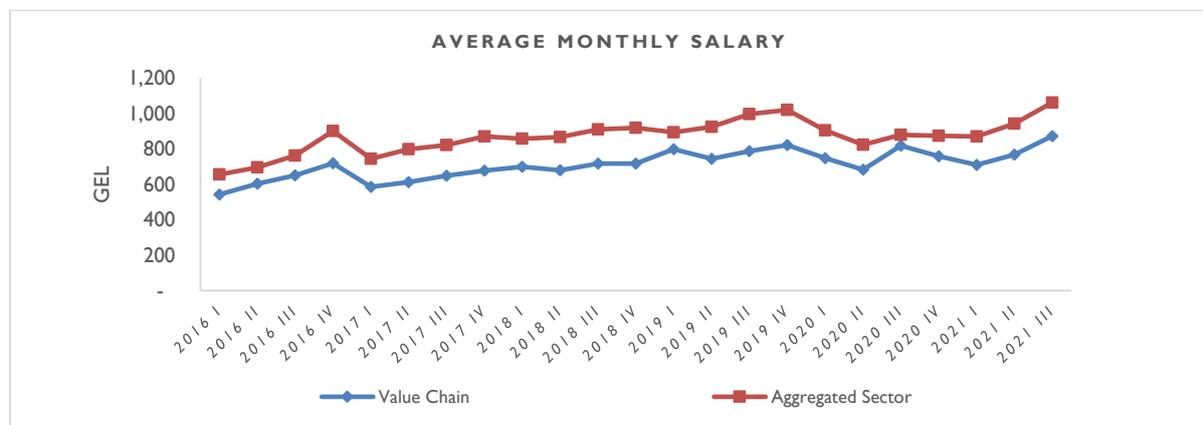
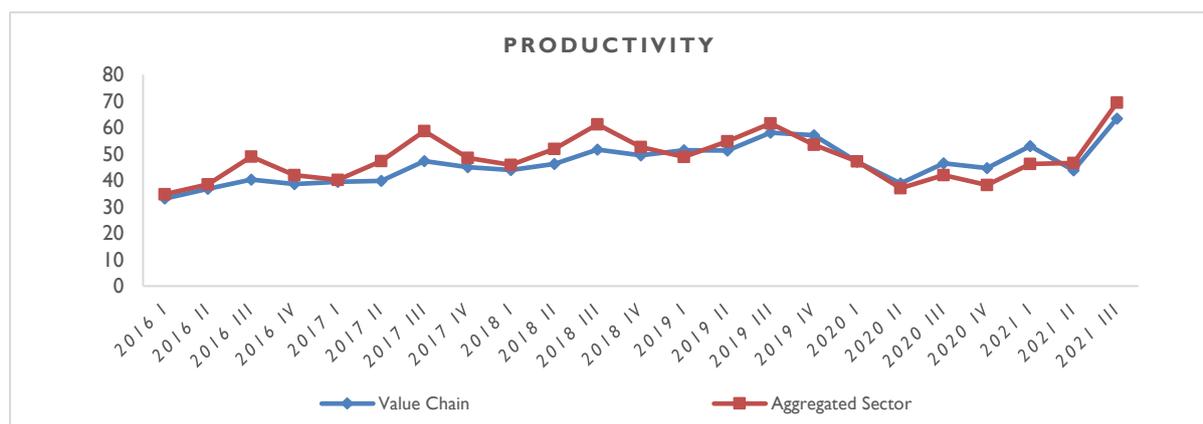


Chart I.25 Annual growth rate of productivity in the food services and the corresponding aggregated sector



Source: National Statistics Office of Georgia

CATERING

Catering is one of the value chains for which Geostat business survey data were not available. Therefore, to compensate for this, a survey of the value chain's representatives was conducted. The surveyed companies were drawn from the stakeholders' lists and, for the most part, their main economic activity was providing food services as restaurants, with catering being their secondary economic activity.

The catering value chain has been devastated by the Covid-19 pandemic. The absence of events for the majority of 2020 and some part of 2021 brought the operations of the companies in the value chain to a halt. All the surveyed companies declared a decline in turnover of more than 50% in 2020, while some of them stated that they had completely stopped operating as a catering service provider.

With the restrictions on events easing in Q2 and Q3 of 2021, the VC has seen the first signs of the recovery. Each of the surveyed firms which have not halted operations have reported a strong growth in terms of all, turnover, employment, and average gross monthly salary, when compared to Q3 of 2020. Albeit this growth can directly be attributed to the base effect. In terms of volume, each of the surveyed enterprises reported their turnover to be between GEL 100,000 to GEL 500,000 in Q3 2021, which is a decline compared to pre-pandemic levels.

Finally, the number of firms operating in the catering VC have decreased as some operators decided to not reopen their catering divisions even after eased restrictions in Q2 and Q3 2021. Still, for those that have remained open,

2. CREATIVE INDUSTRIES

SECTOR SUMMARY

The creative industries were affected by the pandemic by a significant margin. The media content production and post-production value chain expressed impressive growth prior to 2020, expanding turnover, employment, and all other indicators; the pandemic affected the value chain considerably, it experienced a contraction in all indicators from which it has yet to recover. The aggregate sector of information and communication, in contrast, recovered and even surpassed pre-2020 levels.

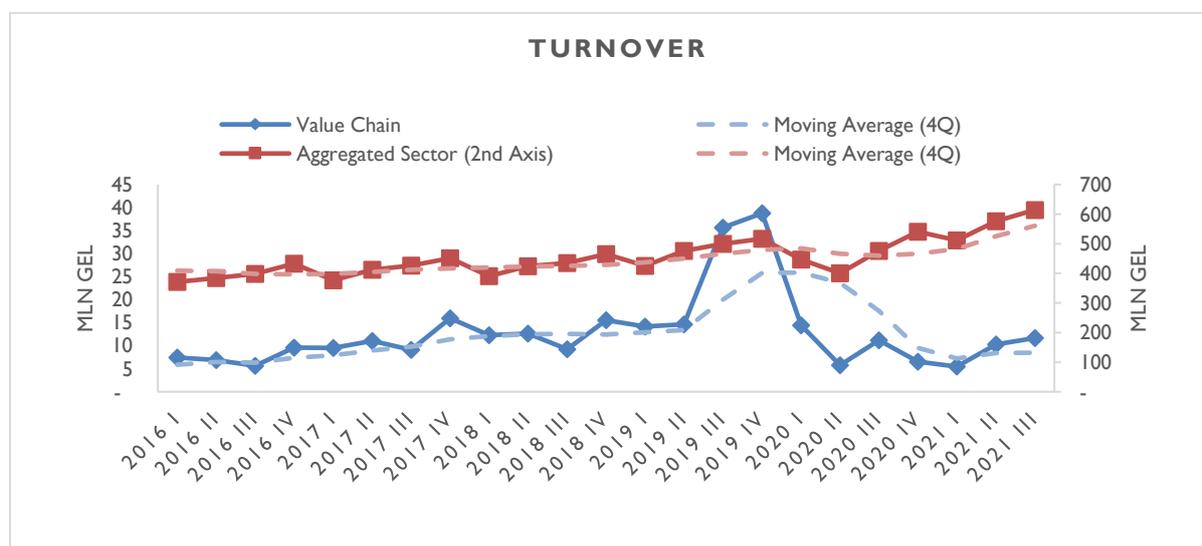
After being heavily hit by COVID-19, the media content production and post-production value chain has started its recovery from record-low numbers, recording its first growth in Q2 2021 after the start of the pandemic. The growth continued in Q3 2021, with turnover growing by 4.2% compared to Q3 2021. The VC's turnover also expanding when compared to the previous quarter. However, the VC's key indicators including employment, average salary and productivity are yet to recover to 2019 levels. Employment in the VC has been particularly hit, not being able to recover to even Q3 2020 level.

The artisan VC has also seen the first signs of recovery in Q2 and Q3 of 2021, with more than half of the firms reporting increased turnover. However, full-fledged recovery is still not in sight, as substantial part of the VC has completely halted operations even with tourism reopening in Q2 2021, and the increases in turnover for the firms have been modest, even when compared to Q2 of 2020.

MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

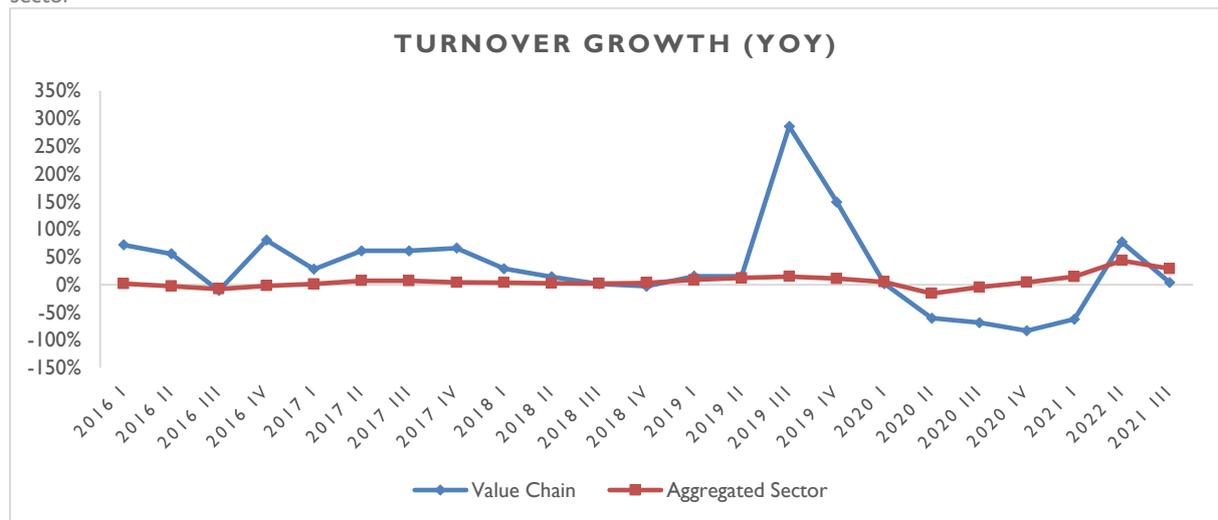
Media content production and post-production used to be one of the fastest growing value chains in Georgia, especially compared to its aggregated sector – information and communication. However, due to the pandemic, it experienced a rough transition to a sharp contraction in 2020. Other value chains, including some from the creative industries, managed to adjust their business models to the harsh conditions and managed to somewhat recover accordingly in the later parts of the pandemic. In 2021, the pandemic is still ongoing, and the conditions of the media content and post-production value chain showed the first signs of recovery in Q2 and Q3 of 2021.

Chart 2.1 Turnover of the media content and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 2.2 Changes in turnover for the media content production and post-production and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Media content production and post-production had been one of the fastest growing value chains in Georgia, however, has been hit hard by the pandemic. After lifting major pandemic-related restrictions in Q2 of 2021, the VC has showed the first signs of the recovery. Namely, turnover of the VC in Q2 2021 amounted to 10.3 mln GEL, which is almost twice the amount of the previous quarter. When compared to Q2 of 2020, the growth rate of turnover was 77.2%. Notably, Q2 2021 was the first quarter since the start of the pandemic in which the VC showed YoY growth. However, this growth largely attributed to base effect, as comparison is made to the quarter with complete lockdown. In Q3, the growth continued - but when compared to Q3 of 2019, the VC's turnover has declined by 67.3%, mainly due to extraordinary results in Q3 2019. When compared to Q3 2020 however, a growth of 4.2% is evident.

Chart 2.3 Employment in the media content production and post-production value chain and the corresponding aggregated sector

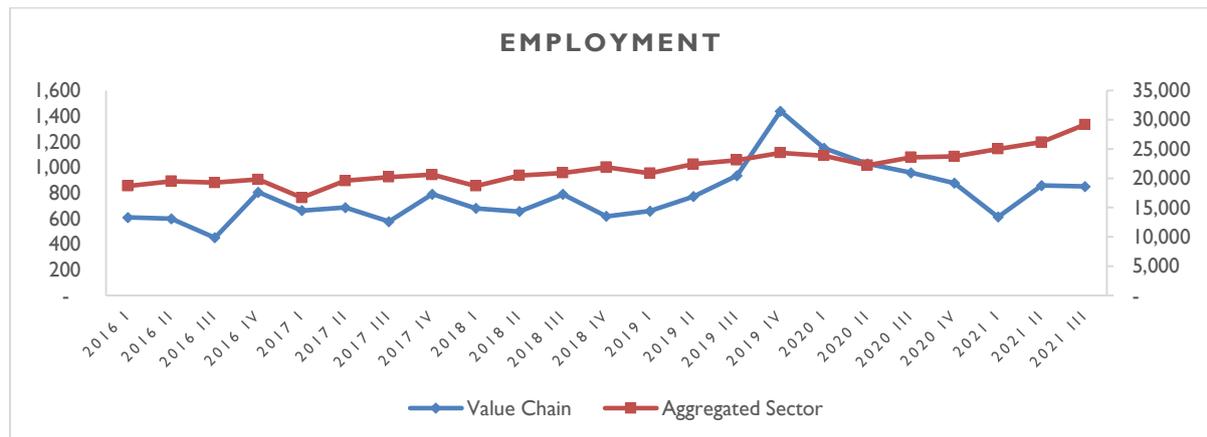
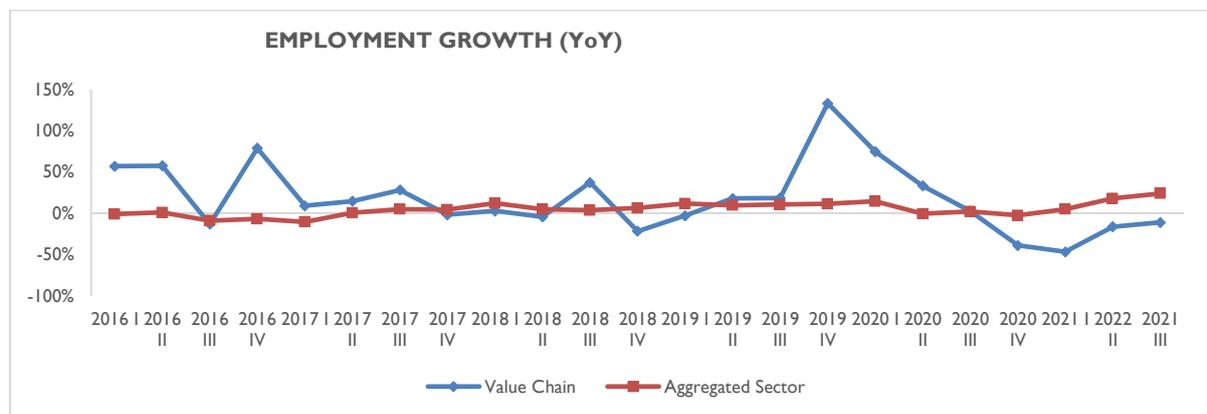


Chart 2.4 Growth rate of employment in the media content production and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The number of people employed in media content production and post-production value chain was at an all-time high at the 4th quarter of 2019, employing 1440 laborers. After this, a gradual fall quarter after quarter was evident, with employment reaching its lowest value in Q1 2021 (612 laborers). In Q2, a strong recovery compared to the previous quarter was observable, with number of laborers in the VC increasing to 859, and in Q3 2021 this number stabilized, amounting 851. Still, the YoY growth rate for employment has been negative for past few quarters, with employment in the VC in Q3 2021 declining even compared to the Q3 2020 (-11.1%). This could be explained by hesitance of the companies to let go of their employees at the early stage of the pandemic. Conversely, the aggregate value chain has been expanding its number of laborers since Q3 2020, with a 23.7% YoY growth in Q3 of 2021.

Chart 2.5 Average monthly salary in the media content production and post-production value chain and the corresponding aggregated sector

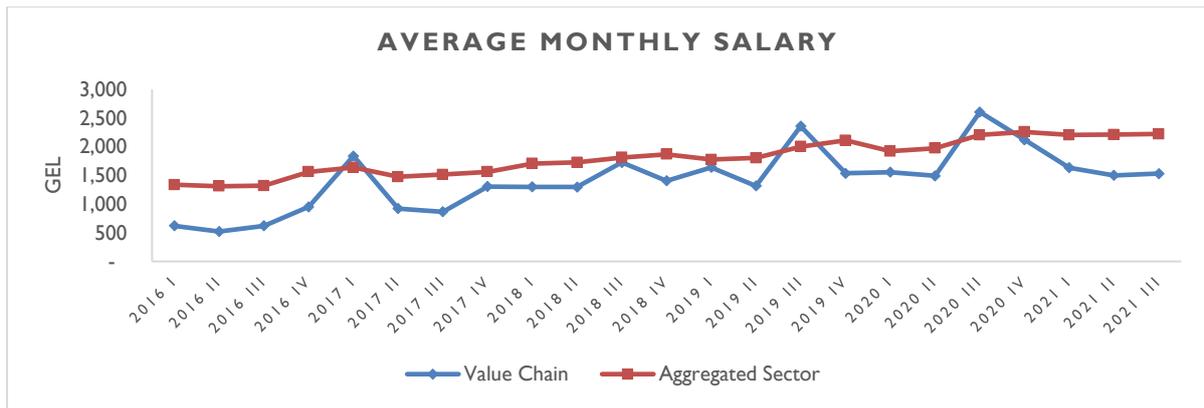
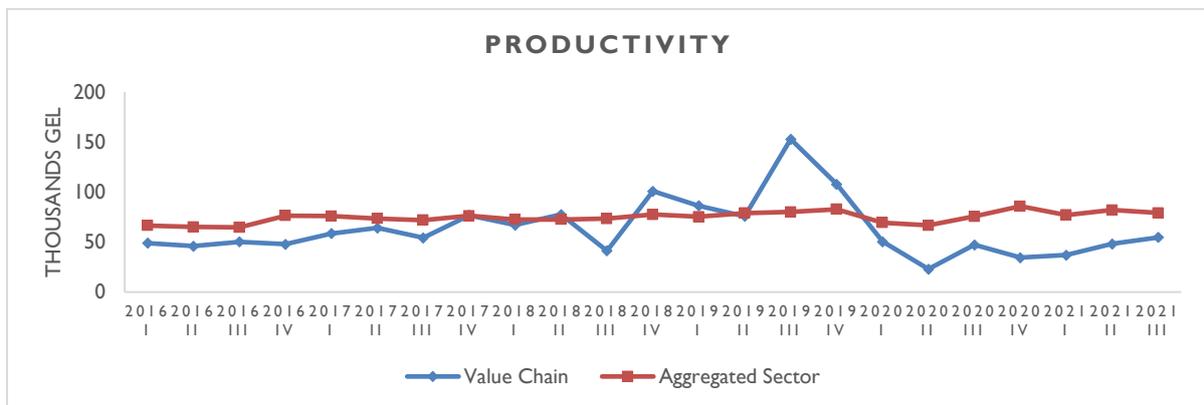


Chart 2.6 Productivity in the media content and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Despite relative recovery in terms of employment, the average monthly salary in the media production and post-production value chain has continued to decline QoQ, reaching 1502 GEL in Q2 2021, having recovered slightly to 1532 GEL in Q3 2021. However, this is significantly lower than average monthly salary in both, Q3 2020 (by 41.1%) and Q3 2019 (by 35.0%). As for the aggregate sector, it has consistently outperformed the VC in terms of salaries over the years, with just 3 exceptions (Q1 2017, Q3 2019, Q3 2020). It is worth noting that average salary of both, the VC and the aggregate sector were not heavily impacted by the pandemic.

Productivity of the media production and post-production value chain has been significantly affected by the COVID-19 pandemic. In fact, since Q1 2020, productivity of the VC has been consistently lower than that of the aggregate sector. Reaching its lowest point in the analyzed period in Q2 2020, productivity has recovered in Q3 2020, dipping again in Q4 2020. In Q1 2021 however, productivity saw a slight increase, and other increases in Q2 and Q3 of 2021 followed. Namely, the VC's productivity increased by 158.1% YoY in Q3 2021, however, has still remained 64.2% lower when compared to Q3 of 2019. The pace in the pattern of the recovery in the following quarters will determine when the VC returns to its pre-pandemic level of productivity.

Overview of Existing Challenges and Opportunities

During the reporting period, the 'Film in Georgia' program has been resumed. The changes have been made to the program design include but are not limited to the following: the period within which the beneficiary submits an independent audit report has decreased from 2 to 1 year; The period withing which the agency reimburses of 20% of the limited qualified expenses has increased from 3 to 12 months; criteria for audit reports have been revised; and most importantly, 5 million GEL annual

budget for the program has been approved (before redesign, there was not a specific amount of budget allocated for the program). Moreover, the Enterprise Georgia also plans to support development of pavilions and related infrastructure that will attract long-term projects, such as TV series and reality shows. According to the respondents, the re-launch of the redesigned program is an important positive step forward in regaining investors' attention as the termination of the program, even temporarily, would have had a severe impact on the Georgian audiovisual production and post-production industries. Pertinently, film production is a highly mobile industry and production companies can move swiftly to more favorable jurisdictions². However, according to the respondents, the terms of the program have been significantly tightened, for example, they have emphasized on a decrease of the period for submitting an independent audit report and increasing the period of reimbursing of 20% of the qualified expenses, as well as limiting a period in which the project should be completed to one year. Unfortunately, none of the companies interviewed for this report have applied for the updated program, however, they reported that the companies that had attempts to register had experienced various technical problems. Overall, companies stay optimistic about the future of the redesigned cash rebate program. The producer companies keep informing their foreign partners about the returned opportunities of cash rebate program, but this process has been repeatedly interrupted by the pandemic as Georgian companies still have difficulties in in-person participating in global film platforms and gatherings.

According to the respondents, the development of post-production remains a significant opportunity for Georgia that will attract many international projects to the country.

A key sectoral association that operates in the audiovisual industry is the Georgian Film Cluster, which unites 40 of Georgia's leading companies and professionals in this field. The cluster was established in 2017, supported by GIZ as part of the European Union's "EU4Business Initiative." The cluster aims to promote the Georgian film industry abroad, to establish links between Georgian and international film producers, to identify new opportunities for trainings and apprenticeships abroad, and to serve as a united voice to lobby the industry's interests and programs within the Georgian government and among the cluster's international partners. According to its Executive Director, Mr. David Vashadze, as well as the rest of the respondents, the cluster has largely been inactive since the completion of the EU4Business Initiative. The key reason for this is insufficient financial resources. According to Mr. Vashadze, positive developments have been observed since last summer in the film industry, and several big international projects (including but not limited to American, British, European, Asian, and Arabic) are planned to implement during spring and summer of 2022. Significant steps have been taken towards cooperation between Georgian and Spanish film producers - with the help of the EU program EU4Business: Connecting Companies, the Georgian National Film Center organized Georgian producers visit to the Platino Industria forum in Madrid. In the frames of the same project, on December 6-10, Spanish cinematographers paid a working visit to Tbilisi. As a result of this collaboration a s to the cooperation of Spaniards and Georgians, within the framework of the grant 10 Kartli production companies went to the Platinum Industry Market (platform) in Madrid. 10 were also selected from Spain and met as part of the event, while there were also large companies producing for the Spanish-speaking market. As part of the collaboration, one short film has already been made, and the negotiations are still held regarding several upcoming documentaries

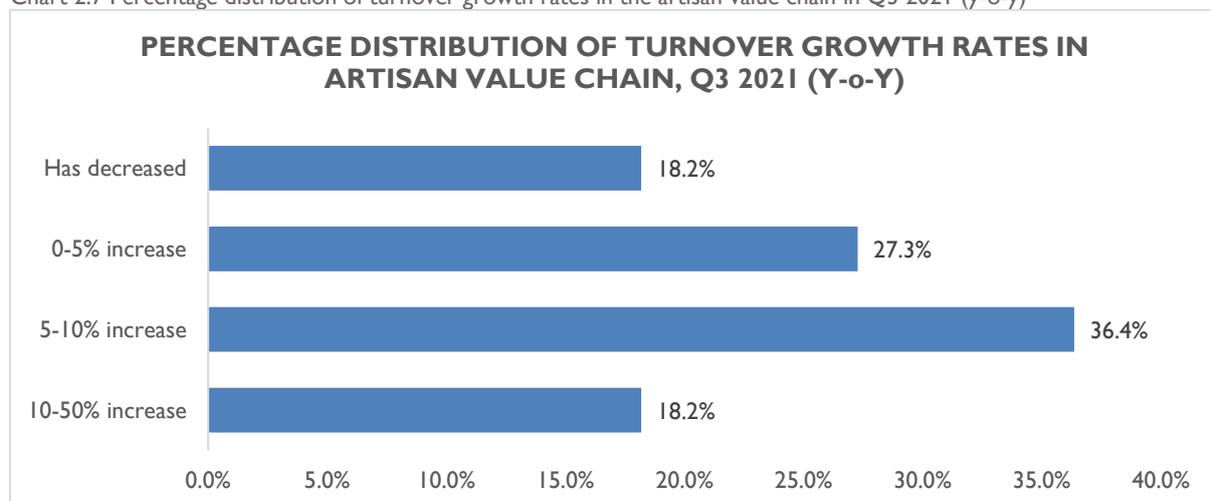
ARTISAN

As the data for the artisan VC is not available due to the niche and diverse nature of the field, a survey has been conducted. The majority of the surveyed companies, drawn from the stakeholder's list, are sole entrepreneurs, all of them operating from Tbilisi. The products that the entrepreneurs and LLCs

specialize around vary from ceramics to jewelry, out of which custom furniture and miniature figures are the most common.

As mentioned in the previous reports, during the pandemic the artisan VC has been hit the hardest, threatening to completely halt the activities of most of the businesses in the field. High freight costs, insufficient advertisement and lack of foreign customers have been the main issues for most of the artisan representatives. With the rebound of tourism in Georgia in Q2 and Q3 of 2021, the harsh conditions were eased for the abovementioned businesses, and as the survey conducted about the Q3 showed the majority of all the surveyed entrepreneurs and companies have increased their revenues compared to Q3 2020. However, this increase has been modest, with 27.3% of surveyed businesses increasing their turnover by just 0-5% and 36.4% by 5-10%. Moreover, only 18.2% of the surveyed firms indicated a YoY decline in turnover.

Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain in Q3 2021 (y-o-y)



Source: Author's Calculations

As the majority of the businesses are sole entrepreneurs; therefore, it is not surprising that 90.9% of the surveyed entities reported that their turnover in the third quarter of 2021 amounted to less than GEL 100,00. When comparing the number of employed in the VC in Q3 2021 to Q3 2020, most of the surveyed businesses (70.0%) indicate no change in this regard, while 20.0% indicate growth in workforce and 10.0% indicate decline. Lastly, 57.1% of the businesses reported that the wages year-over-year have not changed, while the rest had increased the salaries.

In sum, the overall performance of the artisan VC in the third quarter of 2021 can be described as the first signs of the recovery, with more than half of the firms increasing their turnover. Further monitoring of upcoming months could prove to be useful in tracking the recovery of the VC.

Overview of Existing Challenges and Opportunities

The artisan value chain consists of individual artisans and crafts enterprises in jewelry design, wood carving, stone carving, and ceramics. The ecosystem of the artisan value chain includes individual artisans as well as crafts enterprises with an average of 10 employees. The bigger companies in this value chain are mainly concentrated in Tbilisi, while smaller companies and individual artisans are generally located in the regions in which their specific traditional crafts originate (e.g., wood carving in Racha, and felt in Alvani).

The key association that operates within the value chain, namely the Georgian Heritage Crafts Association, has over 250 active members (of which 30 joined in 2020). The association aims to

safeguard Georgian heritage craft traditions through the creation of a networking platform for individuals, craftspeople, organizations, and guilds; the promotion of heritage craft sectors among the wider public; the enhancement of the sector's economic potential and raising the competitiveness of Georgian heritage craft products; and supporting heritage crafts through technical assistance and fundraising and facilitating research in the sector. Throughout 2021, the association continued supporting its members by organizing exhibitions and trade fairs. For example, from December 10 till January 6 the association with the support of the USAID Economic Security Program organized a Christmas Fair at City Mall which, according to its participants, was the most successful among the fairs held in the last several years in terms of number of buyers and sales revenue received. The association runs craft shops (Ethnodesign) in Tbilisi and Vardzia which sell products made by selected Georgian artisans to promote local heritage crafts among tourists. The association continues to operate the shop in Tbilisi. However, it has not yet opened a store in Vardzia, which closed at the beginning of the pandemic. Sales in the Tbilisi store has increased since the opening the borders in the beginning of 2021, especially after the shop's address was added on a Google map. In 2022 the association plans to start a mobile shop in a truck, which was purchased with the financial support from the Center for Strategic Research and Development of Georgia (CSR DG).

Export-related issues: Most of the artisans and crafts enterprises in the value chain in recent years have actively started taking the first steps toward exporting their products, mainly using online trading platforms. Although there have been some successful cases, overall, this process remains challenging for the value chain's actors. First, respondents noted that artisans generally lack the knowledge required (e.g., online marketing, content creation, and e-commerce operations) to sell their products on e-commerce platforms. Artisans, who often work individually without administrative or marketing support, do not have sufficient language and business management skills to advertise and place their products on international online platforms. Furthermore, as mentioned by the stakeholders, it is also important that products being sold online are photographed by a professional photographer, which represents a significant cost for producers. Moreover, the high cost of transporting products from Georgia to other countries is the key hindering factor when it comes to online sales. According to the respondents, the cost of transportation often exceeds the price of the product several times, which significantly reduces the competitiveness of their products on the international market. In order to facilitate the export of artisanal products, the Economic Security Program implemented a project in the summer of 2020 to help up to 100 artisans place their products on Etsy.com. However, stakeholders who benefited from this project noted that the high cost of transportation significantly hindered successful sales on this platform.

Lack of access to materials: Access to materials is one of the main problems for most artisans and craft enterprises. According to the association, it is difficult and often impossible for manufacturers to obtain the required materials on the local market. Consequently, materials that are scarce in Georgia are imported (e.g. leather and clay), which makes the final products more expensive and reduces businesses' overall competitiveness on the international market. As many stakeholders mentioned, artisans often have to cancel orders from abroad because they cannot obtain a sufficient supply of materials. Meanwhile, respondents who produce ceramics noted that although clay is much cheaper locally, they import more expensive materials from Europe because they want to produce high-quality products.

COVID-19 impact and response: The pandemic and subsequent lockdown have had a devastating impact on the artisan sector, which depends heavily on tourism. Respondents noted that the growth of artisan production over the past few years had been highly dependent on tourism. Therefore, the high dependence on tourists as consumers meant that artisans' sales declined massively in 2020. According to stakeholders, a significant proportion of companies were unable to maintain their

business and had already left or were about to leave the market. Those continuing their operations had to make layoffs or reduce staff salaries. Moreover, companies shouldered an additional burden because of the ban on public transportation during long stretches of 2020. Overall, relatively big companies with permanent employees and rented workshop spaces and shops were affected more severely than individual artisans, who primarily work from home. Since the beginning of 2021 (especially after the summer), with the growth of tourism, the demand for artisanal products has increased; however, revenues have not yet returned to pre-pandemic levels. Sales were also positively affected by the fairs organized by the association.

3. LIGHT MANUFACTURING

SECTOR SUMMARY

Within the light manufacturing sector, the following value chains were analyzed: furniture; packaging; construction materials; and personal and protective equipment (PPE). In addition, the study also focused on the wooden toys business activity within the furniture value chain.

The following section provides a detailed economic analysis of the furniture, packaging, and construction materials value chains based on quarterly and annual enterprise survey data from Geostat, while for the wooden toys business activity and the PPE value chain, phone surveys were conducted, the result of which are also presented. The section also integrates summary of qualitative findings obtained through FGs and individual interviews with sector representatives.

According to the quarterly data, turnover in all value chains in this sector demonstrated positive nominal growth (YoY) in Q3 2021 compared to Q3 2020, with the highest growth observed in the packaging value chain (32.7%). Employment has also increased (YoY) in every value chain, with highest growth observed in construction materials (18.5%). The highest number of hired employees as of Q3 2021 was registered in the construction materials value chain (9,329 employees), while the lowest was observed in furniture value chain (3,226 employees). Improved performance (YoY) should be partly attributed to the base effect.

The average monthly salary for Q3 2021 ranged between GEL 948 (in the furniture VC) and GEL 1,487 (in packaging VC). Similarly, the furniture VC has been characterized by the lowest labor productivity³⁶ (GEL 82,780), while the highest productivity was identified in the packaging value chain (GEL 205,220).

Survey results for the PPE value chain and the wooden toys business activity suggest that majority of PPE (78%) and Wooden Toys (63%) manufacturers report increased turnover in Q3 2021, compared to Q3 2020. As for employment, 50% of PPE value chain and wooden toys manufacturers reported no change in their number of employees in Q3 2021, compared to Q3 2020, while 25% and 50%, respectively, reported an increase in employment.

As for the qualitative assessment, several significant aspects can be outlined. Primarily, there has not been a significant progress made against the critical impediments that have persisted in the value chains. This is surprising considering the number of active associations/clusters, present in the light manufacturing sector. In some cases, per value chain, more than one association is active. However, as noticed, the progress towards lasting challenges is seldom achieved.

On the one hand, the prominent impediments are complex and might require years of work to be effectively dealt. For instance, the challenge of unskilled workforce, which is a central barrier limiting upgrading potential of all the VCs in the light manufacturing sector. In certain cases, however, as the respective association representatives claim, despite the offered initiatives targeted at upskilling the labor force, the private sector turned out to be reluctant to benefit from suggested support schemes.

Noticeable impediment that has moved up in the private sector agenda lately relates to product certification. This challenge is particularly prominent in construction materials' value chain and wooden toys' business activity. Regarding the former, the Georgian Construction Materials Cluster (GCMC)

³⁶ Quarterly output per hired employee, annualized.

is quite active, attempting to advocate the challenge at the level of the state and offers specific certification services for its member companies. In the case of Wooden Toys business activity, no targeted association is active, thus this business activity is lacking an institutional resource to voice the concern.

Individual interviews and FGs highlight that there are clear opportunities for better utilizing the cooperation between private and public sectors as many regulatory challenges existent in these value chains necessitate active involvement of the state institutions. The public agency that has been continually active and positively involved in development of the light manufacturing sector is Enterprise Georgia. As the given analysis revealed partnership precedents with EG are especially explicit in the case of packaging and construction materials value chains.

Overall, the light manufacturing sector seems to have successfully adjusted to a post-pandemic reality. Some of the barriers outlined during the previous quarters are likely to no longer pose significant threats to economic health of this sector. For instance, as industry representatives claim, disruptions in international supply chains have had less severe influence lately; volatility of the national currency is no longer a critical concern for the value chain representatives; businesses are also slowly returning to normal in terms of their international exposure – trade fairs, exhibitions have taken place recently.

In the case of all VCs of this sector COVID-19 seems to have offered some opportunities as well. Primarily, there is a trend of sales digitalization in certain value chains and business activities, such as wooden toys and furniture manufacture, where more companies utilize e-commerce platforms to increase their revenues. What is more, to a certain extent, import replacement potential has been improved recently as seen in the case of packaging and construction materials production. As for the PPE, pandemic has accelerated demand on medical equipment.

FURNITURE

In the following section we provide quantitative economic indicators for the furniture VC and for its corresponding aggregate sector (manufacturing).

According to Geostat’s Enterprise Survey data, the furniture value chain includes the following economic activities as defined by the statistical classification of economic activities (NACE Rev. 2), available at 2- or 3-digit levels (Table 3.1):

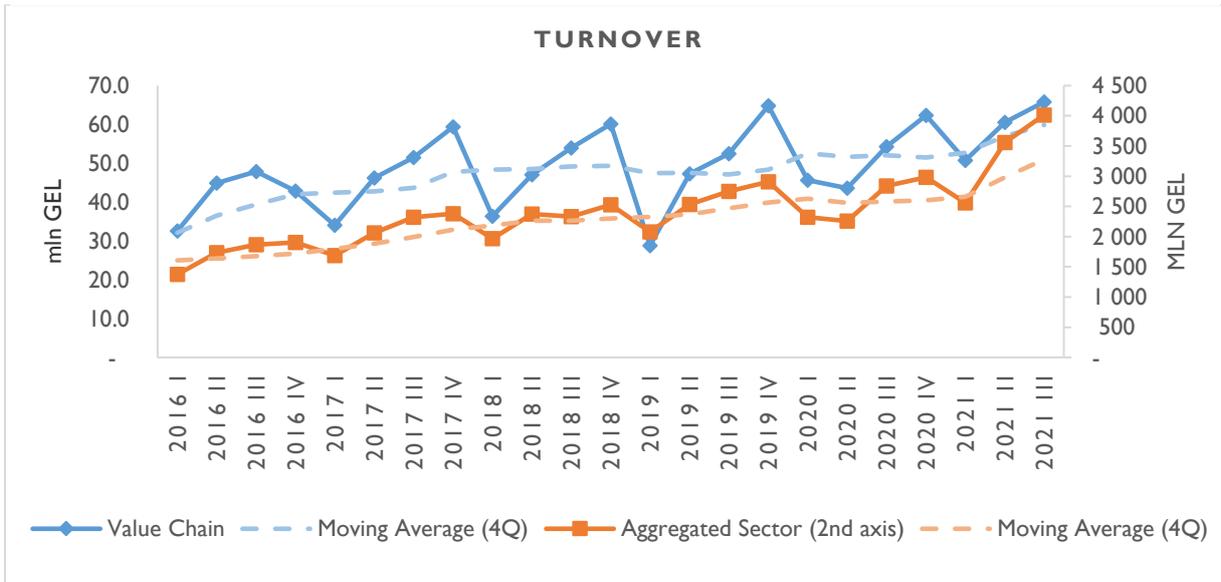
Table 3.1 Economic activities included in furniture value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code for quarterly analysis	Description of Economic Activity	Additional Classification
31	Manufacture of furniture	31	Manufacture of furniture	Furniture Output
16.1	Sawmilling and planning of wood	16.1	Sawmilling and planning of wood	Inputs of Furniture
16.21	Manufacture of veneer sheets and wood-based panels		Manufacture of products of wood, cork, straw and plaiting materials	
16.22	Manufacture of assembled parquet floors			
16.29	Manufacture of other products of wood;			

	manufacture of articles of cork, straw and plaiting materials	16.2 ³⁷		
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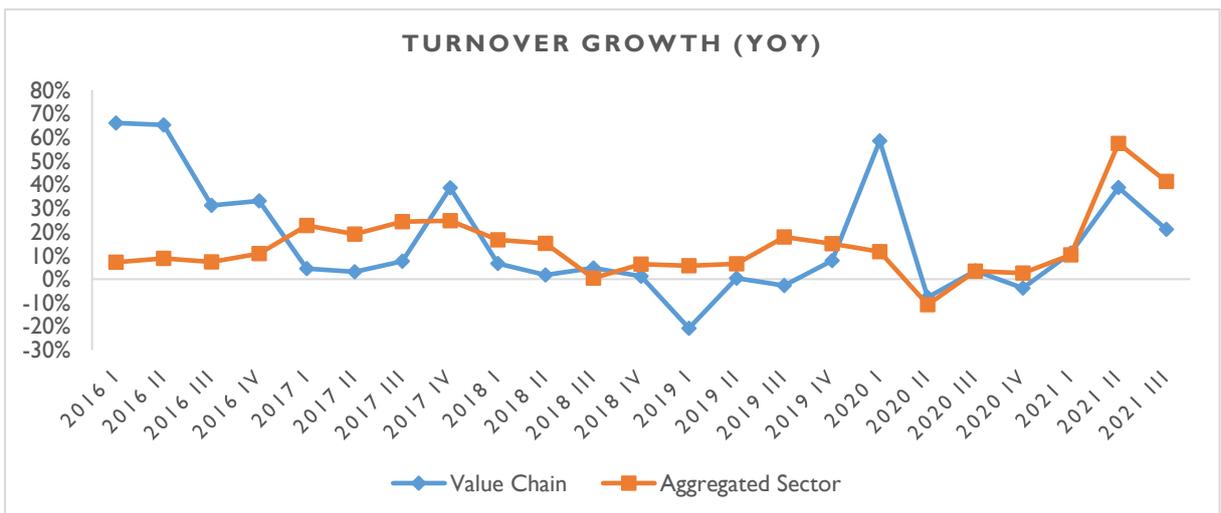
Although, the pandemic still plays an important role in economic performance of value chains, turnover for the furniture VC has grown (21.2% YoY) compared to Q3 2020. YoY turnover growth in Q3 2021 is however lower compared to YoY turnover growth in Q2 2021 (38.8%). Turnover for the aggregated sector has exceeded the pattern of the furniture VC and increased by 41.4% (YoY) in Q3 2021, reaching GEL 4 billion (Chart 3.1 and 3.2).

Chart 3.1 Turnover of the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector

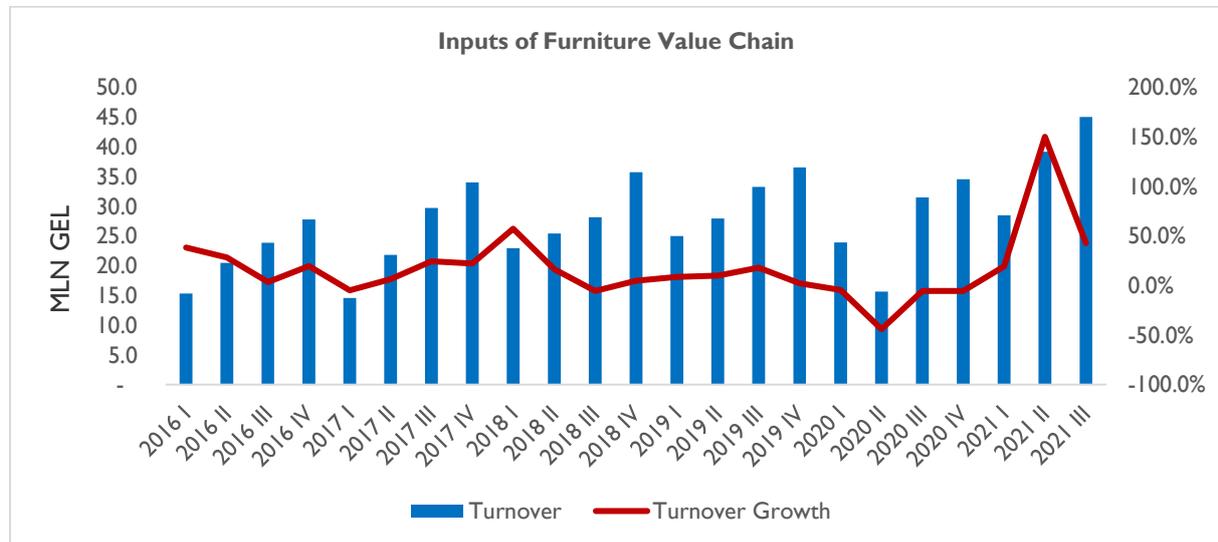


Source: National Statistics Office of Georgia

³⁷ 16.2 group also includes the following activities: 16.23 Manufacture of other builders' carpentry and joinery; and 16.24 Manufacture of wooden containers.

Furniture inputs depicted 43.1% YoY turnover growth in Q3 2021 compared to Q3 2020. Turnover also increased compared to the previous quarter, Q2 2021, by 14.9% and now stands at GEL 45.1 million.

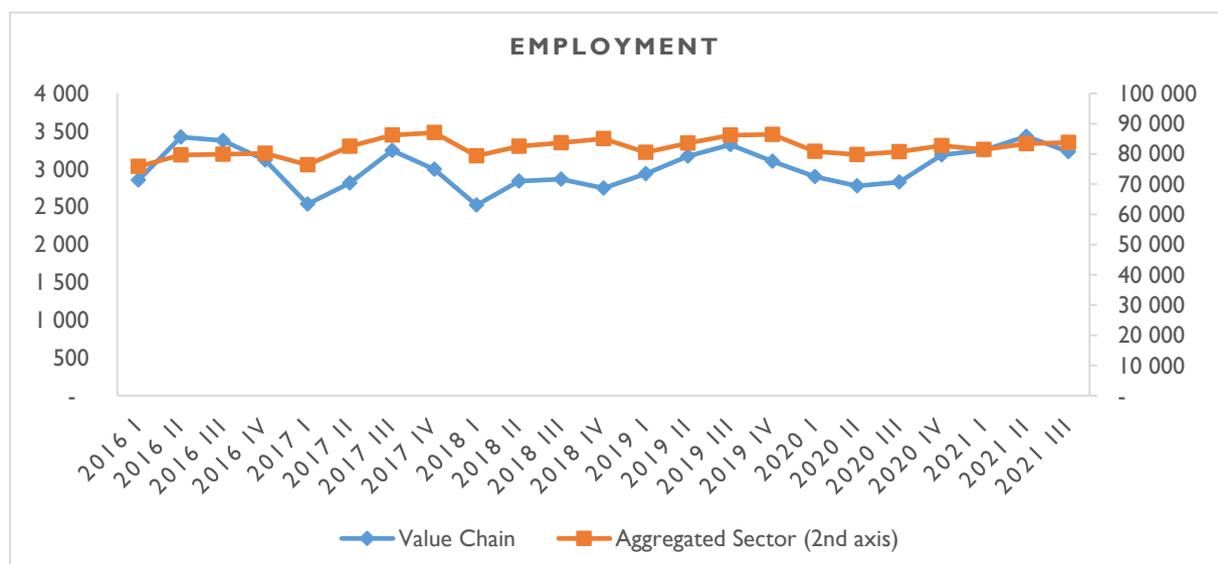
Chart 3.3 Turnover of the furniture value chain inputs and its growth rate



Source: National Statistics Office of Georgia

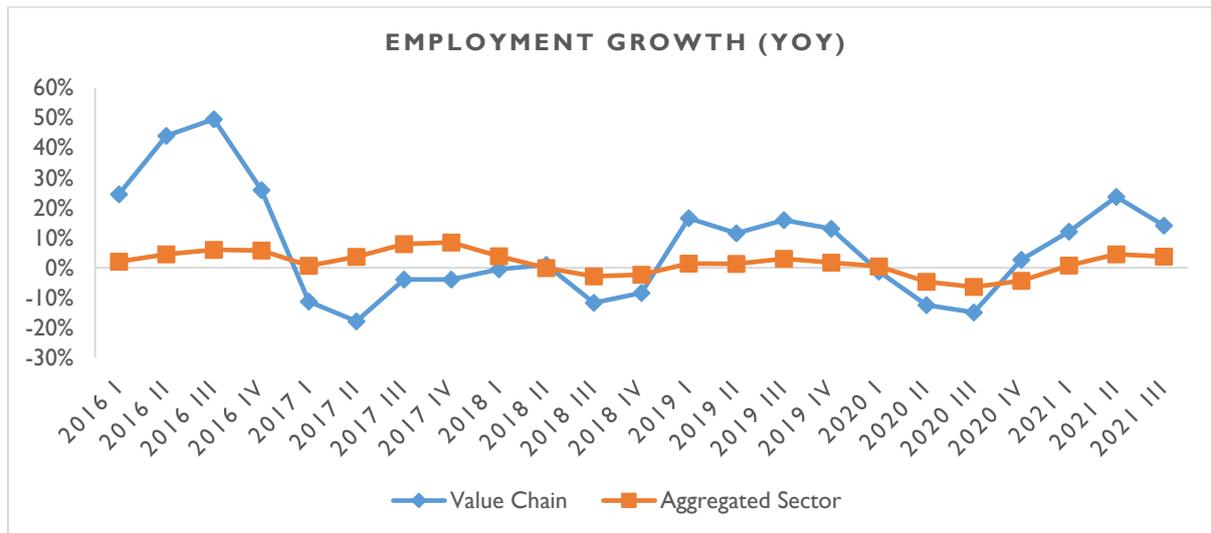
Increasing employment trend on the market in the first half of 2021 has reversed in Q3 2021 and employment in furniture VC decreased compared to the previous quarter. However, YoY growth has been observed, compared to Q3 2020 (14.1%). Positive trends are observed in the aggregated sector, where the employment has increased slightly in Q3 2021 (3.8% YoY) compared to Q3 2020 (Chart 3.4 and 3.5).

Chart 3.4 Employment of the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

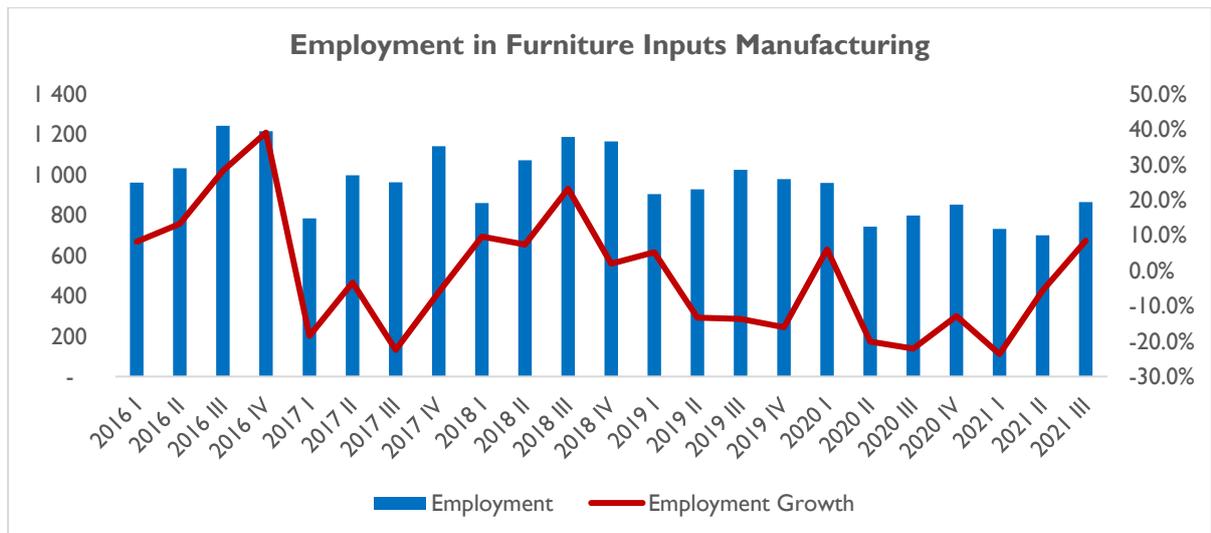
Chart 3.5 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Employment growth rate in the furniture inputs value chain was decreasing (YoY) for the most part of 2020 and in the first half of 2021 (Chart 3.6). The number of hired individuals increased in Q3 2021 by 8.4%, compared to Q3 2020 and reached 865 individuals.

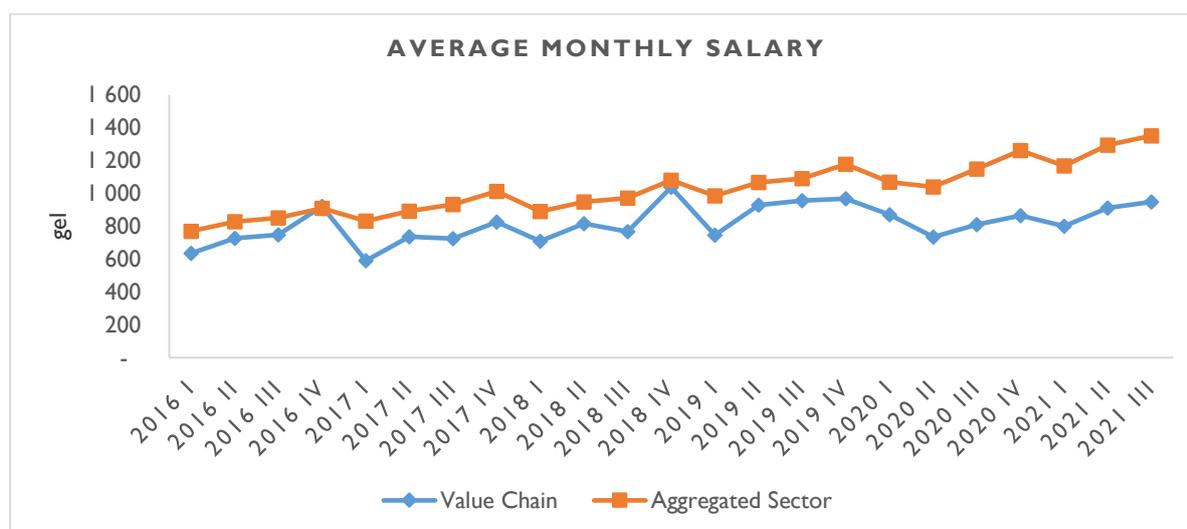
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing



Source: National Statistics Office of Georgia

After the growth of average monthly salary of the furniture value chain in Q2 2021, the indicator increased further in Q3 2021 by 16.9% YoY and amounted to GEL 948. As for the aggregated sector, the average salary amounted to GEL 1,351 in Q3 2021, which represents a 17.5% increase compared to Q3 2020 (Chart 3.7).

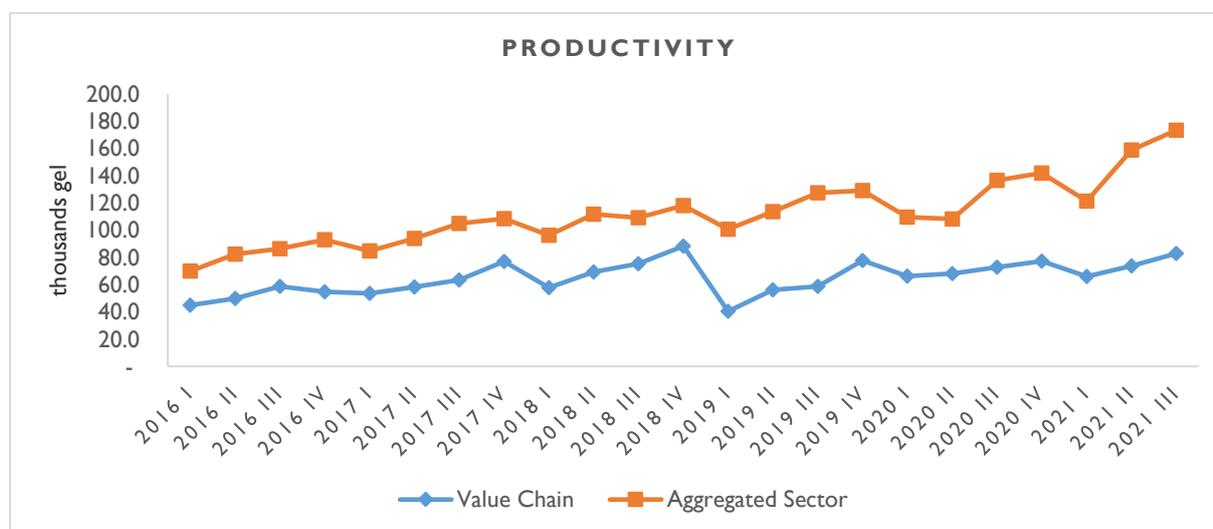
Chart 3.7 Average monthly salary in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Similar to average monthly salary, labor productivity for the furniture value chain increased in Q3 2021 (13.6%, YoY) and reached GEL 82,780. As for the aggregated sector, productivity increased more significantly (26.9% YoY) and amounted to GEL 173,000 (Chart 3.8).

Chart 3.8 Productivity in the furniture value chain and the corresponding aggregate sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Based on the observed trade tendencies in the furniture value chain, Georgia's imports of furniture increased in Q3 2021 (YoY), reaching USD 16.7 million, while the imports of furniture inputs declined, coming down to USD 19.4 million. These represent 7% YoY growth and 4% YoY decline compared to Q3 2020, respectively (Charts 3.9 and 3.10).

Chart 3.9 Georgian Imports of Furniture

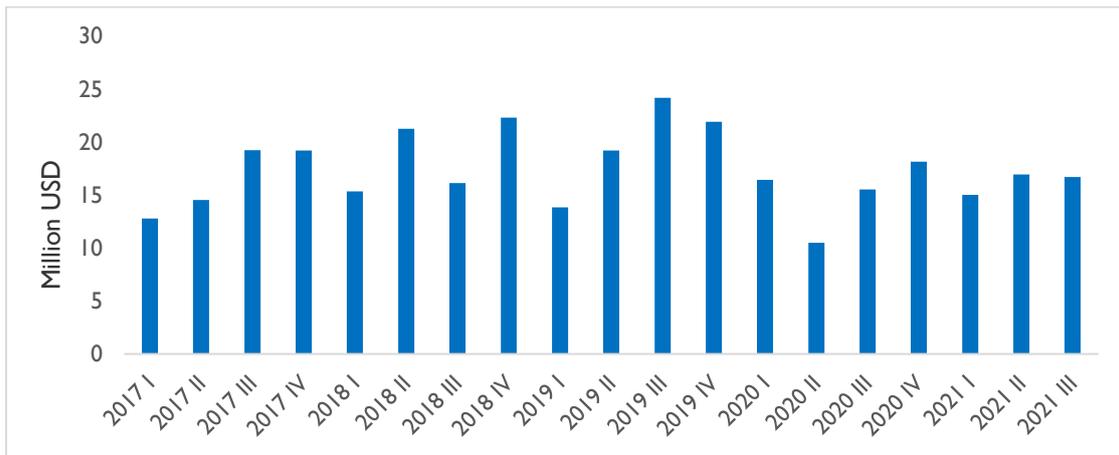
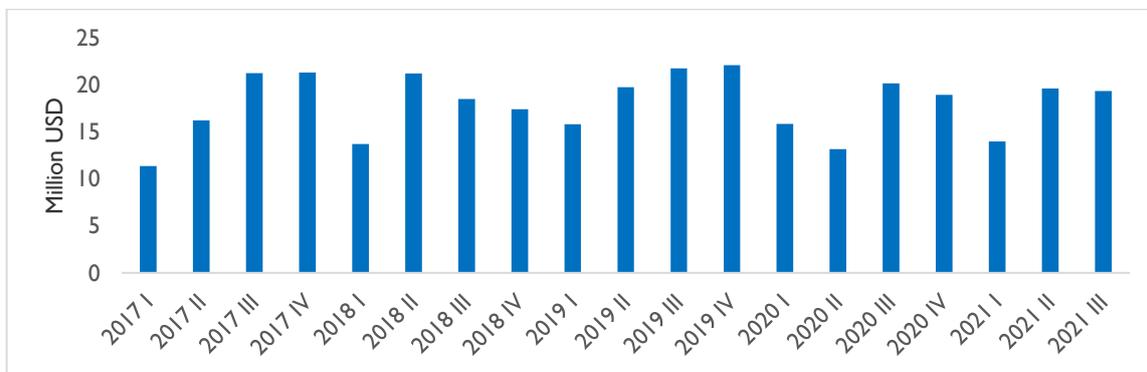


Chart 3.10 Georgian Imports of Furniture Inputs

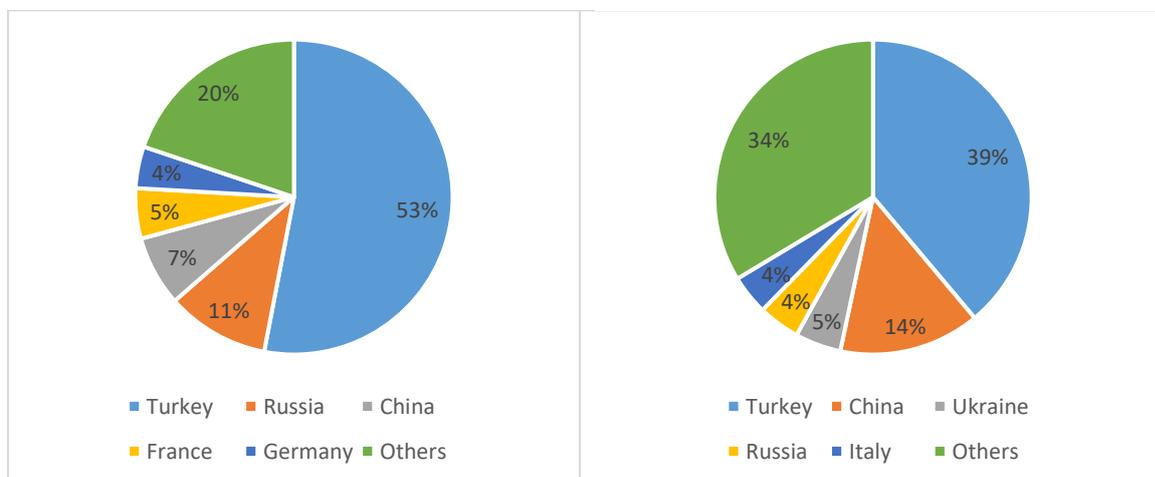


Source: National Statistics Office of Georgia

Chart 3.11 and Chart 3.12 below show the top import partners of Georgia for furniture and its inputs in the last 12 months. In the case of furniture import, the main trade partners for Georgia were Turkey (39%) and China (14%). Meanwhile, the main trade partners for furniture inputs during October 2020 - September 2021 were Turkey (53%), Russia (11%), and China (7%).

Chart 3.11 Georgian Imports of Furniture Inputs by Trade partners (October 2020 – September 2021)

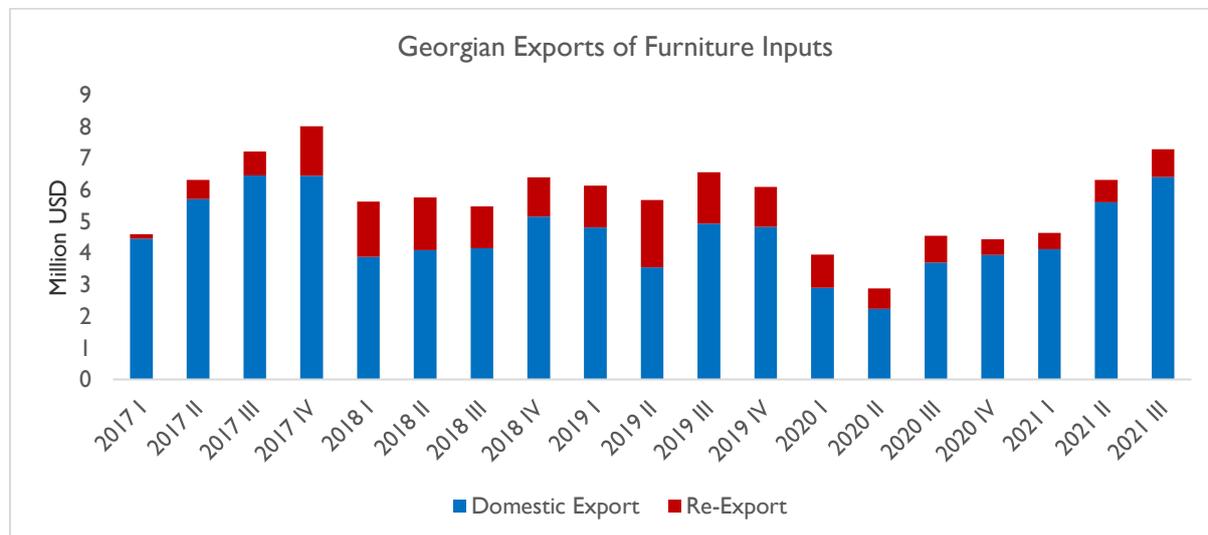
Chart 3.12 Georgian Imports of Furniture by Trade partners (October 2020 – September 2021)



Source: National Statistics Office of Georgia

In Q3 2021, both re-exports and domestic exports³⁸ of furniture inputs expanded. In Q3 2021, domestic exports and re-exports amounted to USD 6.4 million and USD 885 thousand, accounting to 73% and 4% YoY growth rate, respectively.

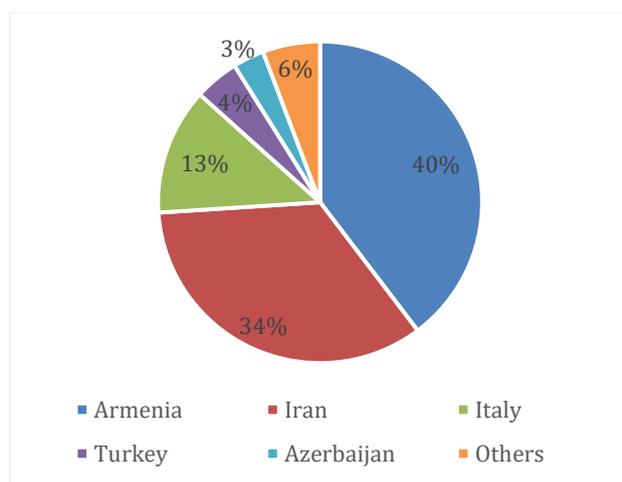
Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.14 shows the top exporting markets for Georgian furniture inputs for the last 12 months. Armenia (40%) and Iran (34%) are the leading export destination countries, followed by Italy (13%), Turkey (4%), and Azerbaijan (3%).

Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (October 2020 – September 2021)



Source: National Statistics Office of Georgia

Even though Georgian exports of furniture experienced a sharp decline in Q2 2020 (Chart 3.15), loosening of pandemic related restrictive measures contributed positively to growth of domestic exports, which peaked in Q4 2020. In Q3 2021, domestic exports increased (123%, YoY), while re-exports diminished significantly (39%, YoY) compared to the same quarter of the previous year.

³⁸ Domestic exports are defined as goods that are manufactured in Georgia as well as commodities of foreign origin that have been changed, enhanced in value or further improved in condition within the territory of Georgia.

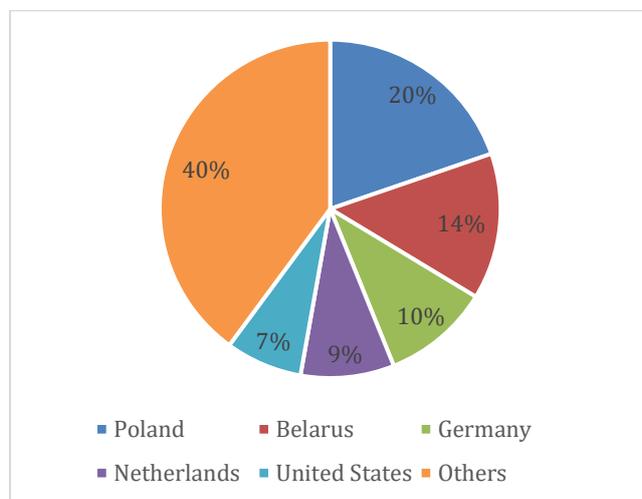
Chart 3.15 Georgian Exports of Furniture



Source: National Statistics Office of Georgia

Chart 3.16 shows the top trading partner countries in the last 12 months for Georgia’s domestic exports of furniture output. The major export destinations during October 2020 – September 2021 were Poland (20%) and Belarus (14%), followed by Germany (10%), Netherlands (9%) and the United States (7%).

Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (October 2020 – September 2021)



Source: National Statistics Office of Georgia

To analyze regional trade flows, the following countries are considered: Armenia, Azerbaijan, Turkey, and Ukraine. Exports of furniture have increased for Azerbaijan and Ukraine, while Armenia experienced a sharp decline in Q3 2021 compared to Q3 2020. Likewise, import of furniture expanded in Ukraine and Azerbaijan and diminished in Armenia in the same period.

Exports of furniture inputs decreased for Armenia and increased for Ukraine and Azerbaijan in Q3 2021 (YoY). On the other hand, imports increased in all three countries.

Chart 3.17 Regional trade patterns in the furniture value chain



Source: UN Comtrade³⁹

³⁹ Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 and Q3 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

Overview of Existing Challenges and Opportunities

The insights gleaned from the focus group discussions and individual interviews with relevant stakeholders suggest that the furniture value chain has some potential for growth, although it is still developing at a slow pace. Most Georgian producers face similar challenges concerning the unavailability of a skilled workforce, low access to finance, a lack of relevant technologies, and limited access to high-quality raw materials. As for January 2022, these challenges persist in the value chain and no significant steps have been identified to address them. Initiatives that might have potential to improve the status quo are scattered across the industry representatives and many of them are not yet actualized.

In relation to the unavailability of a skilled workforce, the Georgian Furniture Cluster was engaged in designing the curricula of VET programs in collaboration with the National Center for Educational Quality Enhancement and planned to launch a new educational center, tailored to the needs of its member companies. At this point, as the cluster representatives report, these initiatives are paused due to the lack of available funds and no vivid progress has been made in this direction since last analysis in summer 2021. There are some initiatives in the private sector addressing the challenge of unskilled workforce. For instance, a representative of LTD Randi, a furniture manufacturer from Batumi, declared that the company aims to establish its own training center. However, the value chain is clearly lacking in terms of tangible progress when it comes to upskilling the workforce.

In addition to the lack of a qualified workforce, the sector is characterized by high internal staff turnover that further constrains the operations of furniture manufacturers. Due to the insufficient skills of vocational school graduates, manufacturers usually have to train, and impart technical knowledge onto, their employees at their own expense, only for many such employees to then leave and start their own enterprises, frequently working as unregistered individual entrepreneurs thereby giving them what could be considered an unfair competitive advantage versus their corporate counterparts. Emigration of skilled workforce, engendered by uncompetitive wages in the country, was named as an additional challenge in this direction.

According to our interviewees, the problem concerning low access to high-quality wood materials is still relevant and is attributable to several factors. On the one hand, large amounts of hardwood are exported from Georgia, and it is rarely sold on the domestic market. According to one of the interviewed stakeholders, using a certain portion of this exported hardwood for local production could significantly boost employment within the value chain. On the other hand, due to illegal logging, the furniture manufacturers also face problems related to the unstable supply of domestic timber resources. They often cannot find legal manufacturers who can supply local wood materials of the needed quality systematically. The arrangement of “business yards” under the new Forest Code adopted in May 2020 seems to have provided no major relief for manufacturers so far either. According to the interviewed stakeholders, processing of wood to be placed in business yards is often delayed. It is not immediately delivered to sawmills for processing; this results in a low quality of raw materials obtained from the business yards, making them less attractive for furniture manufacturers.

As the interviewees suggest, the problem of limited accessibility of local raw materials originates from a lack of strategic vision in the country towards developing wood processing as a separate business activity. Primarily, the absence of an institutional base for educating carpenters was named as an impediment. To address this problem, there has been an initiative by an individual entrepreneur in the value chain to establish a school of woodworkers. However, the project is paused currently due to some bureaucratic hindrances. Moreover, the furniture cluster and associations under this value chain were criticized for not prioritizing the long-term development of wood processing in their operational activities.

Although the competition amongst Georgian producers themselves was rated as moderate by respondents, Georgian furniture products face stiff competition from imported goods, especially those from countries where manufacturers have access to inputs domestically. It was widely stated during the stakeholder interviews that Georgia has the potential to replace imported furniture to some extent, especially when it comes to cabinet furniture, internal doors, kitchens, or wooden panels that are later used to construct furniture or for interior design works. This potential has been vivid during the pandemic-driven disruptions to global supply chains (involving China, Turkey and Europe especially) and subsequent increase in transportation costs, when domestic demand for Georgian furniture increased.

According to the interviewed representatives of this value chain, recent tendencies show that Georgian small hotels and real estate developers are more likely to opt for local supplies when it comes to, for example, cabinet furniture. Such tendencies are extremely promising, as focus group participants highlight. It is frequent in the value chain that, due to absence of information regarding local production, developers import furniture, which could have been easily provided by domestic suppliers. More local partnerships and awareness-raising about capacity of the value chain will boost such precedents of collaboration, interviewees report.

With respect to input materials, such as laminates, medium-density fiberboard (MDF), veneer, textile, and other components, these are mainly imported. In general, dependence on imported inputs is persistent challenge for furniture producers. Sometimes, local furniture manufacturers also import solid wood since local materials are often improperly processed and are unsuitable for production purposes. For some components, such as glue for example, several manufacturers have started to use locally produced options. Recently, value chain representatives have suffered from an increase in raw materials prices. By the time of last analysis, the manufacturers reported volatility of the national currency (GEL) as a significant contributor to rising raw material prices. The problem is no longer in the agenda of the value chain representatives as GEL is relatively stable in the recent period.

The interviewed stakeholders claimed that replacing imported inputs with local materials would be impossible without substantial investments in this sector. Nevertheless, the production of veneered panels is considered to have good potential for Georgia as it is made of beech wood (a prevalent species in Georgia). At the same time, its production requires significant labor resources (therefore, potentially generating vast employment opportunities in the country). Producing solid wood panels, drawers or slides, rotary veneer, plywood shells, and plywood sheets and selling them as semi-finished products to international markets was also recommended in a study by GIZ⁴⁰. According to the same study, such semi-finished goods have high export potential for Georgia compared to finished furniture.

There are two companies in Georgia, Madera Georgia and CRP Wood, producing wooden panels locally. Madera Georgia has been a continuous success story, currently exporting mainly to the US and Europe. Madera reported a quadrupling in demand from one of its European partners in 2021. On the other hand, LTD Madera is about to launch a workbench knife-sharpening service in Western Georgia in February 2022. The existence of such equipment and services is of particular importance in wood processing. Another distinguished success story is that of Georgian Products (GEOP), a local manufacturer of pet furniture, which is rapidly growing and expanding to new export markets. GEOP exports to the UK and the EU.

There have also been some successful precedents set in selling furniture through e-commerce, such as Funduki's hanging tables that are successfully sold on Etsy to European countries and the US. Lately, more firms seem to have followed Funduki's path and begun to position themselves on Etsy. In general, there is a clear tendency toward sales digitization in this value chain. The focus group participants

⁴⁰ Value Chain Analysis and Action Plan. Furniture and other wood products. EU. GIZ (2019)

claimed to benefit from operating online not only at the international level, but also at the local level. One of the focus group participants representing furniture manufacturer LTD Conibe declared that digital sales constituted 90% of their annual sales volume in 2020. However, majority of Georgian furniture manufacturers still struggle to properly position their products on online platforms. Precisely, they lack basic skills of product photography and digital marketing

It has been once again highlighted that while Georgia does not have the capacity for large-scale production, to become established on global markets, it is vital for Georgian furniture producers and designers to work together and offer niche and innovative products of a high quality. A good example and successful case of such niche production is that of Rooms Studio, which is already well-established on the European market and exports products to the US as well. According to many interviewees, such collaboration has intensified lately as more manufacturers begin to employ designers at their production sites and more designers become motivated to be associated with furniture manufacturers. However, this tendency is not universal across the value chain. Most of the furniture producers still refuse to integrate furniture designers into the manufacturing process.

In this regard, private sector efforts are supported by the Association Design Georgia, which has been operating in the field since 2019. The association increased its membership with 3 companies in the second half of 2021. Currently the association unifies 16 companies as well as some individual members. Along with other activities, all of them work on furniture design as this constitutes an obligatory criterion for membership. However, the association plans to expand and collaborate with Georgian firms producing kids wear. Among other services, the association actively supports the private sector in the creation of a Georgian identity and niche directions in furniture design and assists the value chain's members to participate in international exhibitions. Benefitting from donor support, the association is due to launch a new e-commerce gallery. Launch of the platform was initially planned for summer 2021 and got postponed for spring 2022. Elsewhere, the Georgian Heritage Crafts Association operates in a wider field and enhances networking opportunities between different crafts actors, including those working on furniture, although its focus is still on handmade and cultural crafts. There are already some good examples of collaboration between furniture manufacturers and designers in this respect. One recent initiative was the establishment of Design Bazaar, envisaging collaboration between individual furniture manufacturers and designers, mainly focused on producing experimental and new furniture products for interior design. These types of linkages need to be developed further though, since there are still many Georgian manufacturers who instead produce copies of famous furniture brand items and supply it to the local market.

The Association Design Georgia cooperates with the Georgian Furniture Cluster (established in 2017), which currently unites 40 member companies, with 5 new members in the last quarter. Since its establishment, the cluster has been actively looking for new partnership opportunities with companies operating in the furniture value chain. Most of the cluster members are manufacturers of furniture, but it also includes producers of semi-finished wood products, trade companies, and different service providers. The cluster's declared mission is to enhance the competitiveness and profitability of its members on local and export markets. At the same time, it acts as a platform for dialogue between public and private sectors. Although this direction was said to be relatively passive recently. One of the participants of the focus group discussion with industry representatives claimed that his company's recognition on the market greatly increased due to its cluster membership and that he highly valued the access to joint projects and partnership opportunities offered by the cluster.

Along with the Furniture Cluster, the Georgian Woodworkers and Furniture Manufacturers Association has also operated in this value chain since 2014, aiming to help local manufacturers to make higher quality and more competitive products. Furthermore, with the support of the Government of the Autonomous Republic of Abkhazia, another separate platform was established in 2020, prioritizing wood processing as a separate business activity known as the "Abkhazian Wood

Processors’ and Wooden Furniture Manufacturers’ Association.” Cooperation between these organizations is basically absent due to limited scope of their operations and apparent differences in their advocacy interests.

On a more general note, the research revealed that the value chain lacks strong stakeholders with will and resources necessary to undertake needed actions. Moreover, the level of cooperation in the value chain was evaluated as quite limited. The initiatives from government, companies and different stakeholders are often too scattered and fail to induce significant progress.

CONSTRUCTION MATERIALS

In the following section of the report, we observe the development of the construction materials value chain by providing economic indicators for this VC and its corresponding aggregate sector (manufacturing).

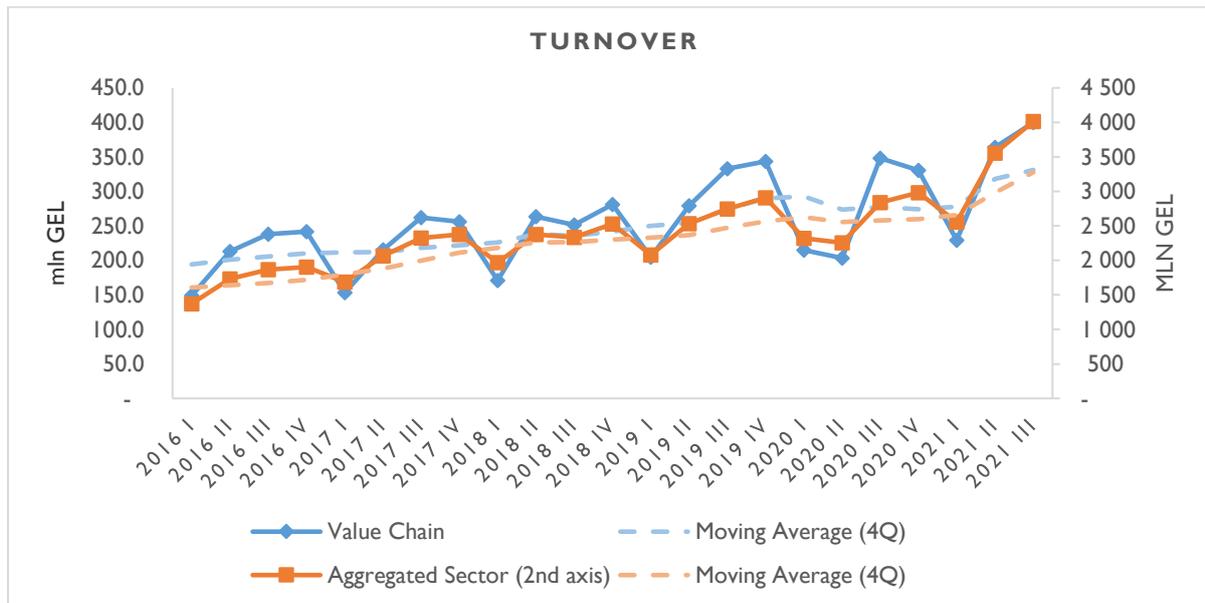
Table 3.2 summarizes the economic activities within construction materials manufacturing. In addition, the table demonstrates the limitation of our study by comparing preferred/inquired data with the available/gathered information.

Table 3.2 Economic activities included in the construction materials value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code for quarterly and annual analysis	Description of Economic Activity
16.23	Manufacture of other builders’ carpentry and joinery	16.2	Manufacture of products of wood, cork, straw and plaiting materials
23.11	Manufacture of flat glass	23.1	Manufacture of glass and glass products
23.12	Shaping and processing of flat glass		
23.13	Manufacture of hollow glass		
23.32	Manufacture of bricks, tiles and construction products, in baked clay	23.3	Manufacture of clay building materials
23.6	Manufacture of articles of concrete, cement and plaster	23.6	Manufacture of articles of concrete, cement and plaster
23.7	Cutting, shaping and finishing of stone	23.7	Cutting, shaping and finishing of stone
24.33	Cold forming or folding	<i>Not used in the analysis due to data availability only at a very high-level aggregation</i>	
25.11	Manufacture of metal structures and parts of structures	25.11	Manufacture of metal structures and parts of structures
25.12	Manufacture of doors and windows of metal	25.12	Manufacture of doors and windows of metal

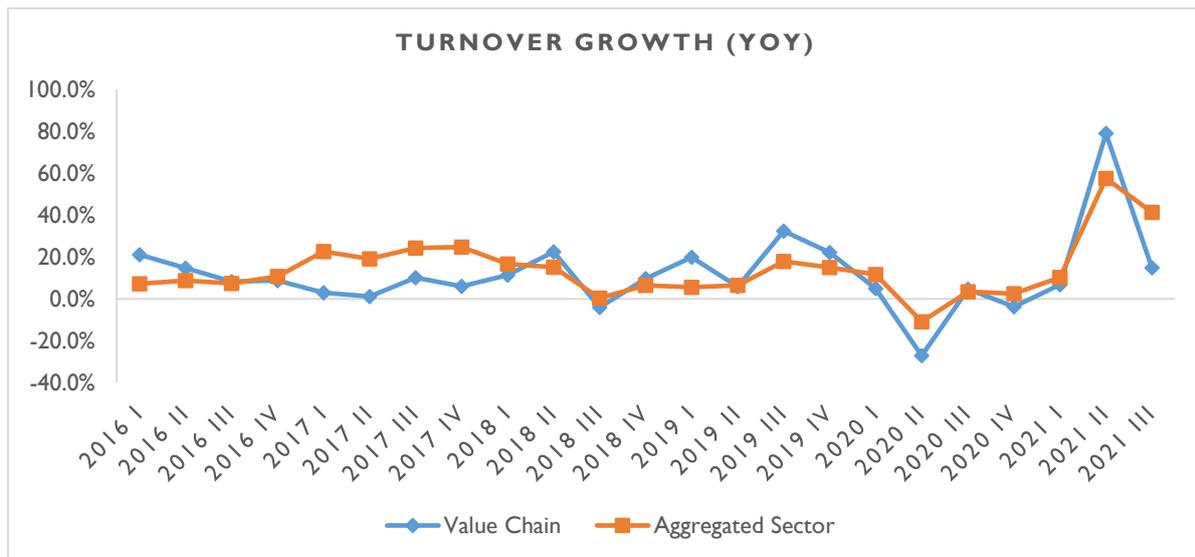
Chart 3.18 and Chart 3.19 present the dynamics of turnover and its annual nominal growth for the construction materials value chain. The turnover in Q3 2021 increased compared to Q2 2021 and amounted to GEL 399.8 million. Following the rebound in the economic growth, turnover has increased compared to Q3 2020 as well (14.8% YoY). The turnover of the aggregated sector also increased in Q3 2021 compared to the same period of the previous year (41.4% YoY).

Chart 3.18 Turnover of the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

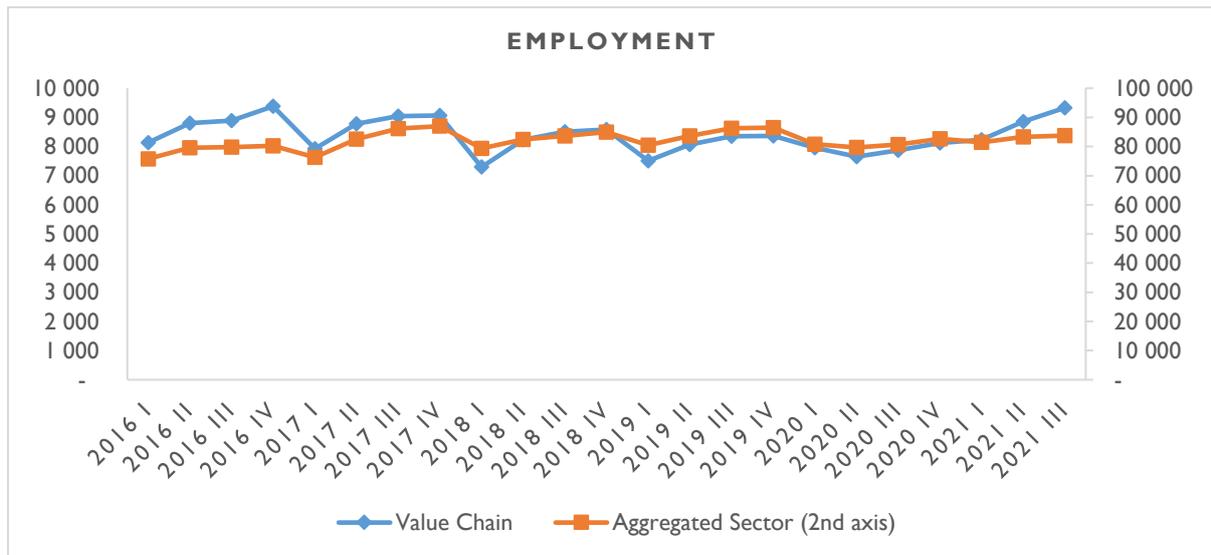
Chart 3.19 YoY growth rate of turnover for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

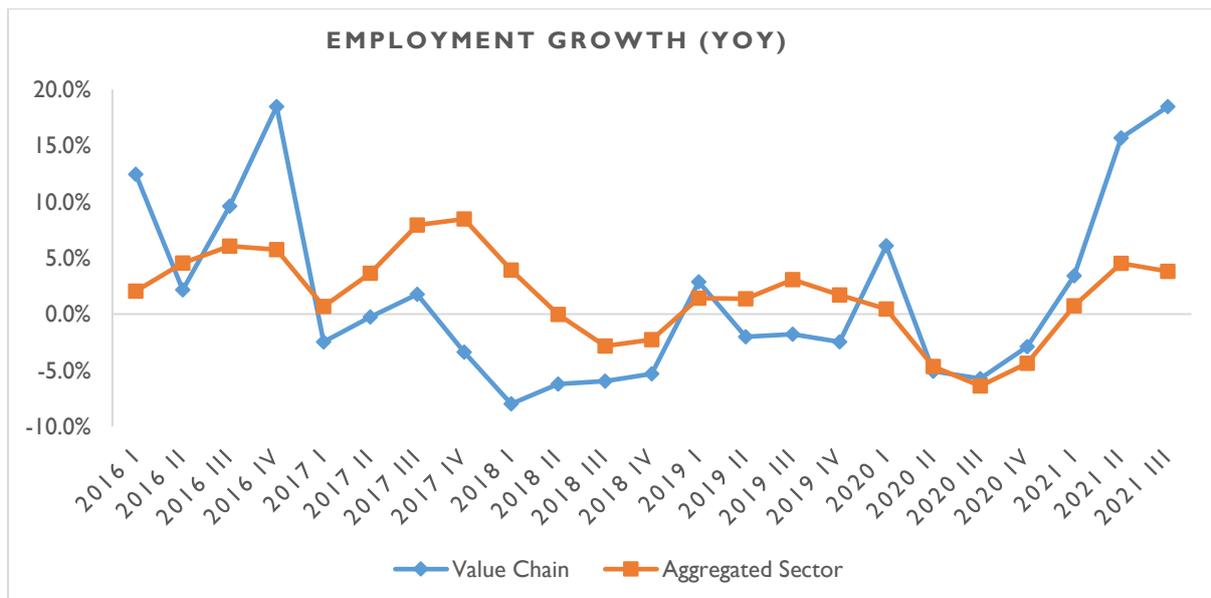
Charts 3.20 and 3.21 present the number of hired employees and its growth rate in the construction materials value chain and the respective aggregated sector. According to the data, in Q3 2021, the number of hired employees has increased in the value chain, compared to Q3 2020 (18.5% YoY) and amounted to 9,329 people. A similar trend has been observed in the aggregated sector as employment rose in Q3 2021, compared to Q3 2020 (3.8% YoY).

Chart 3.20 Employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

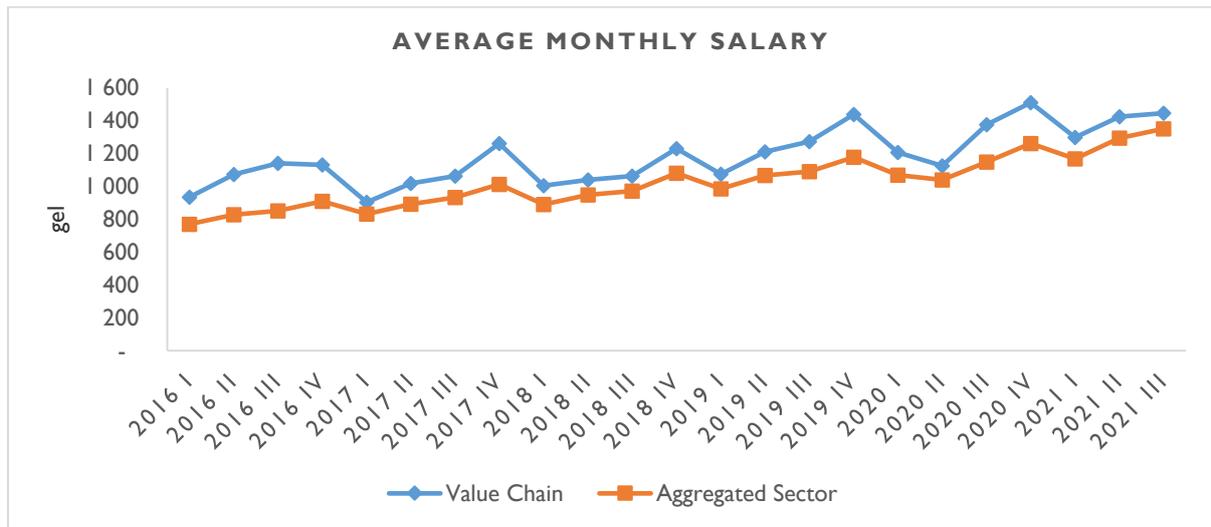
Chart 3.21 YoY growth rate of employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the construction materials value chain increased to GEL 1,447 in Q3 2021, compared to GEL 1,425 in Q2 2021, and is above the Q3 2020 level (5.1% increase YoY). The aggregated sector presented a lower average monthly salary in Q3 2021 (GEL 1,351), compared to the value chain (Chart 3.22).

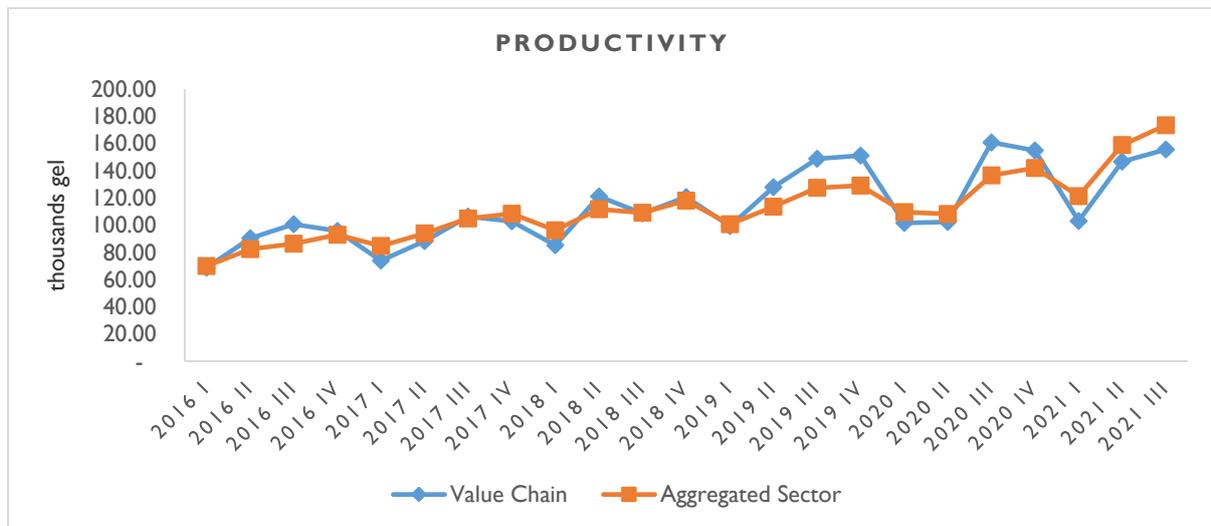
Chart 3.22 Average monthly salary in the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 3.23 shows, labor productivity in the construction materials value chain decreased (-3.3% YoY) in Q3 2021 as opposed to Q3 2020 and amounted to GEL 155,580. As for the productivity for the aggregated sector, it increased compared to Q3 2020, recording YoY growth of 26.9%.

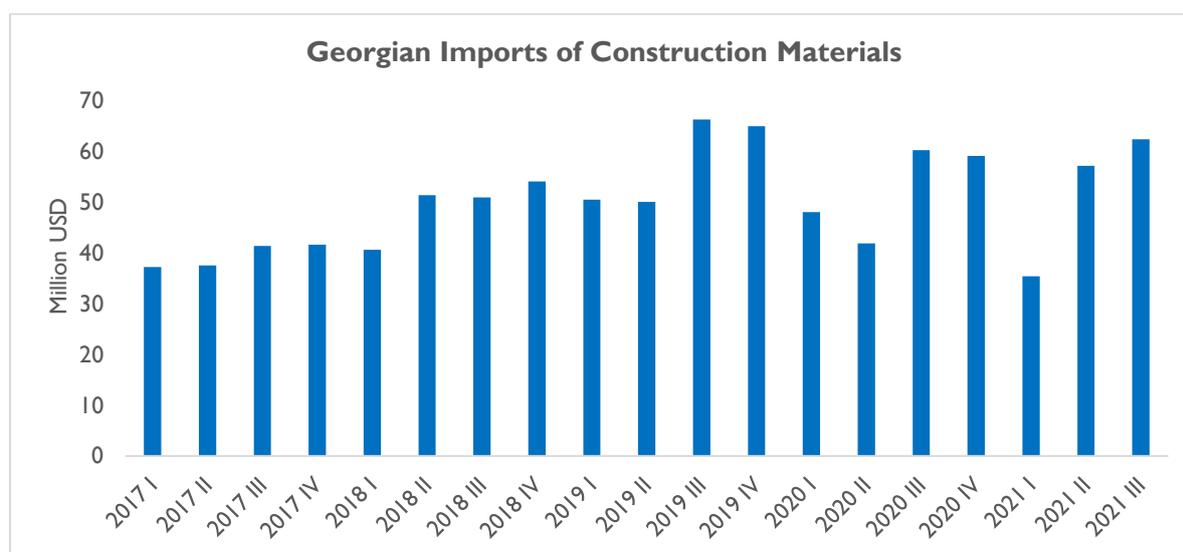
Chart 3.23 Productivity in the construction material value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

In the following charts, the trade dynamics of the construction materials value chain is presented. Chart 3.24 depicts the figures regarding Georgian imports of construction materials. The value of imports increased in Q3 2021 compared to Q3 2020 by 3% (and by 9% compared to Q2 2021) and amounted to USD 62.4 million. The expansion of imports follows the rebound in the growth of Georgian economy in the second quarter of 2021.

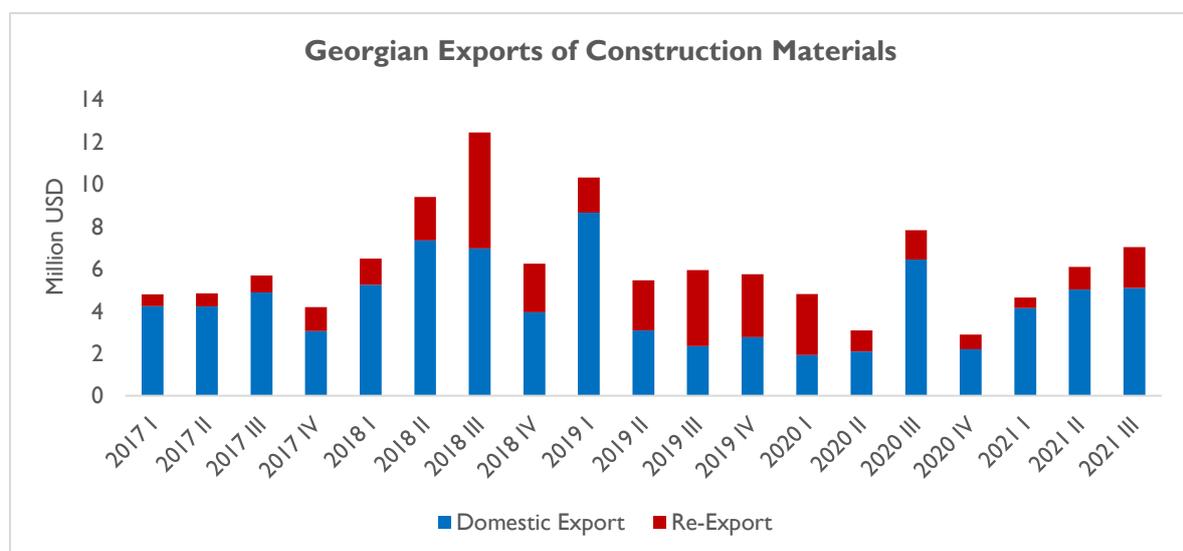
Chart 3.24 Georgian Imports of Construction Materials



Source: National Statistics Office of Georgia

Georgian domestic exports of construction materials declined in Q3 2021 (20% YoY), however increased compared to the previous quarter and reached USD 5.1 million, while re-exports grew by 39% YoY, amounting to USD 1.9 million (Chart 3.25).

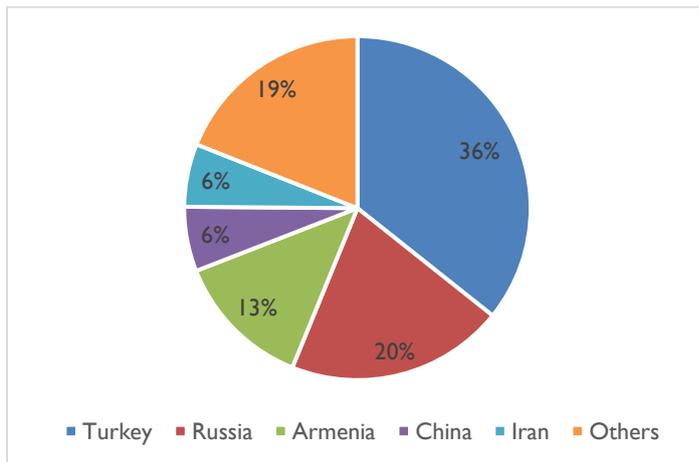
Chart 3.25 Georgian Exports of Construction Materials



Source: National Statistics Office of Georgia

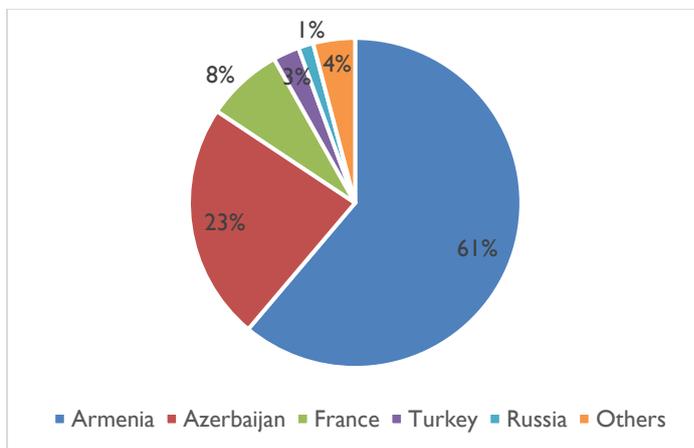
Chart 3.26 and Chart 3.27 below present Georgia's top trading partner countries for construction materials in the last 12 months. The main trade partners for imports were Turkey (36%), Russia (20%), Armenia (13%), China (6%), and Iran (6%) (Chart 3.27). Meanwhile, the main destinations for domestic exports during October 2020 – September 2021 were Armenia (61%), Azerbaijan (23%), France (8%), Turkey (3%), and Russia (1%) (Chart 3.28).

Chart 3.26 Georgian imports of construction materials by trade partner (October 2020 – September 2021)



Source: National Statistics Office of Georgia

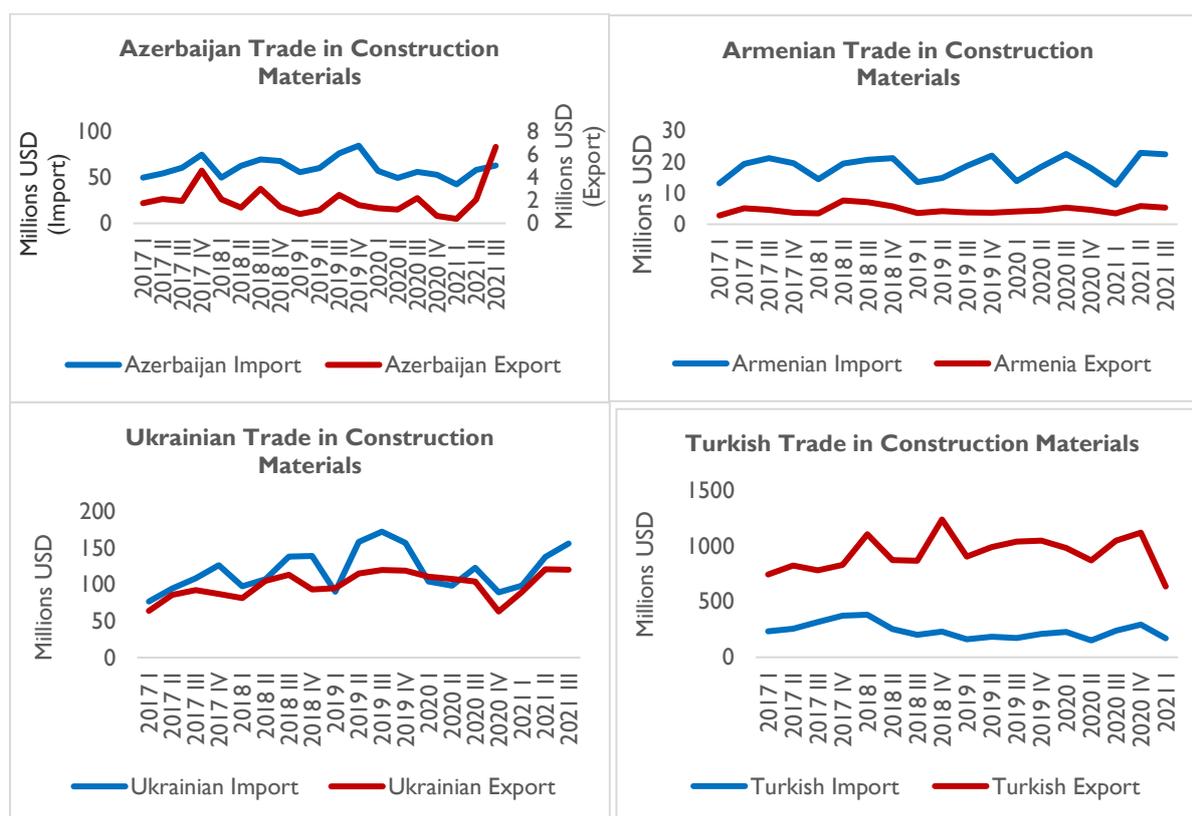
Chart 3.27 Georgian domestic exports of construction materials by trade partner (October 2020 – September 2021)



Source: National Statistics Office of Georgia

Below (Chart 3.28), we overview the construction materials value chain’s regional trade patterns for Armenia, Azerbaijan, Turkey, and Ukraine. Exports displayed an increase for Ukraine, Azerbaijan, and Armenia in Q3 2021, compared to Q3 2020. Imports have followed the same pattern for Azerbaijan, and Ukraine, while Armenia experienced a slight decline in imports for Q3 2021, compared to Q3 2020.

Chart 3.28 Regional trade patterns of construction materials



Source: UN Comtrade⁴¹

Overview of Existing Challenges and Opportunities

Construction materials value chain consists of several, distinctive business activities. Even though similarities between these areas exist, challenges and prospects in the value chain, mostly, are business activity specific. While some of the challenges in the value chain have endured for a while, there are impediments that are being actively addressed and advocated by the newly established institution – Georgian Construction Materials Cluster (GCMC). Though the institution grows slowly in its size, it attempts to thoroughly address emerging constraints of the value chain. The cluster was first launched in December 2020, with the support of European Union and German Agency for International Cooperation (GIZ). The cluster has increasing membership numbers and at this point unifies 17 companies, with 7-8 additional members added in the last year. GCMC offers networking, advocacy, communication, consulting, and educational services to its members. It also fosters dialogue between the private and public sectors and aims to strengthen supply chain linkages between, for example, development companies and the construction materials manufacturers. Recently, GCMC has launched a new direction in supporting the value chain – innovation. Under this direction, the cluster ensures that its members have access to innovative technologies that have potential to improve productivity, and quality of the manufacture.

Private sector leadership in the value chain is moderate. Each of the business activities, that make up the value chain, has its own frontrunner(s). Besides GCMC, there have been two platforms that, to some extent, bring together the industry representatives. Georgian Cement Association (GCA), founded in 2017 by Heidelberg Cement Caucasus (GCC) and the Georgian Building Group (GBG),

⁴¹ Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 and Q3 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

targets specific challenges that are typical for production and realization of cement in Georgia. There is also the Infrastructure Construction Companies' Association (ICCA) operating in the value chain. However, while it does unite some construction materials' manufacturers, ICCA is more focused on the construction sector at large.

The value chain has faced a few noticeable obstacles:

Lack of access to finances represents an obstacle that limits further growth in this sphere. According to the interviewees, long-term investment projects are typical for this value chain. As private sector representatives claim, even though some business activities have high investment attraction potential, both domestic and foreign investors are reluctant to engage in the long-term projects while seeking for relatively quick returns. Additionally, even though the value chain falls under the priority sectors listed by Enterprise Georgia, its offered subsidy schemes are relatively short-term and do not exceed a duration of 36 months. What is more, some of the business sector representatives are often unaware of application criteria and eligibility requirements for EG support schemes. The latter factor further problematizes the challenge of access to finance.

Lack of a qualified workforce was named as an additional hindrance. Georgia does not have functional training programs in place that would target the needs of business activities in this value chain. Frequently, the firms train the workforce themselves, which is associated with significant expenses. In this direction, to address shortage of labor, GCMC and GIZ began to collaborate and deliver professional training to the employees of this value chain.

Dependence on imported inputs is yet another important barrier that restricts the chances of the value chain upgrading. Apart from some exceptions, most of the business activities are largely dependent on imported inputs. This dependence is especially worrisome for those inputs that are available but underutilized domestically. For example, 80% of the gypsum market in Georgia is import-dominated while gypsum deposits are largely underused in the country mainly due to a lack of information regarding available natural resources and an outdated regulatory framework for their utilization. Nevertheless, recently, businesses in this value chain have tended to switch to the utilization of domestic inputs. As one of the interviewed firms pointed out, they modified their product profile and became increasingly interested in producing construction materials that necessitate inputs, which can be mined domestically. This should be considered as a positive development as the enhanced local availability of inputs is perceived as a fundamental prerequisite for the future advancement of this value chain. Nevertheless, for most of the business activities imported inputs are regarded as inevitable.

Limited accessibility to product certification represents another persistent impediment in this value chain. Nevertheless, the severity of this impediment differs from one producer to another as the certification process is often product-specific, and different construction materials necessitate different certifications. GCMC works in this direction, offering certification services to its member companies. However, the challenge, due to its large scale, is still unaddressed and necessitates consolidated effort of the public and private sectors. The essence of this challenge is as follows: majority of necessary product certifications which is often a precondition for exporting construction materials, cannot be obtained in Georgia. Moreover, depending on the product, there are not enough local experts in the country that are able to help the manufacturers to comply their production with certification requirements. At the same time, hiring foreign experts is quite costly. As a result, product certification is associated with substantial costs. To this end, some business operators emphasized the need to co-finance the certification process for those producers with high growth potential. Moreover, while obtaining certification abroad, some Georgian producers might be misinformed about the quality of the issued certificate or the validity of the issuing organization. Hence, the research revealed the need to inform value chain representatives about specific details of the certification requirements. Limited capacity for international networking was named as another challenge in relation to impeded exports.

The interviewees pointed out that Georgian firms often lack the relevant information and capacity to search for potential clients abroad. International exhibitions organized to build connections with buyers and sellers were emphasized as being less efficient in this direction by some private sector stakeholders. However, sometimes networks are found, but the Georgian businesses still struggle to actualize their potential for export. This is mainly due to their lack of capacity to meet international quality standards.

Finally, logistical difficulties were regarded as hindering factor for entry into export markets for some Georgian businesses. It was emphasized that due to inflexible weights, sizes, and shapes, some construction materials are challenging to transport and thus a competitive advantage is lost over foreign alternatives in markets that entail long-distance shipping. In this regard, for some producers, collaboration and cost-sharing in transportation might simplify the process of reaching foreign markets.

Notwithstanding the abovementioned challenges, representatives of the value chain still have limited exporting experience. When entering international markets, for most of the interviewed companies, regional and post-Soviet markets represent the main export destinations, where Georgian construction materials have a competitive advantage in terms of its price and quality. As part of the last quarterly analysis, the research participants highlighted geopolitical tensions in Nagorno Karabakh as an impediment to their exports in the region. As for the current period of report, such barriers were not named as restrictive to regional exports. Beyond the region, some of the interviewed businesses have established trade ties with European and overseas partners. For instance, LTD Kamara has entered foreign markets such as the US and Portugal. The company plans to penetrate the Czech and Canadian markets soon and to further develop its export potential in the US. Germany is also considered to be another favorable market for Georgian-produced cladding materials. Elsewhere, LTD Basalt Fibers has penetrated the South African market, where it has successfully competed with Chinese products. Moreover, the company has stably exported to Germany, the UK, Austria, Netherlands, Turkey, and UAE. Entry to the US and Canadian markets is also being planned.

Final goods produced in the value chain face stiff competition from imported products, however. In the case of construction materials, Georgian customers tend to opt for cheaper imported products. Moreover, importing companies are often better known on the local market than Georgian producers. A representative of AI Group, a licensed miner and distributor of pumice, expressed further concerns that due to lapses in the classification of economic activities (with no differentiation between pumice and road metal), imported pumice has a more favorable tax regime and hence wins in terms of price competition against the local supply. In terms of non-price competition, some of the interviewed companies highlighted their positioning as providers of high-quality and/or customized products, affordable payment schedules, flexible supply, and full-service offerings that cover everything from realization to installation of the product. Some private sector representatives believe that, in the longer term, local production has import replacement potential, but at this stage the greater affordability of imported products remains a core hindrance.

Demand for construction materials is mostly derived from the Georgian construction sector. Thus, the economic performance of the value chain is tightly linked to the dynamics of this industry. Some of the interviewed business operators have successful experience of participating in the public procurements. However, the procurement process has been evaluated as unhealthy to a certain extent, with cheaper bids offering lower quality given priority. According to the interviewees, public procurement system does not prioritize local production over imported goods. Sometimes even certified Georgian construction materials lack competitive advantage in public procurements as their goods have higher price compared to uncertified production.

COVID-19 has had a drastic toll on manufacturing of Georgian construction materials as demand on it has dropped sharply, following the stringent lockdown measures applied nationwide. As regulations

are loosened and positive expectations unfold, the value chain representatives project growth in all economic parameters.

PACKAGING

The analysis below will cover quantitative assessment of the economic tendencies in the packaging value chain and the corresponding aggregated sector (manufacturing).

Quarterly data analysis for the packaging value chain, as opposed to annual data analysis, does not allow for using narrowly defined NACE codes for certain groups of economic activities. In this case, the available best-matching aggregation level from Geostat is used. Table 3.3 below presents the target economic activity matched with the relevant NACE codes available at annual and quarterly frequencies.

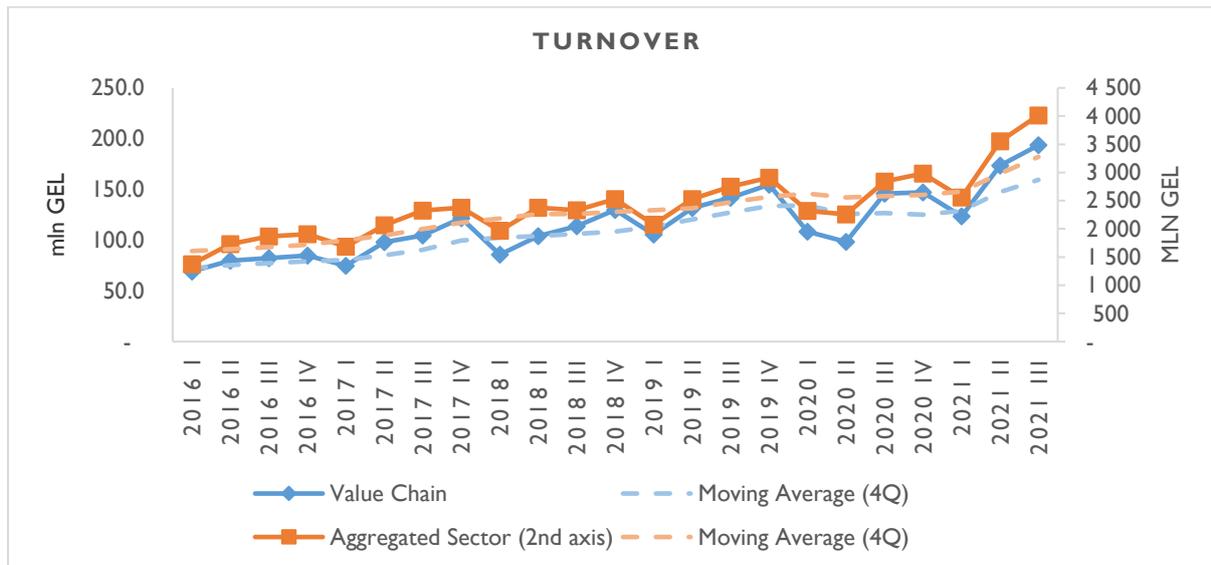
Table 3.3 Economic activities included in the packaging value chain

NACE	Description	NACE	Description	NACE	Description
Preferred		Available at annual frequency		Available at quarterly frequency	
16.24	Manufacture of wooden containers	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.2 ⁴²	Manufacture of articles of paper and paperboard
17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard		
22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods
23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
25.92	Manufacture of light metal packaging	<i>Not used in the analysis due to data availability only at a very high-level aggregation</i>			

In line with accelerated recovery of the economy, turnover in the packaging value chain amounted to GEL 193.6 million in Q3 2021, which represents 32.7% YoY growth. It should be mentioned that the aggregated sector recorded higher YoY growth (41.4%) compared to the packaging materials value chain (Chart 3.29 and Chart 3.30).

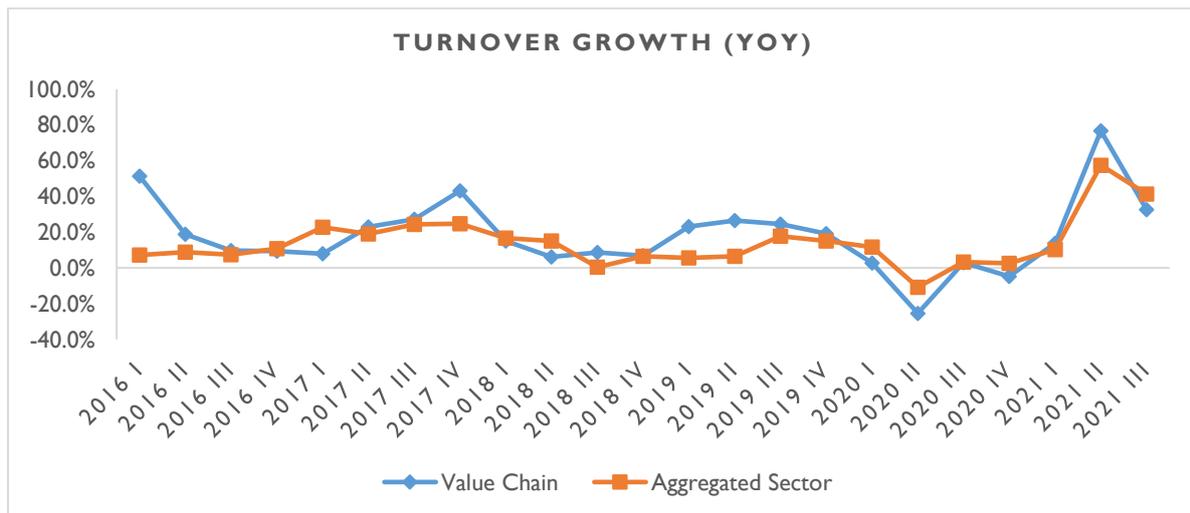
⁴² This group also includes: 17.22 Manufacture of household and sanitary goods and of toilet requisites; 17.23 Manufacture of paper stationery; and 17.24 Manufacture of wallpaper.

Chart 3.29 Turnover of the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

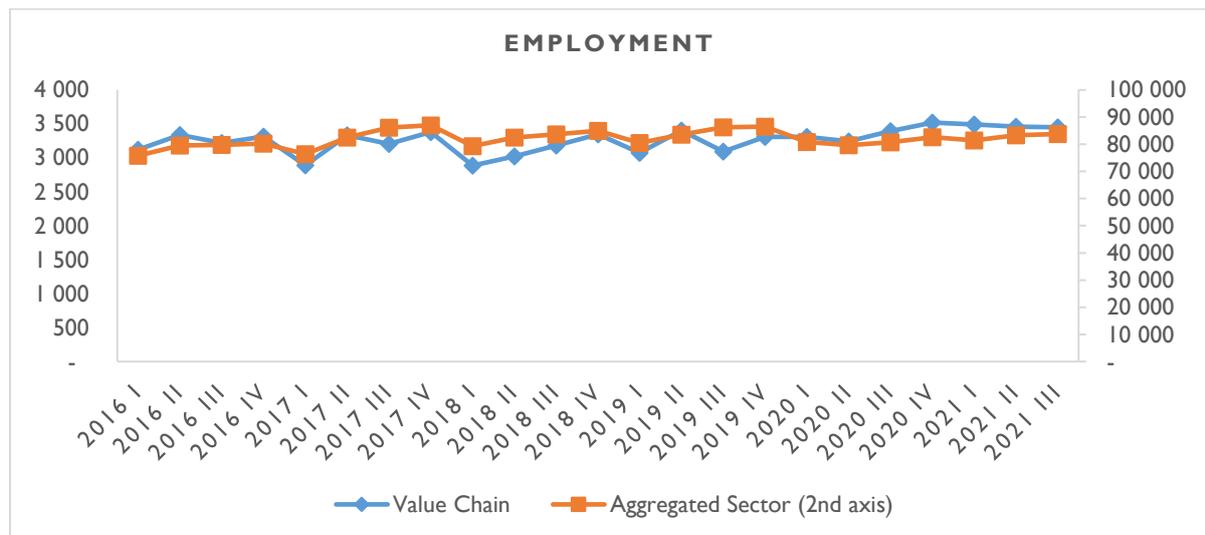
Chart 3.30 YoY growth rate of turnover for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

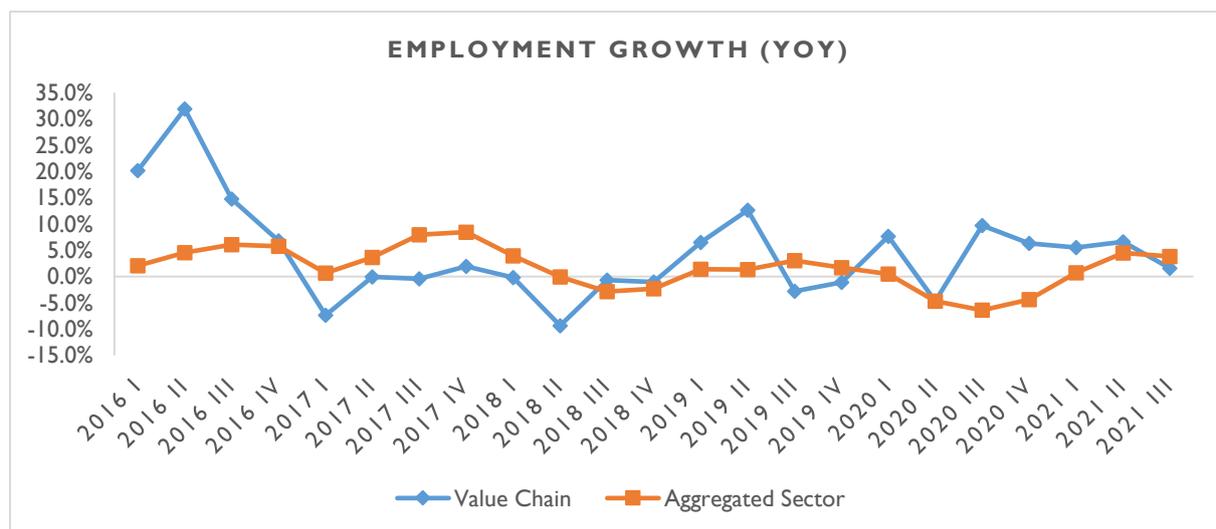
Employment in packaging VC has been rising throughout 2020, however, it has been declining slightly in 2021 QoQ. As for YoY comparison, a positive change has been observed in Q3 2021 compared to Q3 2020 (1.6%), and the employment constituted 3,449 hired individuals. Similar YoY trend has been observed in the aggregated sector where employment has reached 83,776 people, constituting 3.8% YoY growth.

Chart 3.31 Employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

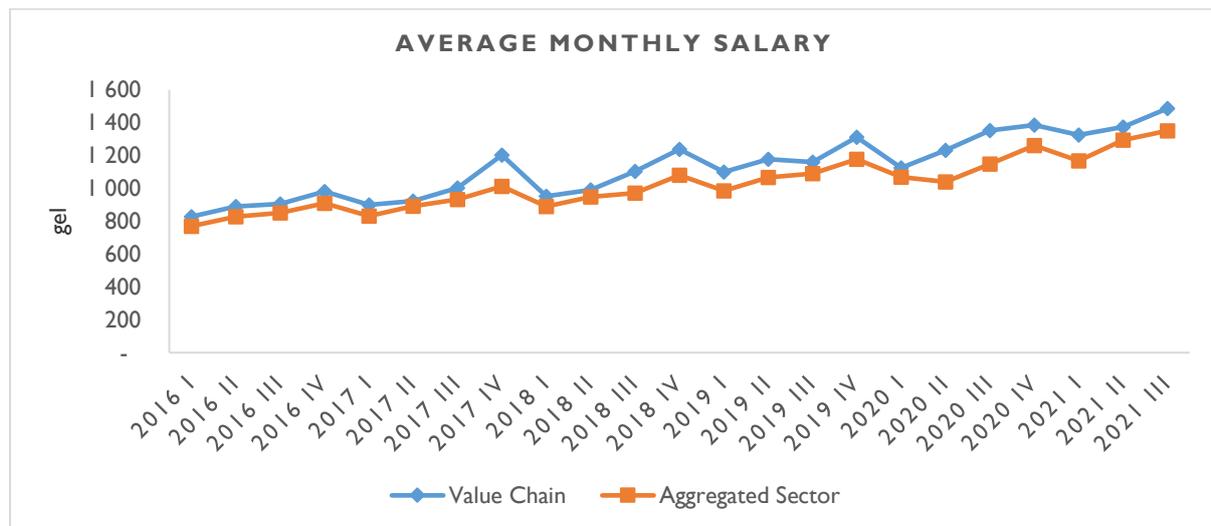
Chart 3.32 YoY growth rate of employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the packaging value chain increased significantly in Q3 2021, compared to Q3 2020 and reached GEL 1,487, which is higher than the average salary of the respective aggregated sector (GEL 1,351) (Chart 3.33).

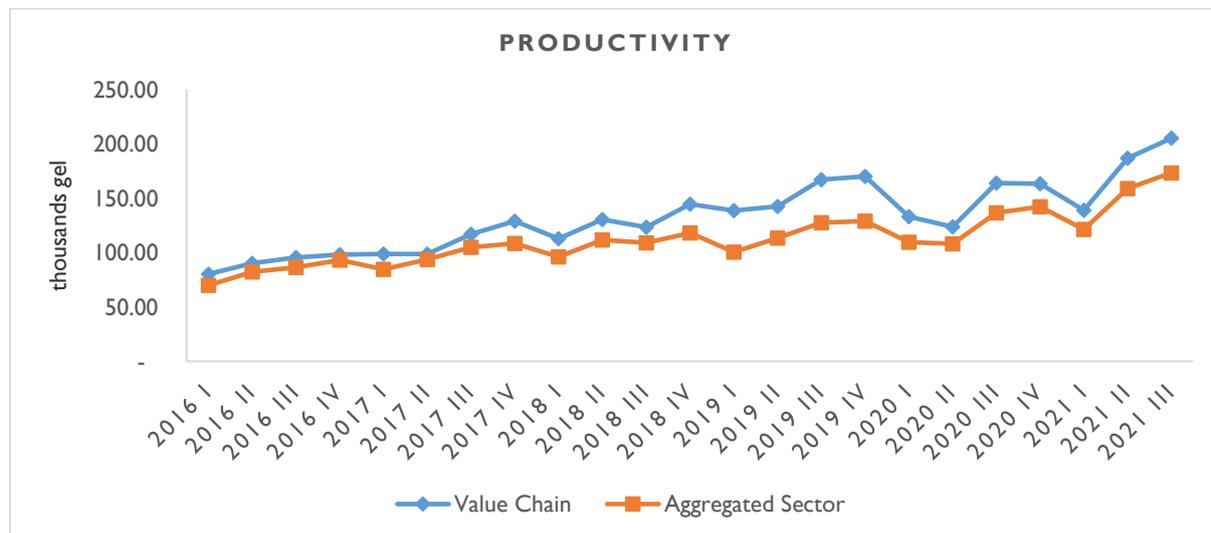
Chart 3.33 Average monthly salary in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.34 demonstrates the dynamics of productivity for both the packaging value chain and the aggregated sector. Labor productivity for the packaging value chain increased significantly (25.2% YoY) in Q3 2021 compared to Q3 2020 and settled at GEL 205,220. While productivity for the aggregated sector increased by 26.9% (YoY), productivity in the packaging value chain still exceeds that of the aggregated sector (GEL 173,000).

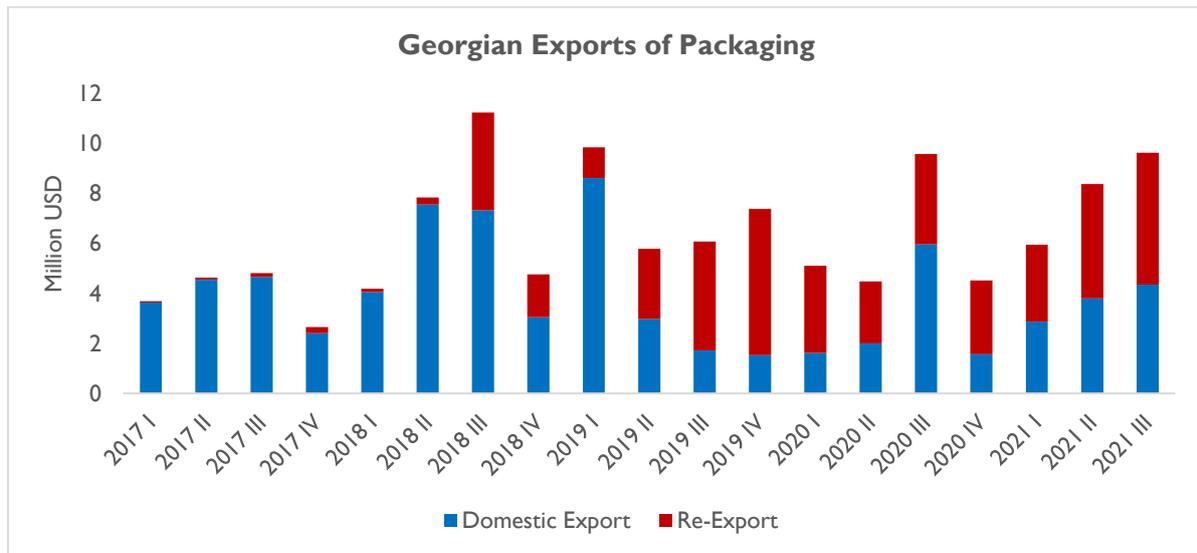
Chart 3.34 Productivity in the packaging value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Charts below provide the analysis of trade tendencies of packaging materials. In the third quarter of 2021, Georgian domestic exports declined, however re-export has increased compared to Q3 2020, amounting to USD 4.4 million and USD 5.3 million, respectively (Chart 3.35).

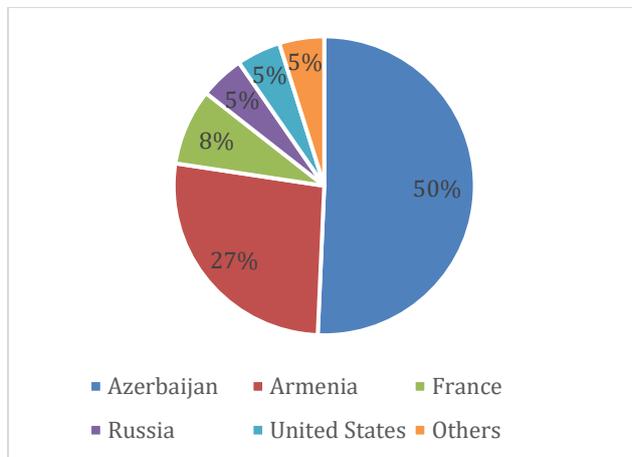
Chart 3.35 Georgian Exports of Packaging Goods 2017-2021



Source: National Statistics Office of Georgia

Of the total exported volume, 50% of Georgian packaging goods were shipped to Azerbaijan, 27% to Armenia and 8% to France (Chart 3.36). Top three trade partners in exports were followed by Russia (5%), and the US (5%).

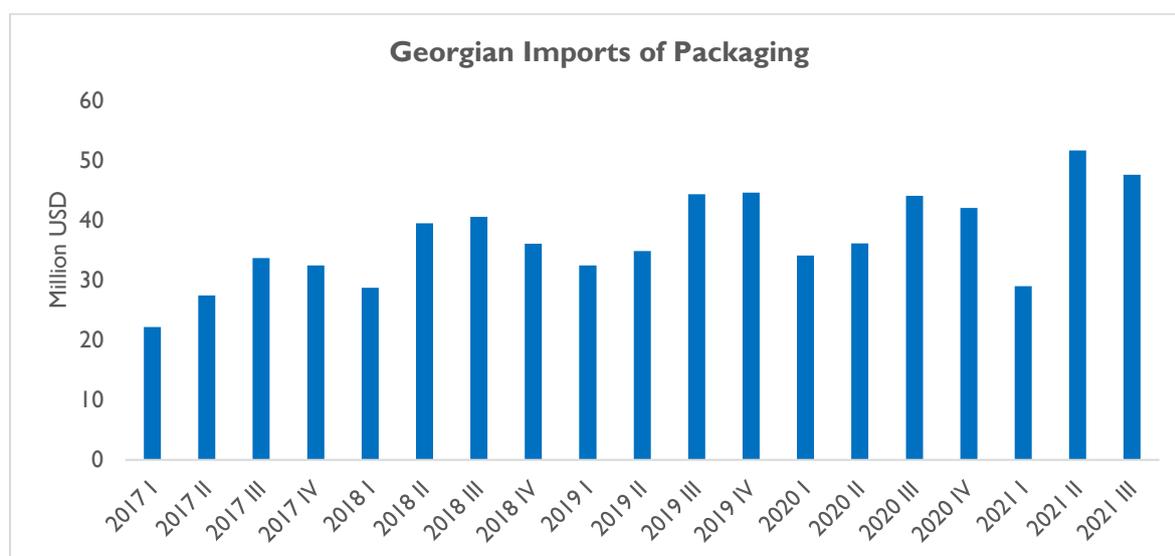
Chart 3.36 Georgia's Domestic Exports of Packaging Goods by Trade Partner (October 2020 - September 2021)



Source: National Statistics Office of Georgia

Georgian imports of packaging goods increased in Q3 2021 (7.9% YoY), compared to Q3 2020, however, it decreased compared to previous quarter and amounted to USD 47.8 million (Chart 3.37).

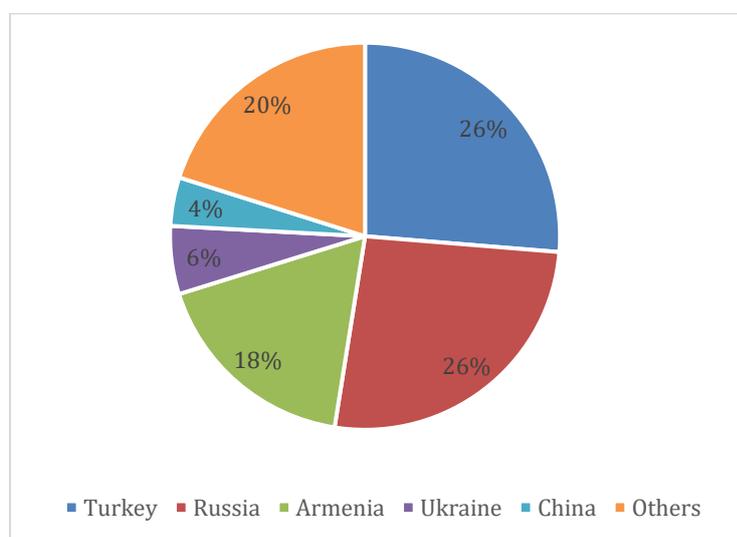
Chart 3.37 Georgian Imports of Packaging Goods 2017-2021



Source: National Statistics Office of Georgia

The profile of trade partners for Georgian packaging goods imports in the last 12 months was more diversified than for exports. 70% of packaging good imported in Georgia in the previous year were produced in Turkey (26%), Russia (26%), and Armenia (18%), while 6% of imports were shipped to Georgia from Ukraine and 4% from China (Chart 3.38).

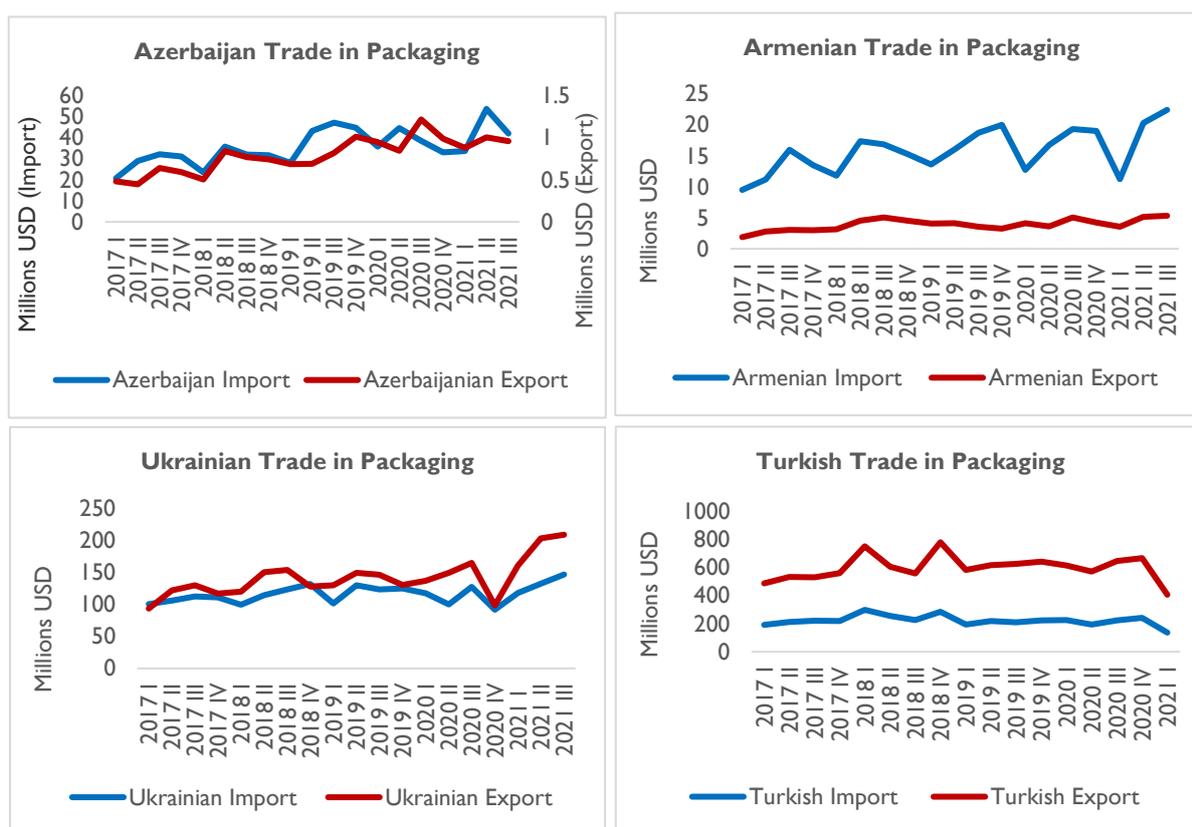
Chart 3.38 Georgian Imports of Packaging Goods by Trade Partner (October 2020 - September 2021)



Source: National Statistics Office of Georgia

Trade flows of Georgia’s regional partners were also analyzed. The results show that exports increased (YoY) for Armenia and Ukraine and declined for Azerbaijan. On the other hand, imports of packaging commodities increased for Ukraine, Armenia, and Azerbaijan in Q3 2021 compared to Q3 2020 (Chart 3.39).

Chart 3.39 Regional trade dynamics in the packaging value chain



Source: UN Comtrade⁴³

Overview of Existing Challenges and Opportunities

Based on the conducted qualitative analysis, private sector leadership within the packaging value chain has been evaluated highly. Even though, at large, no significant progress was achieved against the identified challenges in this value chain during the last quarter, some packaging producers constantly show their considerable potential for expansion at both the domestic and international levels. These are a few leading players of the value chain, such as LTD Fabrica 1900 (producer of corrugated cardboard packaging), LTD Georgian Packaging (food grade paper packaging), LTD Greenpack (reusable packaging bags), LTD Caucas Pack (disposable plastic packaging) and LTD Color Group (hard and soft packaging, labels, corrugated boxes). The listed companies have significantly contributed to establishment and development of the PMAG Packaging Cluster, established in 2020 on the basis of the Packaging Manufacturers Association of Georgia (PMAG) with the support of the EU and UNDP.

As of January 2022, the cluster has significantly increased in its size. At the moment of report, it unifies 90 upstream and downstream companies of the value chain, including 38 new memberships in the last quarter. The cluster aims to scale up and promote the competitiveness of the value chain through various service offerings, such as assisting members in communication, advocating the value chain needs, organizing and managing networks, gathering and analyzing industry-specific knowledge, and building partnerships at various levels. Recently, the cluster has actively started to assist its member companies in realizing their export potential, including through collaborating with subject experts that

⁴³ Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 and Q3 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

will help its member companies to reach international markets. In the same direction, the cluster works closely with the Enterprise Georgia to help its member companies boost their export potential through participating in international exhibitions. Packaging is also listed among priority economic directions of Enterprise Georgia, meaning that the value chain can benefit from its support programs.

Beyond the partnership precedents with EG, within the value chain there is some experience of collaborating with the public sector. Precisely, recently, the Packaging Cluster has collaborated with the Rural Development Agency (RDA), which intends to establish a cluster of greenhouse producers. Recently, a memorandum has been signed between the agency and the PMAG.

The overall development of the value chain is conditional on the growth of other economic areas that require packaging products, such as food and beverage, agriculture, fast food services, restaurants, and supermarket chains. While the demand from some of these activities decreased amid the initial outbreak of COVID-19, recently there has been a tendency of revival in demand following the loosening of lockdown measures in Georgia. The value chain representatives perceive increasing local awareness of Georgian packaging production as one of the key steps towards utilizing their full potential.

Georgian packaging manufacturers face stiff competition from imports, while the level of competition between local firms is insignificant due to high local demand on packaging and small size of domestic packaging manufacture. Packaging goods imported from Turkey, China, and Russia are the most competitive in this regard. There are several factors that determine the competition landscape across packaging activities. First of all, Georgian businesses that need packaging products frequently demand them in small quantities, making it unprofitable for Georgian manufacturers to produce them. Instead, these can then be imported easily from foreign firms, which enjoy large economies of scale and cheap per-unit cost. Frequently, the cheaper price of imported goods reflects their lower quality compared to Georgian products. According to the focus groups participants, recent economic crisis and currency depreciation in Turkey led Turkish companies to price dumping practices, which increased imports from this market and made it harder for Georgian companies to compete with them in lower-price market segments. To enhance their competitive advantage, Georgian businesses are constantly searching for means to create niche products. Furthermore, the manufacturers attempt to be capable of supplying the market with a wide range of packaging production, instead of specializing in the manufacturing of only certain types of packaging goods.

Recently, and especially during the pandemic, Georgian packaging manufacturers have shown promising import replacement potential, mostly due to being able to meet the domestic demand quickly and without delay. Increasing quality, the opportunity to offer more flexible payment schedules, and the ease of communication between buyer and seller within production process were named as additional factors contributing to the growing domestic demand for Georgian packaging products. On some of the international markets, according to the sector representatives, COVID-19 changed the gameplay and prioritized flexibility of product supply over price and quality of goods. This poses an opportunity for Georgian companies to better realize their export potential.

As for the period of report, the leading players in the packaging value chain stably export their products mostly to the neighboring markets of Armenia, Azerbaijan and CIS countries. LTD Caucas Pack also stably exports to the US and Canada, and has experience of shipping its products to Panama, Ukraine, and Turkey as well. The company has recently started trade negotiations with companies in Uzbekistan. LTD Caucas Pack has also diversified its export production. Among other packaging materials, the company now produces punnets, which are plastic packaging for berries. LTD Fabrica 1900 plans to enter the Greek, Bulgarian, and Romanian markets (shipping thin cardboard packaging products that are easy and cheap to transport). Furthermore, the company aims to add an agricultural direction to its production and issue cardboard packaging for the export of agricultural goods (e.g.

apples and herbs). Elsewhere, LTD Greenpack has exported to Armenia and Azerbaijan. The company is considering entering the markets of Belgium and the US.

Significantly, both paper- and plastic-based packaging manufacturers utilize imported raw materials in their production processes. High dependence on imported raw materials is considered one of the major impediments for packaging manufacturers. Nevertheless, the dependency is inevitable. The outbreak of the COVID-19 pandemic seems to still significantly affect the accessibility of imported inputs -disruptions in the raw material supply chains and unstable input prices have increased the costs of the final goods. In this regard, the irreversible increase in transportation costs (which makes up a significant share of input prices) posed a significant challenge for Georgian packaging manufacturers.

Limited access to raw materials is further constrained by a lack of recycling practices, the establishment of which is projected to reduce dependence on imported inputs. In this regard, it is important that Georgia aims to implement Extended Producer Responsibility (EPR) legislation, obliging producers/importers of products that generate specific waste to organize the separated collection of the waste that they generate. Furthermore, the separate collection of municipal waste has been envisaged under the Waste Management Code (WMC). However, no progress has been made in this direction due to some significant restrictions, such as lack of readiness on both private and public sector side, the implementation of these initiatives has been postponed several times. Moreover, the poor implementation of Georgian legislation banning plastic bags remains a persistent and unaddressed challenge. Following the ban, some manufacturers began producing biodegradable bags, however plastic bags are still available on the local market.

Besides import dependency, manufacturers in the value chain face central challenges that limit their further growth and hamper the scaling-up of the Georgian packaging production. Notably, the majority of these obstacles have already been noted in a recent policy brief on the light manufacturing sector⁴⁴. Primarily, the value chain representatives name the lack of a skilled workforce as a fundamental challenge for Georgian packaging production. There is a small base of qualified machine operators in the country and there is a shortage of vocational trainings that target the skillset of the employees critical to the value chain. Moreover, youth employment is quite limited in the value chain due to unattractive wage offerings. Fear of losing social security allowance was named as an additional hinderance for attracting the workforce. In this regard, the PMAG Packaging Cluster in Partnership with Georgian Technical Training Center (GTTC) planned to introduce short term workforce training programs. Nonetheless, as the Cluster representative reports, this initiative is paused due to reluctance of the private sector representatives of the value chain.

⁴⁴ Policy Brief. Light Manufacturing Sector. USAID (2020)

PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

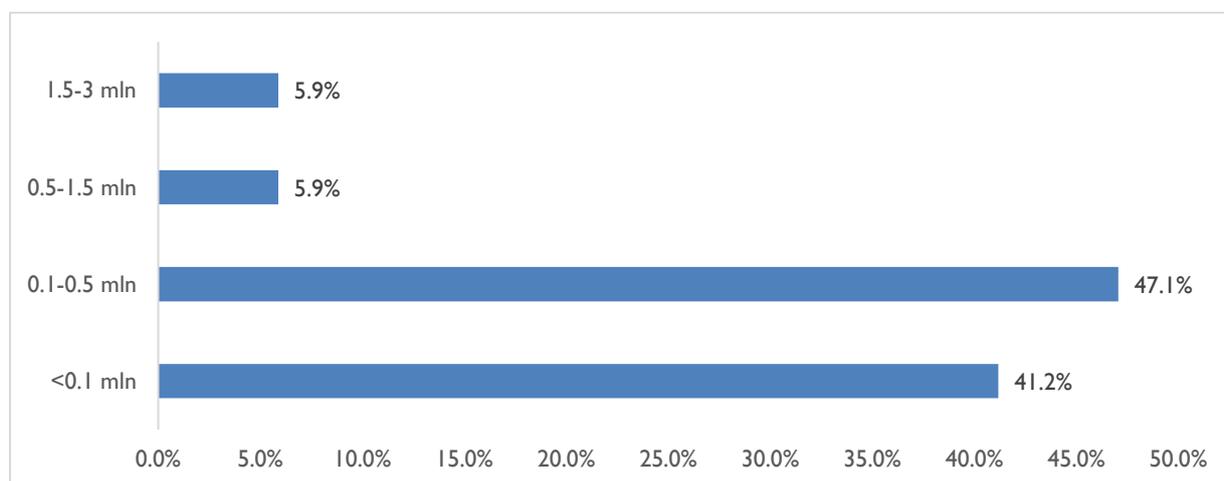
Quantitative Survey Results

Due to data limitations, the key business indicators describing the development in this business activity were obtained through a phone survey. The sample of respondents constituted 21 businesses involved in the production of PPE, registered with the NACE 14.12 (manufacture of workwear) and NACE 32.99 (other manufacturing) codes.

The absolute majority of the businesses surveyed were limited liability companies located in Tbilisi, Imereti and Adjara (Batumi). These companies produce different types of work uniform, protective masks, and other protective medical equipment.

The declared turnover of surveyed PPE companies in Q3 2021 ranged from less than GEL 0.1 million to GEL 3 million (Chart 3.40). Most of the companies depicted a moderate turnover level (47% of the companies had a turnover within GEL 0.1-0.5 million, 41% had less than GEL 0.1 million).

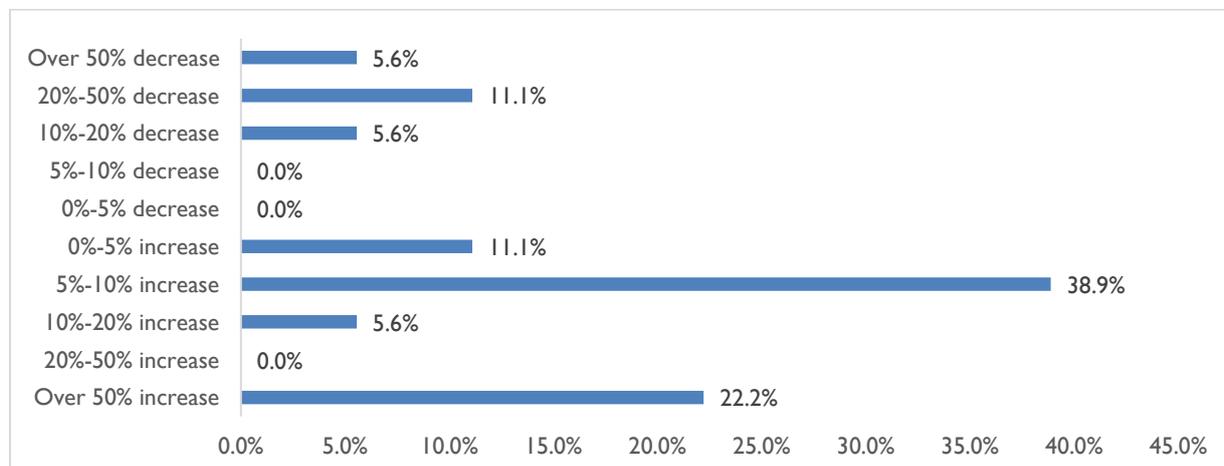
Chart 3.40 Distribution of PPE Companies by Turnover Range, 2021 Q3 (Gel)



Source: Authors' calculations

Most of the companies (78%) reported that their turnover increased in the third quarter of 2021 compared to the same period of 2020. Rest of the companies (22%) reported a decline in turnover.

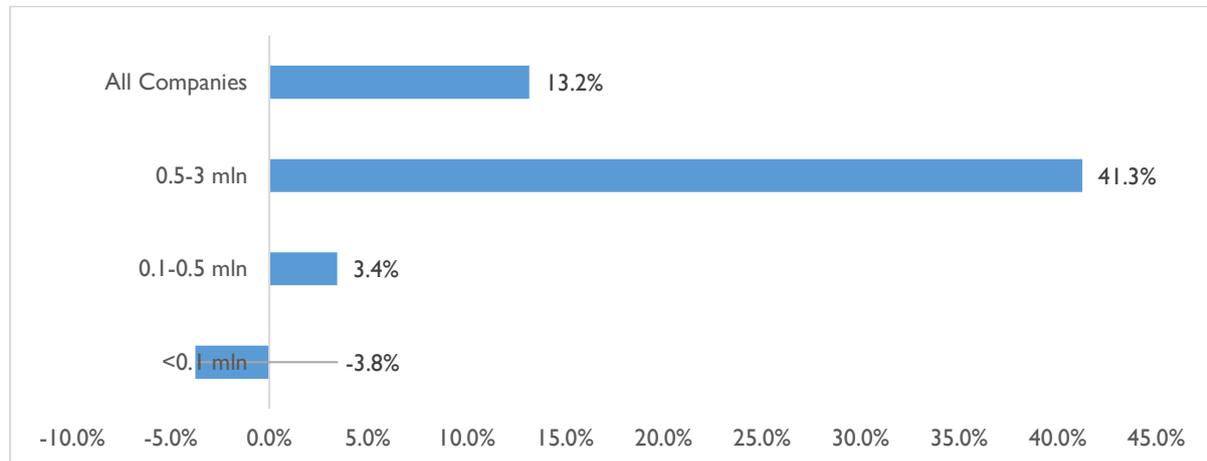
Chart 3.41 Percentage Distribution of Turnover Growth Rates in the PPE Value Chain, 2021 Q3 (Y-o-Y)



Source: Authors' calculations

In Q3 2021, turnover of surveyed companies has increased by 13% (YoY) on average. However, the companies with turnover below GEL 0.1 million had experienced a YoY decline of 3.8%. (Chart 3.42). It should also be noted that companies, with turnover range 0.5-3mln, reported 41.3% YoY turnover increase.

Chart 3.42 Distribution of PPE Companies Growth Rates by Turnover Range, 2021 Q3 (Y-o-Y)

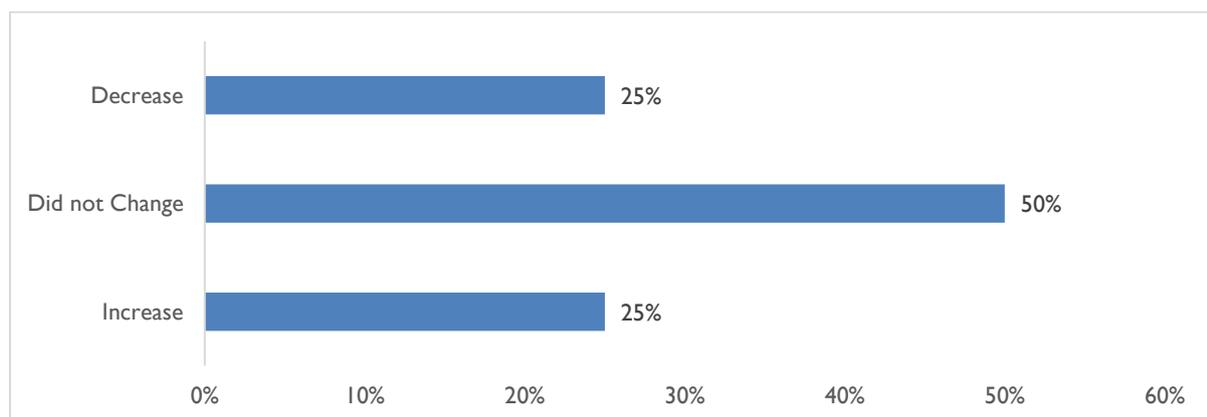


Source: Authors' calculations

The number of employed persons in surveyed PPE companies varied from 1 to 120, with the median number of 16 employed individuals. Women accounted for 65% of employed individuals, while the share of young workers (under 30 years old) made up only 5.8% of the total employees of surveyed companies.

Half of companies (50%) indicated no change in the number of employees in Q3 2021 compared to Q3 2020 (Chart 3.43).

Chart 3.43 Change in Employment, 2021 Q3 (Y-o-Y)



Source: Authors' calculations

The charts below outline Georgian, regional, and global trade patterns of PPE. The categorization of these goods and applicable HS codes were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization and the World Health Organization⁴⁵, HS code classification of PPE based on EU market survey 2004⁴⁶, Commission

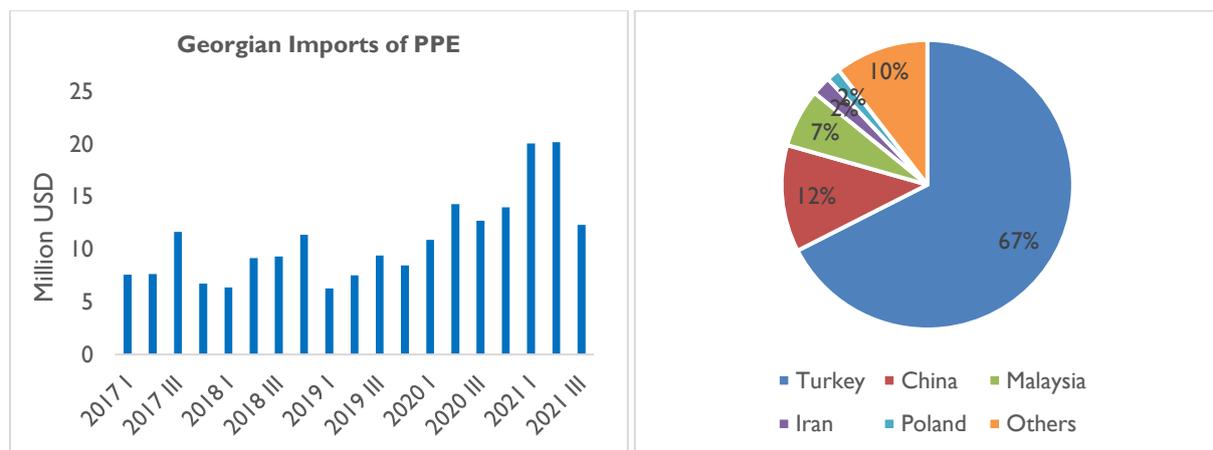
⁴⁵ HS classification reference for Covid-19 medical supplies 2nd Edition. WCO.WHO (2020)

⁴⁶ http://www.exportapymes.com/documentos/productos/Ci1033_survey_personal_protection.pdf

Implementing Regulation (EU) 2020/402⁴⁷ and Order №01-36/№89 of the Ministry of Finance of Georgia on defining the list of goods intended for medical purposes, the supply and/or import of which is exempt from VAT.⁴⁸

Chart 3.44 below presents the value of Georgian PPE imports for the period of 2017-2021 along with its top trade partners during October 2020 – September 2021. Georgia’s import of PPE declined in Q3 2021 by 3.1% compared to Q3 2020, reaching USD 12.3 million. In terms of the equipment’s origin, most PPE was imported from Turkey (67%), China (12%), and Malaysia (7%), Iran (2%) and Poland (2%). Imports from other countries constituted 10% of total imports.

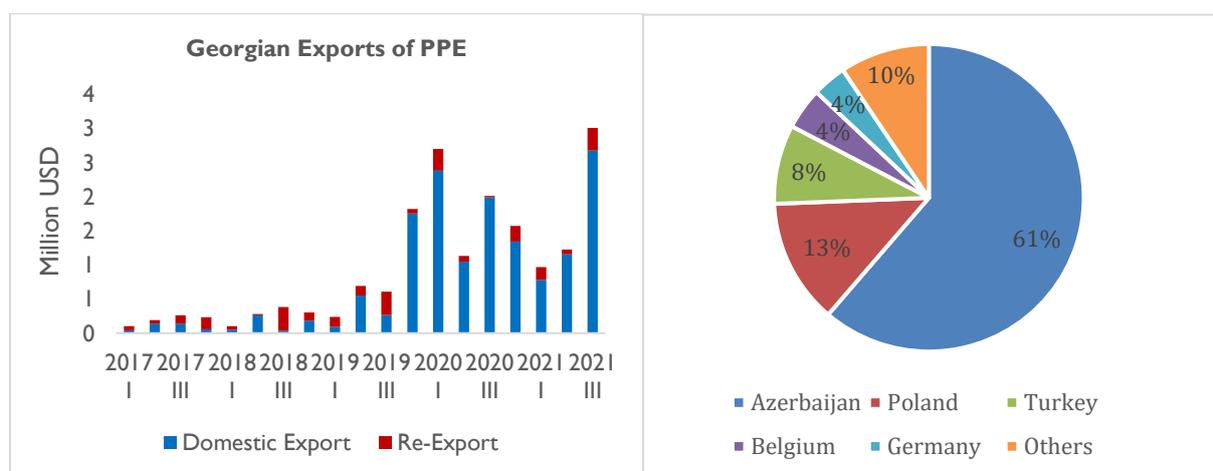
Chart 3.44 Georgia’s Imports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE import (October 2020 – September 2021)



Source: Geostat; UN Comtrade

Chart 3.45 presents dynamics of Georgian exports and its top trading partners in this regard. Domestic exports of PPE equipment increased by 34% in Q3 2021 compared to Q3 2020. During October 2020 – September 2021. The majority of Georgian PPE goods were exported to Azerbaijan (61%), Poland (13%), Turkey (8%), Belgium (4%), and Germany (4%).

Chart 3.45 Georgia’s Exports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE export (October 2020 – September 2021)



Source: Geostat; UN Comtrade

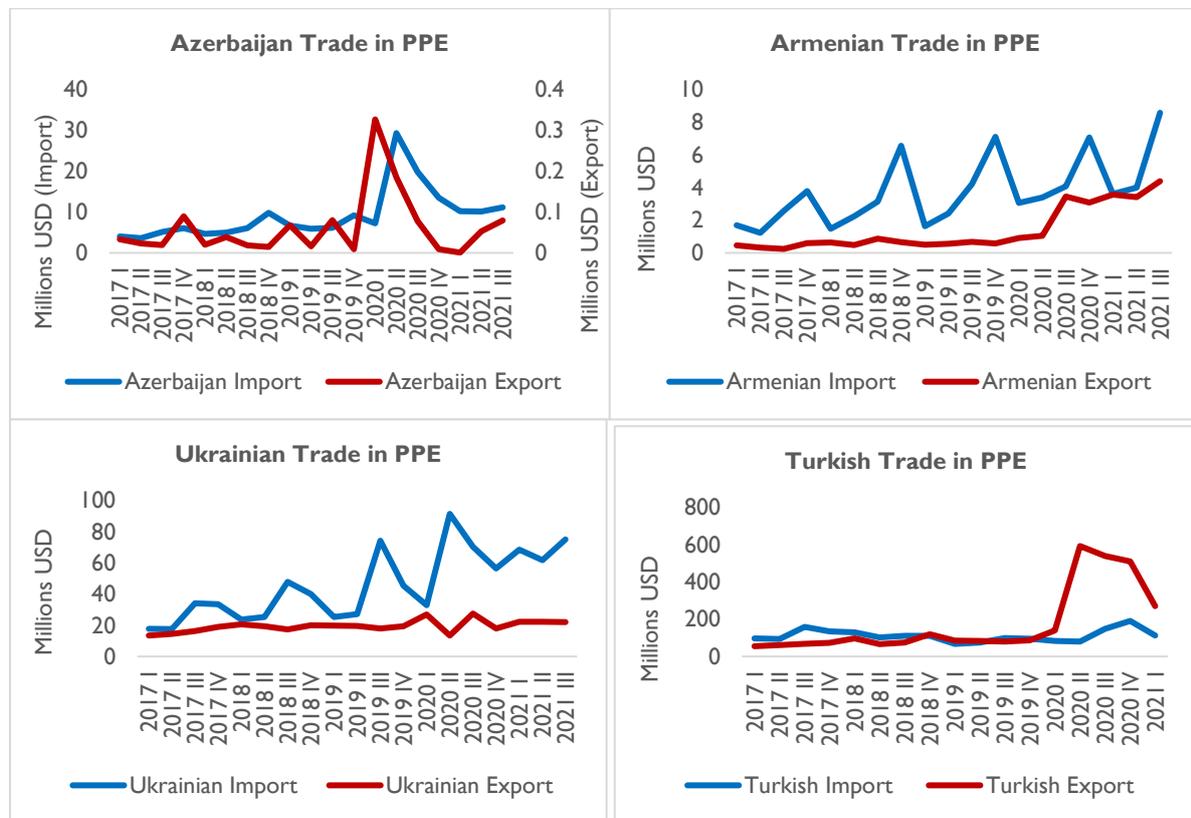
As Chart 3.46 presents, Azerbaijan experienced a decline in PPE imports in Q3 2021, compared to Q3 2020. Contrastingly, Armenian and Ukrainian imports increased YoY. On the other hand, exports

⁴⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0402>

⁴⁸ <https://matsne.gov.ge/ka/document/view/4841418?publication=0>

increased in Armenia and moderately in Azerbaijan, and diminished in Ukraine in Q3 2021 compared to the same period of 2020.

Chart 3.46 Regional Trade in PPE



Source: UN Comtrade⁴⁹

Overview of Existing Challenges and Opportunities

The focus group discussion with private sector representatives reveals both long-lasting challenges that constrain the value chain's future development and some prospects presented to PPE manufacturers by the pandemic. In terms of challenges, as for the January 2022, the value chain's main restricting factors remain unaddressed and still constitute an impediment to growth. This might be explained by the fact that the private sector leadership in the PPE industry is critically low. Initiatives of certain manufacturers are scattered across the value chain and there is no consolidated effort to benefit the value chain as a whole. Some of the challenges that have been highlighted by the private sector representatives are summarized below.

Shortage of human capital is the prominent impediment in this value chain. The competence level of vocational school graduates is said to be insufficient, and manufacturers usually must train their employees at their own expense. It was also claimed that obsolete technologies were being used in the teaching process at VET schools, and that there was a shortage of qualified teachers as well. Some of the stakeholder companies seem to be reluctant to cooperate with vocational schools and plan to introduce their own training courses or educational programs and offer paid training for interested individuals. Turnover of workers, especially tailors, was said to be quite high in the value chain, leaving companies with no instruments to retain workforce and consequently decreasing productivity. In

⁴⁹ Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 and Q3 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

addition, it was mentioned that employees often find it difficult to adapt to the required quality standards, particularly in the manufacture of protective medical clothing and equipment. When it comes to the development of innovative products, the shortage of intellectual capital on the Georgian labor market was identified as a major impediment. For example, a representative of a PPE startup, LTD Elven Technologies, developing high-technology uniforms for fire-fighters for overseas markets (e.g., the US, Canada, and Australia), mentioned that it took the company two years to find a competent professional, capable of developing such products.

Around 95% of inputs used in production are imported (mainly from China and Turkey), resulting in two potential problems. First, the imported inputs from Turkey increase the products' sales prices and therefore make them less competitive. Second, in case of input materials, delivery takes longer and thus delays the domestic production process, resulting in a failure to meet clients' urgent needs. The latter hindrance became more prevalent amidst the pandemic when flight restrictions and lockdown measures increased the frequency of delays in input deliveries. However, the situation in this regard has been stable as for January 2022. Producing raw materials locally (for example, non-woven fabric, the sanitary textile used as one of the key inputs for producing medical clothing or three-layer membrane fabric utilized in protective vests production) is not considered profitable in Georgia yet due to high production costs and relatively small domestic market size.

A problem of limited access to modern technology mainly concerns the manufacturers of workwear and service apparel (e.g. military and police uniforms) working on government tenders relates to the need for expensive machinery for eco-friendly production (the latter is a tender requirement, according to respondents). As was mentioned during the focus group discussion, the market is relatively small and considering the current low demand, it would be difficult for the sector to invest in modern technology and scale up without substantial support.

Low access to finance is another explicit challenge in the PPE value chain. Even though certain representatives of this value chain have benefitted from the Enterprise Georgia's support mechanisms, lack of financing is still perceived as one of the major hindrances in PPE. For example, LTD Elselema outlined that a lack of finances restricts the company to produce one of the inputs material- three-layer membrane fabric, even though Elselema possesses the necessary knowledge and professional base to launch the project. However, the company plans to start actively working on the initiative despite the financial hinderances.

Lack of cooperation among industry representatives further restricts upgrade of the value chain. One of the interviewed companies expressed the need to strengthen cluster approaches in the value chain to ensure better knowledge-sharing and advocacy efforts at the state level.

In relation to the last point, the Sustainable Apparel Cluster ("Made in Georgia") was established within the framework of the EU-GIZ-supported Clusters4Development project, providing technical advisory services to member companies and supporting them to strengthen market linkages and export potential. Within the same project, partner apparel producers formed a business association named the Georgian (Apparel and Fashion Association (GAFA), composed of apparel companies, fashion designers, and ateliers. Despite recently increasing demand for COVID-related PPE products, apparel cluster membership does not seem to offer special focus for medical textile and apparel manufacturers. Based on our interviews, such companies would expect to benefit more from the creation of association that would explicitly focus on medical clothing manufacturers.

Along with the existing challenges, there are also some prospects in this field, arising from the COVID-19 pandemic. In response to the sudden and heavy demand for PPE, many apparel manufacturers also switched to making the face masks, for example. Georgia is now producing this product locally replacing imports to a certain extent. Several companies adjusted their production lines to meet the

high demand for other varieties of PPE. In the wake of the pandemic, the value chain representatives (LTD Elselema, JSC Sewing Company Imeri, Materia Fashion House, LTD Nitex, etc.) also participated in the government-subsidized program for face masks production.

Out of the several established companies of the value chain, LTD Elselema is one of the distinguished players. The company has operated for more than 28 years and has produced military and police uniforms (e.g. bulletproof and protective vests), working uniforms, waterproof garments, as well as casual and knitwear clothing. It is one of the largest players on the market that successfully participates in public procurements. Elselema has prominent international connections, it supplies its Swiss partner with Georgia-produced police uniforms. Besides LTD Elselema, the industry also has a newly emerged leader on medical PPE side.

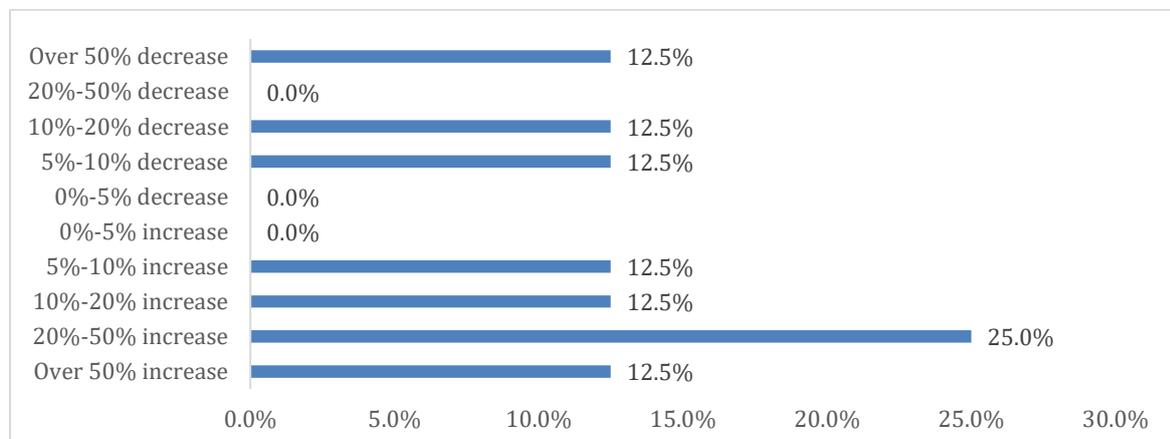
WOODEN TOYS

Quantitative Survey Results

This section of the report is devoted to the analysis of the wooden toys manufacturing business activity based on a quantitative survey conducted with nine companies.

Declared turnover in Q3 2021 in this business activity was under GEL 0.1 million for 100% of surveyed firms. In Q3 2021, 62.5% of companies reported rise in their turnover. Consequently, the rest 37.5% indicated declining performance (Chart 3.47). The average increase in turnover for all companies was 12.5%.

Chart 3.47 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, Q3 2021 (Y-o-Y)



Source: Authors' calculations

Source: Authors' calculations

The number of persons employed in the wooden toys value chain varied between 2 and 17, with a median number of 4. Women constituted 33% of employed people, while workers aged below 30 accounted for 28% of the total employed. As for the average salaries, 42% of the producers reported that the average salary increased in Q3 2021, compared to the same quarter of the previous year.

Most wooden toy manufacturers (50%) did not change their number of employees in Q3 2021, while 50% of respondents declared an increase employment.

Overview of Existing Challenges and Opportunities

The focus group discussion conducted with the representatives of the wooden toys market helped to identify the key challenges and needs of local manufacturers. As for January 2022, these impediments are mainly unaddressed in the wooden toys business activity. However, this industry has potential for growth if the prominent challenges are met. In short, these challenges relate to access to finance, the lack of relevant technologies and equipment, an unqualified workforce (potentially stemming from lack of cooperation between VETs and the private sector), limited availability of adequate local raw materials, product certification problems, specificities of the public procurement system and high competition from imports.

Access to finance was mentioned by respondents as a key problem. Due to the small scale of production, wooden toy manufacturers usually cannot afford expensive bank loans and often have problems with regard to paying their employees. For most of the donor assistance programs available to the toy manufacturers, there is a cash contribution requirement that also seems to be problematic for most local entrepreneurs due to their low liquidity. The interviewed representatives of companies mentioned that they would value the possibility of offering in-kind contributions (e.g. in the form of equipment/machines) instead of cash contributions. Moreover, when it comes to grant programs, stakeholders stated that donor organizations as well as government agencies sometimes base their decisions on inadequate criteria. This problem stems mainly from low awareness about the challenges faced by companies in the value chain. For instance, interviews revealed that the value chain could benefit from support to increase the awareness about locally produced wooden toys.

The product certification process is a prominent challenge in this value chain. Many interviewees highlighted the need for local product testing capacity. Currently, if certification is needed, they all have to send their sample products to Turkish laboratories to obtain certificates, thereby greatly increasing the cost and the sale price of their toys. Some manufacturers also declared to have low access to information regarding the certification process and requirements. In the same regard, in certain cases manufacturing process for wooden toys is sometimes constrained by the unavailability of high-quality, licensed local wood materials. This might constrain product realization on international markets. Several interviewees claimed that adequately processed and dried wood materials that possess certificate of origin are very rare in Georgia. Such barrier can be a bureaucratic and financial burden when planning exports.

Some Georgian wooden toy manufacturers find it difficult to compete with relatively low-quality imported toys from China and second-hand toys from the US. Imported toys often win over domestically manufactured ones in public procurements held for the Georgian kindergartens. As was argued by the focus group participants, the procurement process does not prioritize eco-friendly wooden toys' manufacture, thus putting Georgian wooden toy manufacturers at a disadvantage. Many private sector representatives claim that they have potential to meet demand of local kindergartens if the selection criteria in procurements are modified and perceive this as a possible instrument to ensure the future scaling-up of their business activity. In addition, it was suggested that public procurement system should allow joint applications by several local companies. This will solve the problems of limited production scale and will foster sectoral cooperation.

Evidently, Georgian wooden toy manufacturers have already started to comply with international safety standards. They mainly use high-quality wood and ISO-certified German painting materials that are safe to use for children. For this reason, the interviewed manufacturers expected their products to compete successfully with imported toys soon in light of the GoG's Decree on the Approval of Technical Regulation on Toy Safety based on the EU's toy safety directive⁵⁰. The new law entered into force from 1 July 2021, and is effective for both locally-manufactured as well as imported toys.

⁵⁰ Resolution No.47 of January 20, 2020 on "Approving the Technical Regulation on Toy Safety", available at: <https://matsne.gov.ge/ka/document/view/4776792?publication=0>

The successful implementation of the regulation is expected to boost the sales of domestic wooden toy manufacturers.

Representatives of this business activity have limited experience when it comes to exports. One success story is of LTD Kodala – a social enterprise producing eco-friendly wooden toys and decorative pieces - which has exporting experience in German and UK markets. Moreover, it has been revealed that France could be a profitable export destination country for Georgia due to the high demand for such toys and limited local production in this country. While the export precedents are limited, some companies operate on Etsy platform and successfully use e-commerce in their sales strategies. For instance, LTD Mtsvervali, a Georgian manufacturer of wooden toys, exports its products to the US, the UK, and UAE through Etsy.com. Moreover, LTD Katamura, a Georgian manufacturer of toy souvenirs of local fauna, has also been placed on Etsy since the summer of 2020 and mainly supplies the US market through this platform.

The interviewed companies highlighted the need to expand their networks and partnership opportunities within the business activity of wooden toys to tackle existing problems and achieve future growth. The manufacturers of wooden toys seem to benefit a little from membership of the Association of Toy Manufacturers. There have been several attempts made by local producers to establish an association of wooden toy manufacturers, but the attempts are unsuccessful. Nevertheless, representatives of this value chain project to establish the industry association soon in 2022.

4. SOLID WASTE MANAGEMENT AND RECYCLING

SECTOR SUMMARY

According to the quantitative assessment of the quarterly data, turnover in the solid waste management and recycling sector demonstrated positive nominal growth (YoY) in Q3 2021 compared to Q3 2020 (34.7%). Employment has increased slightly (YoY) in the sector, with the annual growth rate of 1.1%. In contrast to employment, the average monthly salary for Q3 2021 grew significantly (10.7% YoY). Productivity in the sector also surged upward remarkably, with the annual growth rate of 64.4%.

Qualitative assessment showed no significant progress in the central impediments that has limited overall upgrade of this sector. Regulatory challenges are still in the center of private sector agenda - implementation of the Georgian Waste Management Code is improper; Extended Producer Responsibility (EPR) legislation has not yet been enacted. Nevertheless, growth in all business activity parameters is projected once these regulatory changes are in force.

Businesses that make up the solid waste management and recycling sector are claimed to have significantly higher production capacities compared to the current scale of their manufacture. However, shortage of recyclable waste in Georgia is regarded as a critical barrier in this direction. Permanent waste shortage also scares domestic and foreign investors to get interested and seek returns in this sphere.

Limited access to finances was once again highlighted as a barrier to growth. Business sector representatives claimed that they frequently cannot benefit from green loans that are offered by Georgian commercial banks due to their high interest rates. However, recently Enterprise Georgia amended its programs to cover solid waste management and recycling activities. To properly exploit this opportunity, businesses in the sector need to undertake functional training on how to apply for such financing schemes.

There are some precedents of partnerships with the public sector. Nevertheless, all of the cooperation instances have been sporadic in nature. Waste Management Association (WMA) of Georgia, which is active in this sector, has attempted to collaborate with Rustavi municipality to distribute separable recycle bins across municipality. This process has been interrupted due to municipal elections in Georgia. A better understanding of the capacities of the parties participating in the waste management has significant potential to yield lasting positive impacts when it comes to the development of this sector.

Overview of Economic Indicators

The following section provides an overview of quantitative indicators for the solid waste management and recycling sector along with the corresponding aggregate sector (water supply, sewerage, waste management and remediation activities)⁵¹.

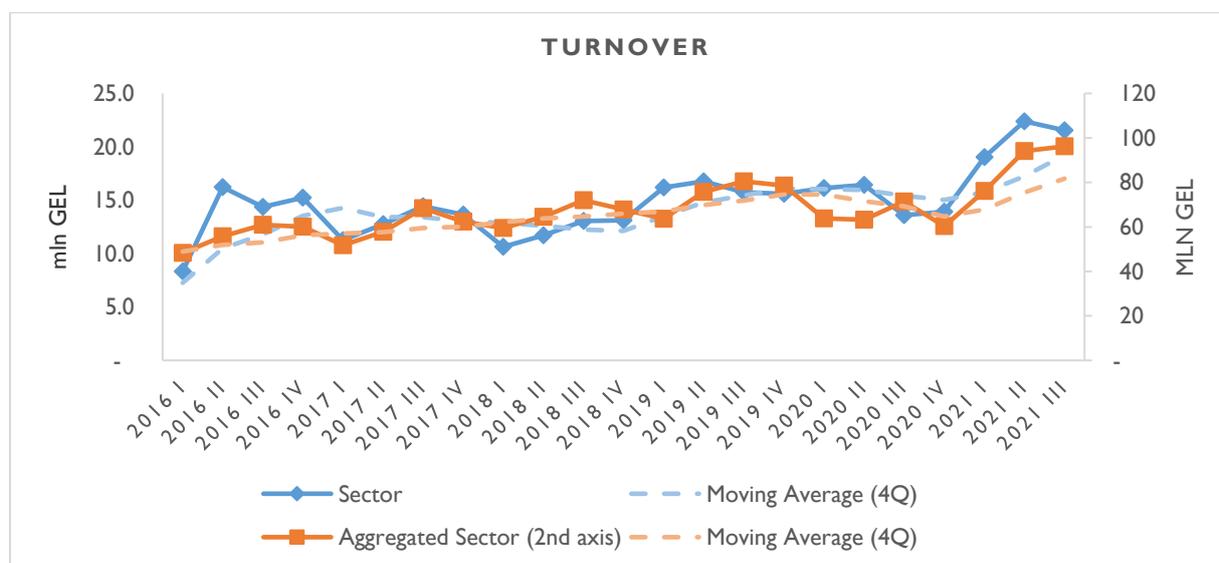
The solid waste management and recycling sector is matched with the following economic activities as classified in NACE Rev. 2 at 2-digit level (Table 4.1). The data on these NACE codes are available at both annual and quarterly frequencies.

Table 4.1 Economic activities included in the solid waste management and recycling sector

NACE	Description
38	Waste collection, treatment and disposal activities; materials recovery
39	Remediation activities and other waste management services

In the third quarter of 2021, turnover for the solid waste management and recycling sector has declined compared to the previous quarter, amounting to GEL 21.6 million, however, that is still 58.6% higher compared to Q3 2020 (YoY). The turnover for the corresponding aggregated sector increased as well in Q3 2021 (34.7% YoY) and reached GEL 96 million (Charts 4.1 and 4.2).

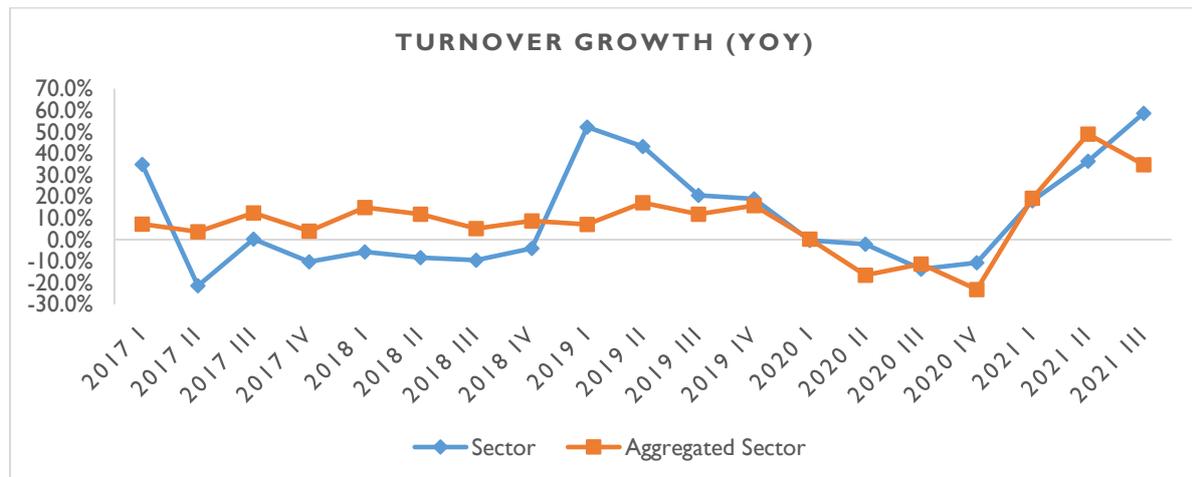
Chart 4.1 Turnover of the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

⁵¹ Throughout this section, “sector” will refer to solid waste management and recycling, while “aggregated sector” will refer to water supply, sewerage, waste management and remediation activities.

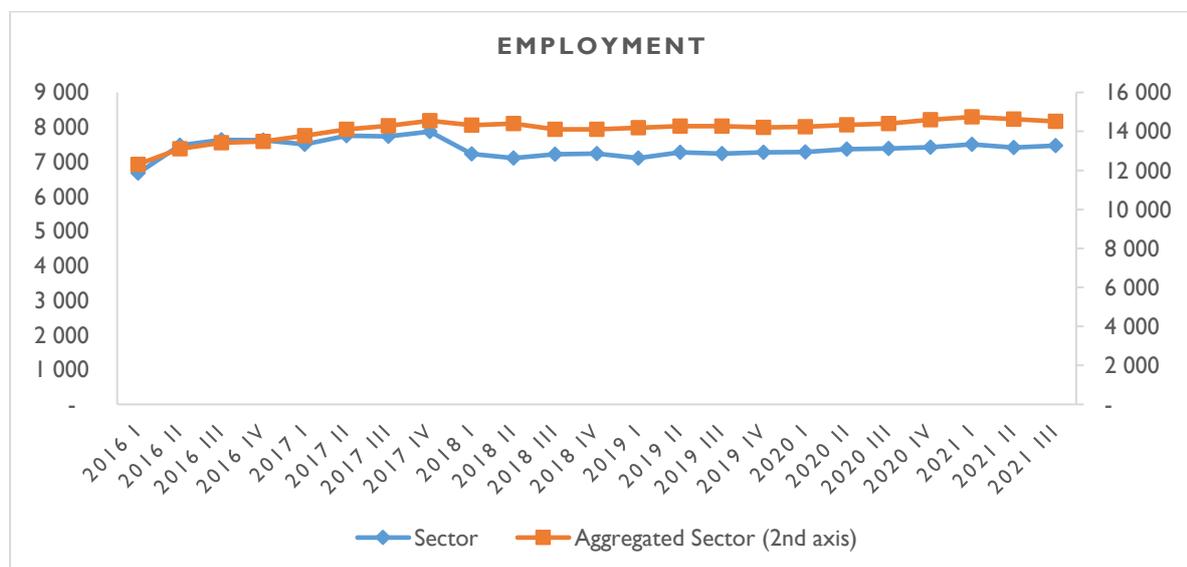
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

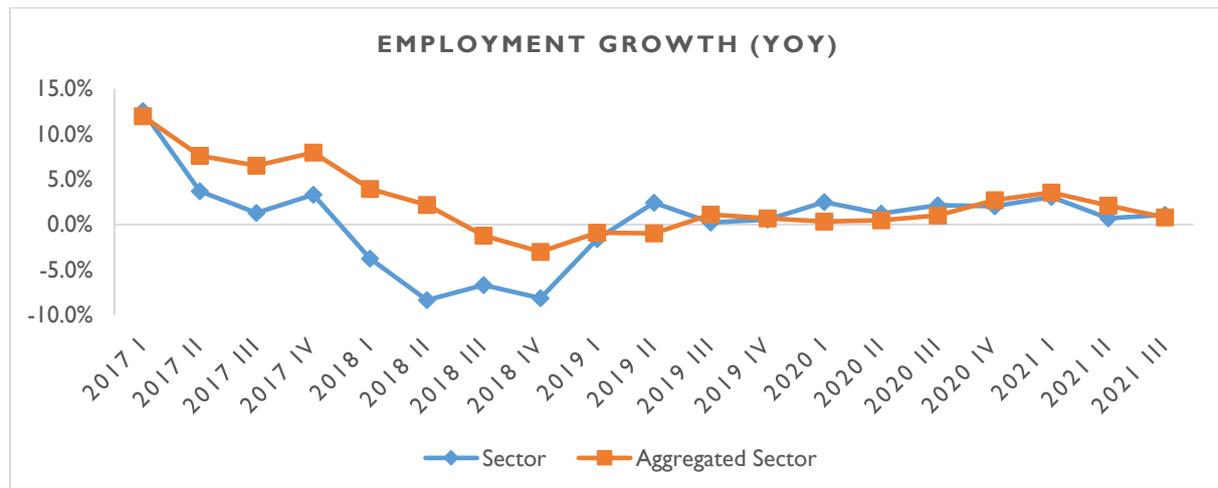
Charts 4.3 and 4.4 present the dynamics of employment and its annual growth rates in the solid waste management and recycling sector and the respective aggregated sector. In the third quarter of 2021, employment increased slightly (1.1% YoY) compared to Q3 2020 and reached 7,446 people. The number of hired employees also increased in the aggregated sector at a moderate speed, growing by 0.8% (YoY) in Q3 2021 and amounting to 14,521 people.

Chart 4.3 Employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

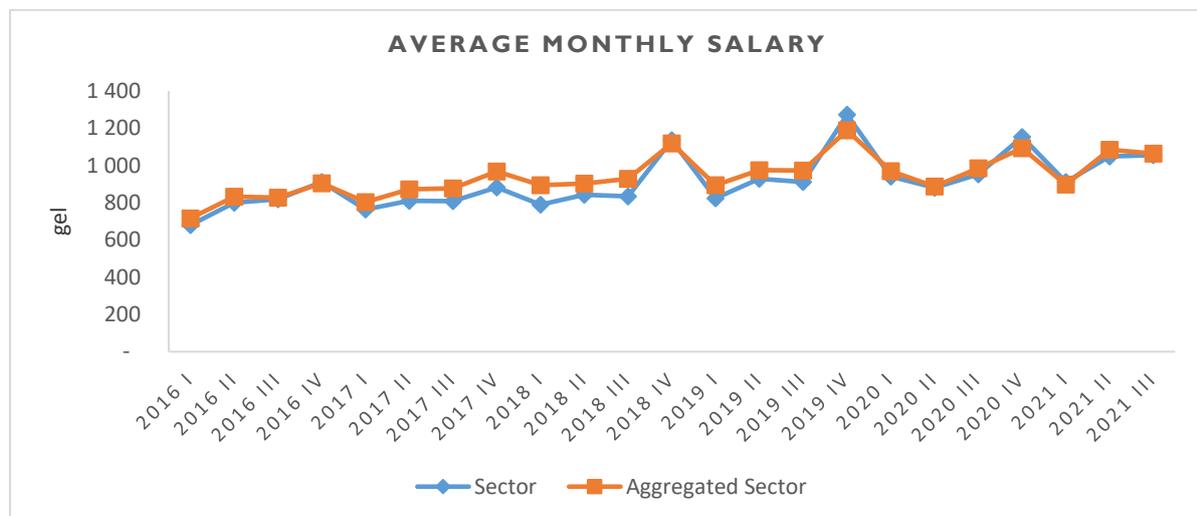
Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 4.5 shows, the average monthly salary in the solid waste management and recycling sector expanded in Q3 2021, amounting to GEL 1,055, which is 10.7% higher than in Q3 2020. The average monthly salary in the aggregated sector also increased by 8% YoY to GEL 1,064 in Q3 2021.

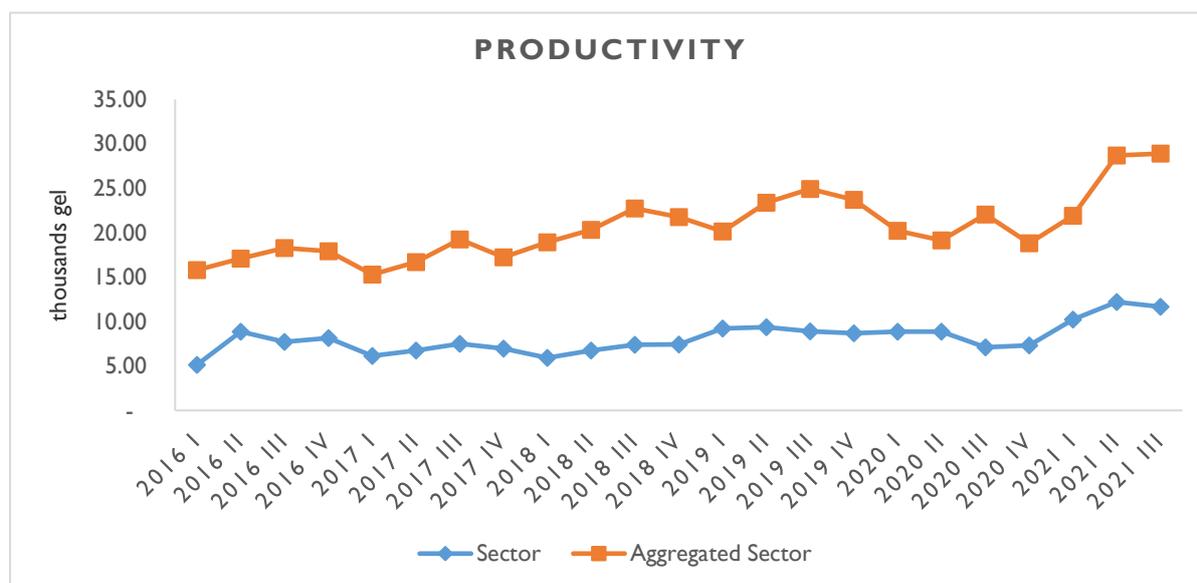
Chart 4.5 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The productivity in the solid waste management sector increased significantly (64.6% YoY) in Q3 2021 and amounted to GEL 11,670. The productivity in the aggregated sector increased as well by 31.1% YoY, amounting to GEL 29,000.

Chart 4.6 Productivity in the solid waste management and recycling sector and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Overview of Existing Challenges and Opportunities

The key challenges faced by the sector representatives remain mostly homogeneous across waste streams. The sector has significant potential to upgrade, given that it does not currently operate at its full production capacity. Pertinently, producers suffer from a permanent shortage of waste used as a raw material in the manufacturing process. In this regard, there are two regulatory changes that, if implemented successfully, might solve the problem of raw material shortage in Georgia. However, there has been no major developments in none of these directions as for January 2022.

First, the absence of separated waste collection practices is considered a major obstacle at the national level. There have been several significant steps taken in Georgia recently to create a more environmentally friendly and robust waste management system. For instance, the Georgian Waste Management Code (WMC), adopted in 2015, obliged municipalities to collect municipal waste and gradually introduce and properly establish separated waste collection practices. Nonetheless, the implementation of the WMC has been poor, even in Tbilisi municipality, which is often recognized as a frontrunner in implementing the green agenda. Businesses operating in different waste streams have been competing over available waste resources nationwide. Additionally, due to bureaucratic barriers some companies cannot access municipal waste at landfills in order to obtain the necessary inputs for their production. Outbreak of Covid-19 and subsequent economic crisis further impeded access to raw inputs following the slowdown in business activities and waste generation.

Second, to promote waste sorting by private sector representatives, as stipulated by the WMC, Georgia is in the process of implementing an innovative policy approach known as Extended Producer Responsibility (EPR). EPR obliges producers/importers of products that become specific waste to properly organize, collect, and treat their generated waste. EPR relates to the following waste streams: packaging; electrical and electronic equipment; end-of-life tires; used oils; end-of-life vehicles; used batteries; and accumulators. As of January 2022, implementation of EPR is postponed until summer 2022 mainly due to lack of capacities and readiness in both public and private domains. According to the sector representatives, growth in all sectoral parameters is conditional on adequate implementation of the two above-mentioned legislative obligations, namely separated collection of municipal waste and EPR.

While the local availability of inputs is critically limited, only a small share of the raw materials utilized in the production process are imported. There has been a precedent set for waste imports in Georgia but only in small amounts. As revealed in the course of the interviews, Georgia is moving towards further restricting imports of unprocessed plastic waste on its territory. From an efficiency point of view, this initiative might have a reasonable rationale behind it, considering the environmental consequences of unprocessed waste imports and the amount of unutilized waste already in the country.

Packaged goods produced in the sector cannot properly compete with imported products. In addition, the majority of final manufactured goods in the sector are of moderate quality due to the outdated machines used in the production process. Moreover, the absence of economies of scale increases prices for packaged goods and makes domestic firms less competitive against importer companies. Upgraded production lines would however increase the value-added of final products.

Restricted access to finance was named as a core hindrance to updating the technological base of the companies engaged in waste recycling. However, recently Enterprise Georgia amended its programs to cover solid waste management and recycling activities. To properly exploit this opportunity, businesses in the sector need to undertake functional training on how to apply for such financing schemes. The Waste Management Association (WMA) operating in this sector is envisaged to have an institutional role in taking up this responsibility.

The relatively low quality of final products also explains why businesses representing the sector in Georgia lack a competitive advantage on international markets. Most of the interviewed manufacturers declared having no export orientation in their operations. Nevertheless, some examples of exported recycled products were mentioned including PET⁵² bottle flakes, glass, paper packaging materials, tire rubber granules, biodiesel, and electrical and electronic equipment. In this regard, synthetic fiber, final product of Polyvim LLC is projected to have substantial export potential. Representative of LTD Bio Diesel Georgia additionally highlighted that export orientation was part of their survival strategy amidst pandemic, as demand on their production dropped on the local market.

Local competition between manufacturers in the sector differs depending on the specific type of waste. In some cases, there is a solitary company on the market recycling the given type of waste, while in other cases there are several producers competing over the available amount of waste resources. The situation has not changed noticeably in the second quarter of 2021. Moreover, due to a lack of standardization requirements in Georgia, there are cases when specific types of waste go to the producer who lacks certification and might be unaware of the specificities of the corresponding recycling process. Such practices might bring lasting harmful consequences when it comes to, for instance, used cooking oils that can damage human physical health. In this regard, the interviewees highlighted the importance of introducing standardization requirements for businesses operating in the country's solid waste management and recycling sector.

Some interviewees highlighted that the sector lacks both foreign and domestic investments. Georgian investors are generally reluctant to fund projects related to waste management due to a lack of familiarity with the specificities of these economic activities, while foreign investors lack trust in Georgian waste management practices. The only known case of significant investment in the sector is that of Polyvim LLC, an Iranian venture constructing a PET bottle recycling factory in Georgia. Moreover, green loans available at Georgian banks were said to be unattractive for businesses due to their high interest rates. However, while investments and bank financing are lacking, international

⁵² Polyethylene Terephthalate

organizations actively support the improvement of Georgia's waste management sector. For instance, the European Bank for Reconstruction and Development (EBRD) recently extended its sovereign loan to Tbilisi municipality to upgrade the leachate system at Tbilisi's solid waste landfill⁵³.

Private sector consolidation in this sector is high. The majority of market players are members of the Waste Management Association (WMA), which unifies 25 members, with no addition in the last quarter. However, the association projects that its members will soon surpass 30. The Association has different service offerings for the sector representatives, including networking, advocacy, technical assistance, and information-sharing. It also plans to conduct a series of trainings regarding compliance audit of labor safety and environmental protection. Through the Association, member companies participate in international fairs and exhibitions as well.

The WMA has been engaged in several multi-sectoral partnerships, such as, for instance, a memorandum signed by the association itself, Tbilisi City Hall, Tbiliservice Group, and Caucasus Environmental NGO Network (CENN). As a pilot project, the memorandum envisaged placing bins for separated waste collection in different parts of Tbilisi. The partnership agreement sought to accomplish piecemeal introduction of separated waste collection practices in Tbilisi municipality in line with the WMC. However, the partnership turned out to be a one-off and has not been continued. Nevertheless, in partnership with Rustavi City Hall, the WMA has planned to introduce separable recycle bins across Rustavi municipality. After separate collection of waste, the Association will ensure distribution of the collected raw materials to respective companies operating in the sector. No major progress has been carried out in this direction in the light of recent municipal elections in Georgia, as WMA representative reported.

Considering its sporadic nature, public-private partnership and the level of cross-sectoral dialogue has been assessed as low for the waste management and recycling sector. However, a better understanding of the capacities of the parties participating in the waste management would unleash significant potential to yield lasting positive impacts when it comes to the development of this sector.

⁵³ More information available at: <https://www.ebrd.com/news/2021/ebird-supports-solid-waste-management-in-tbilisi.html>

5. SHARED INTELLECTUAL SERVICES

SECTOR SUMMARY

Under the shared intellectual services sector, this report observes economic trends in Business Processes Outsourcing (BPO) Value Chain. Two business activities of the BPO value chain are covered in this given quarterly analysis: Human resource management (HRM); and customer relations management (CRM).

As the survey results for the CRM and HRM show, the majority of surveyed companies of both business activities were small businesses, with turnover below GEL 100,000. Moreover, a significant proportion of the CRM and HRM companies (57% of HRM companies, and 83.3% of CRM companies) reported an increase in turnover compared to Q3 2020. Despite the positive tendencies, on average, the HRM business activity presented 10% decline in turnover, while the CRM recorded a moderate increase of 10%. As for employment, the majority of companies from HRM activities (100% of HRM companies) reported no change in their number of employees compared to Q3 2020, while 71.4% of CRM companies indicated growth in employment.

HUMAN RESOURCE MANAGEMENT (HRM)

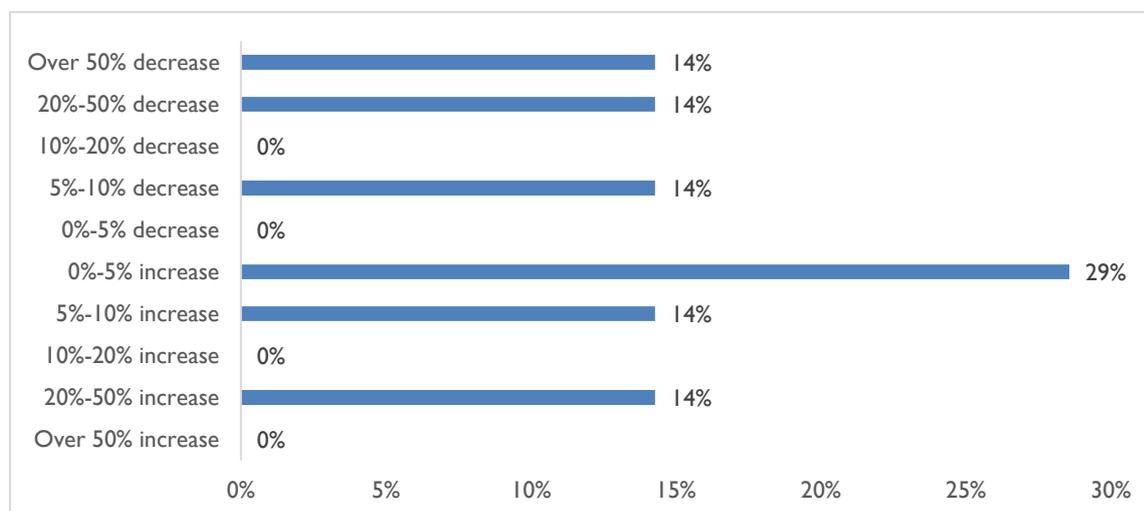
Quantitative Survey Results

In this section, the dynamics of HRM business activity is assessed based on a quantitative survey conducted with seven HRM companies. The surveyed firms were predominantly small-scale businesses providing outsourcing of HRM services, recruiting, and organizing trainings. The majority of them are based in Tbilisi, albeit there are also Batumi- and Mtskheta-Mtianeti-based companies.

The surveyed firms are mainly Limited Liability Companies (LLC). The declared turnover of every surveyed firm was under GEL 0.1 million.

In Q3 2021, the rebound in the economic growth for surveyed companies seems to have slowed down, as the decline in turnover has been reported by 43% of surveyed companies, the rest indicating increase in their turnover (57%) compared to Q3 2020 (Chart 5.1).

Chart 5.1 Percentage Distribution of Turnover Growth Rates in the HRM Value Chain, 2021 Q3 (Y-o-Y)



Source: Authors' calculations

On average, the turnover growth rate in HRM companies constituted -10% in Q3 2021, compared to the same quarter of the previous year.

The number of employed people in HRM companies in Q2 2021 varied between 2 to 22, the median number being 3 employed persons. At the same time, share of women in those firms equaled 40% and the proportion of staff aged under 30 years has been 21%. Employment in 100% of the companies did not change in Q3 2021 compared to the same quarter of the previous year.

57% of surveyed companies reported no change in salaries in Q3 2021 compared to the same period of the previous year, 14% reported a decrease and the remaining 29% reported an increase in salaries.

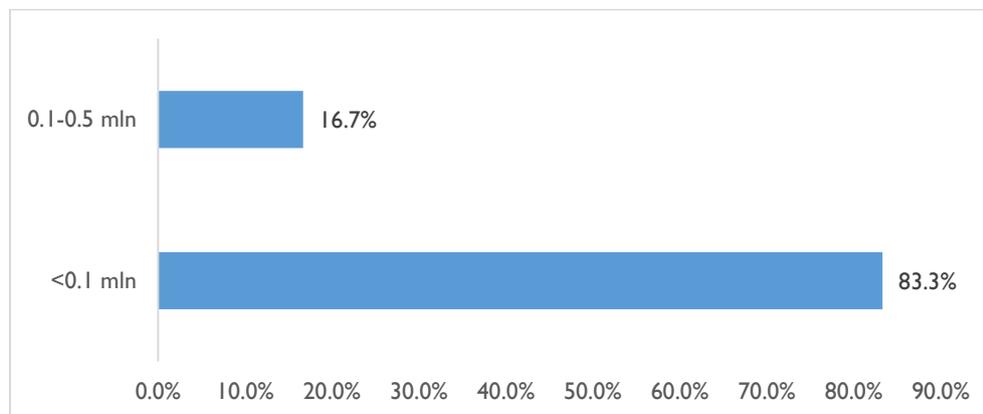
CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

Quantitative Survey Results

In this section the dynamics of CRM business activity is assessed based on a quantitative survey conducted with six CRM companies. Surveyed firms were all small-scale businesses, providing outsourcing of CRM services. Most of them are based in Tbilisi (with one company having branches in Batumi and Kutaisi as well), albeit there is also Akhaltsikhe-based company, providing call-center services.

Surveyed companies are mostly limited liability companies (LLC). In Q3 2021, 83.3% of them declared to have turnover below GEL 0.1 million, while 16.7% of them stated to have turnover between GEL 0.1-0.5 million (Chart 5.2) and one of the surveyed companies did not answer to this question.

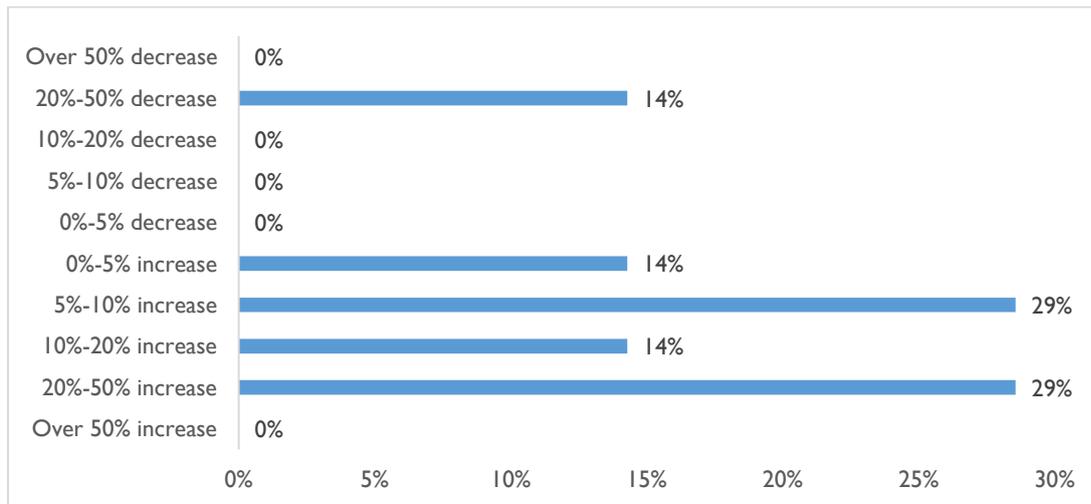
Chart 5.2 Distribution of CRM Companies by Turnover Range, 2021 Q3 (Gel)



Source: Authors' calculations

In Q3 2021, the rebound in the economic growth seems to influence positively the turnover growth for surveyed companies. 86% of surveyed companies reported increase in turnover utmost 50%, compared to Q3 2020. The rest 14% of companies indicated the decline in their turnover up to 50%. (Chart 5.3).

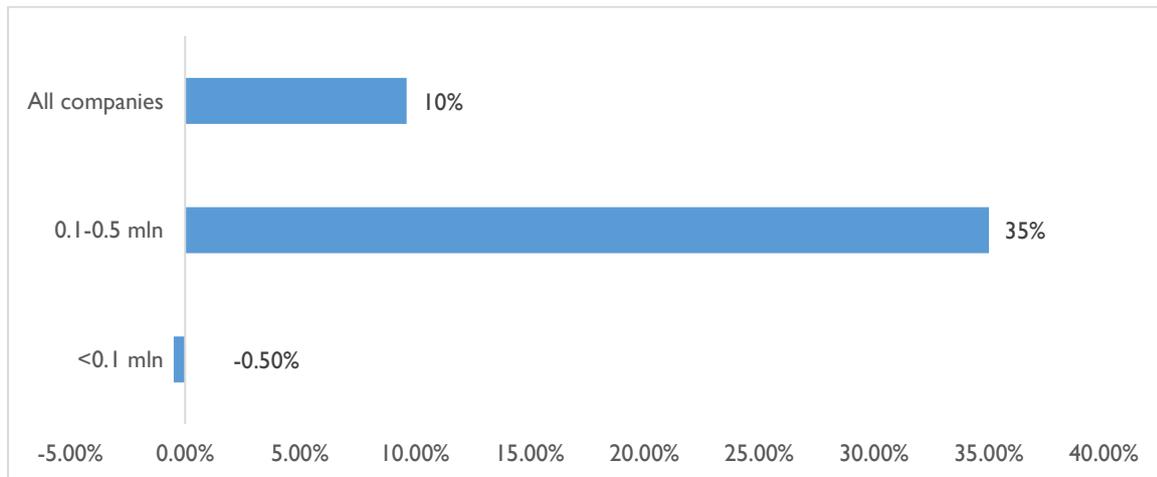
Chart 5.3 Percentage Distribution of Turnover Growth Rates in the CRM Value Chain, 2021 Q3 (YoY)



Source: Authors' calculations

On average, the turnover growth in CRM companies constituted 10% in Q3 2021 compared to the same quarter of the previous year. Companies with turnover between GEL 0.1- 0.5 million have experienced growth of 35% (Chart 5.4). The small firms only have reported a slight decline by 0.5% on average.

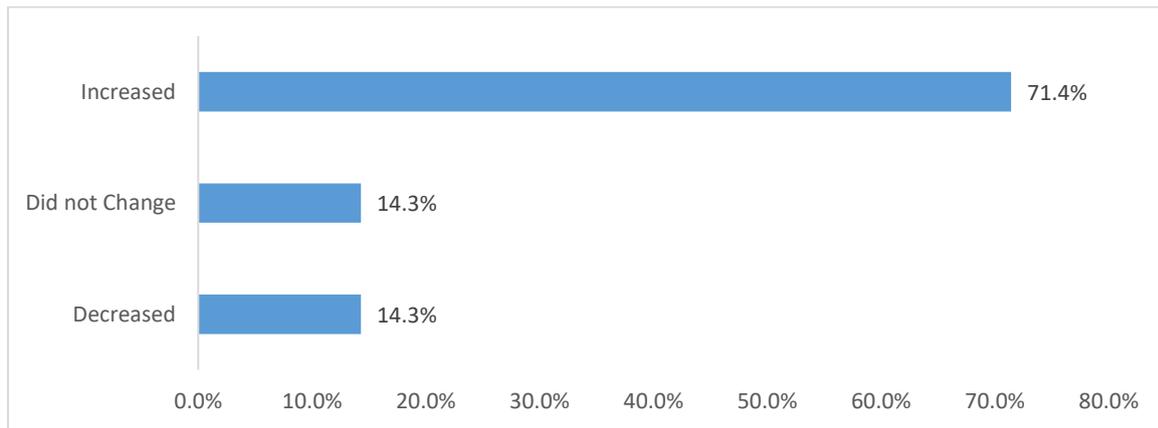
Chart 5.4 Distribution of CRM Companies Growth Rates by Turnover Range, Q3 2021 (Y-o-Y)



Source: Authors' calculations

The number of employed people in CRM companies in Q1 2021 varied between 1 and 2,546. The share of women equaled 65.7% and the proportion of staff aged under 30 years was almost 44%. For 14.3% of companies, the number of individuals employed did not change in Q3 2021 compared to the same quarter of the previous year, while 71.4% of companies increased their number of employees. 14.3% of firms reported decline in the employment (Chart 5.5).

Chart 5.5 Change in employment, Q3 2021 (Y-o-Y)



As for the average monthly salaries, in Q3 2021, 42% of firms reported a rise in monthly salaries compared to Q3 2020.

6. CROSS-CUTTING SECTORS

SECTOR SUMMARY

Rebounding economy in the second quarter of 2021 was coincident with the rebound in cross-cutting sectors, even when loosening pandemic-related restrictions could act negatively for ICT and ecommerce VCs, as the two in fact got a slight boost by the pandemic-related restrictions. This trend continued further in Q3 2021, hinting at possible permanent nature of the shift towards digital economy.

However, this rebound in turnover has not affected employment numbers. The ICT sector experienced growth in all key indicators except for employment in Q2 and Q3 of 2021. This combination of rising turnover and output and falling employment has resulted in significant growth of the VCs productivity.

E-commerce transactions have continued their strong growth trajectory which started since Q2 of 2020, both, in terms of number and value of transactions. Interestingly, the share of gambling sector in total virtual transactions has declined significantly when compared to pre-pandemic levels, representing 69% of the number of transactions in Q3 2021 compared to 86% in Q2 2020. Overall, the expected decline of the number of transactions after loosened restrictions has not occurred, with the number of transactions decreasing just by 0.1 million (from 24.6 million to 24.5 million).

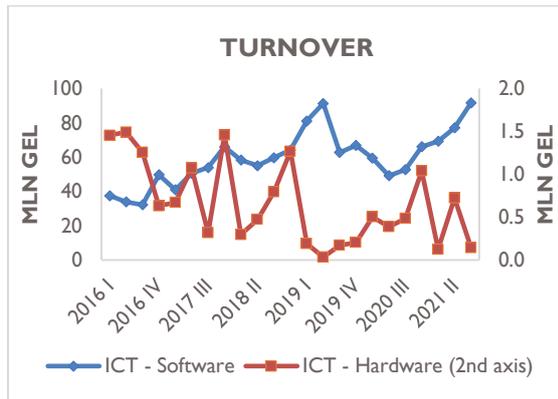
Unfortunately for the transport and logistics value chain, the airline industry was hit the hardest as there was no flexibility in contrast to other sectors of the value chains, with the decline continuing throughout Q1 2021. The transport and logistics VC experienced its first growth since the start of the pandemic in Q2 2021, growing by 25.9% in turnover, and again in Q3, growing by 4.2% YoY. This recovery has been paired with the rebound of external trade in Q2 and Q3 of 2021. Moreover, the VC's other key indicators, such as employment, average monthly salary and productivity have also increased when compared to Q3 2020 and Q2 of 2021. This strong recovery has been fueled by the rebound of air transport, remaining subdued up until Q1 of 2021.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

Interestingly, Information and Communications Technology (ICT) is a value chain that had shown significant expansion during the pandemic as there was higher demand for digital technology due to nationwide stay-at-home directives not only in Georgia, but globally as well.

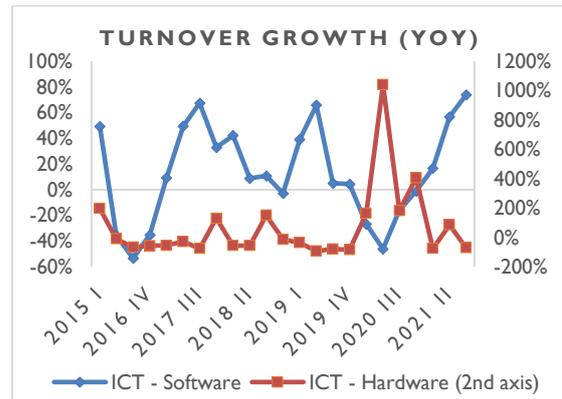
According to Geostat's "Indicators of using information and communication technologies (ICT) in households" report, 86.1% of Georgian population has internet access in 2021, compared to 70.1% in 2016, 79.3% in 2019 and 83.8% in 2020. This indicator is higher in urban areas (91.4% in 2021) and lower in rural areas (78.9%). This rising trend in internet access is acting as a further fuel in the usage of ICT in Georgia.

Chart 6.1 Turnover of the ICT value chain, divided by software and hardware



Source: National Statistics Office of Georgia

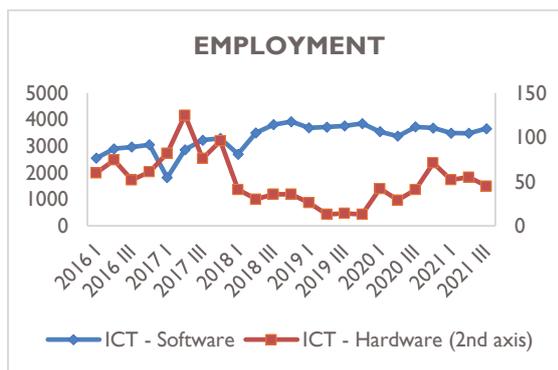
Chart 6.2 Annual growth rate of the ICT value chain, divided by software and hardware



In Georgia, the ICT software value chain is far larger than the hardware, reaching a turnover GEL 91.6 million in Q3 2021, while in contrast, the ICT hardware value chain amounted to a turnover of just GEL 0.1 million, highlighting the difference in size between the two value chains. Despite full reopening of the economy in Q2, the demand for software has not declined, conversely, it has increased further in Q3, growing by 73.9% compared to Q3 2020 and by 46.1% compared to Q3 2019.

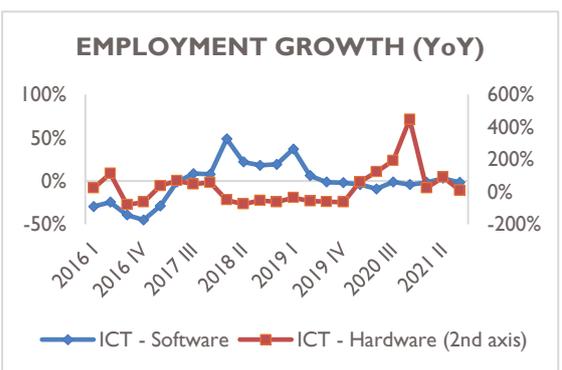
The ICT hardware value chain has experienced pronounced seasonality over the years, with its turnover increasing in Q4 (most probably attributed to increased sales of hardware in the winter holiday season) and a decline in following quarter (except for Q1 2020, when pandemic-related demand fueled the turnover). The similar trend was observed in Q4 2020 and Q1 2021. In Q2 2021, similar to the software VC, the demand has not dropped despite reopening, however, in Q3, the turnover again declined.

Chart 6.3 Employment in the ICT value chain, divided by software and hardware



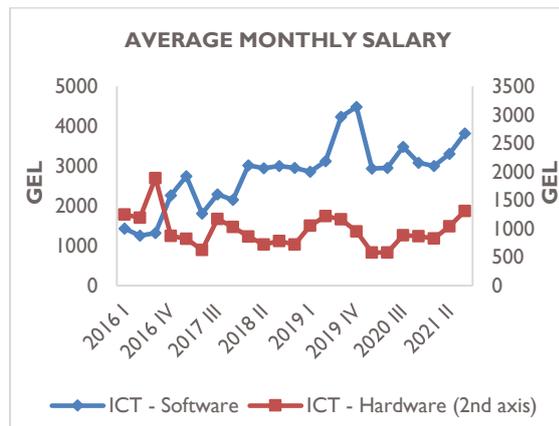
Source: National Statistics Office of Georgia

Chart 6.4 Growth rate of the ICT value chain's employment, divided by software and hardware



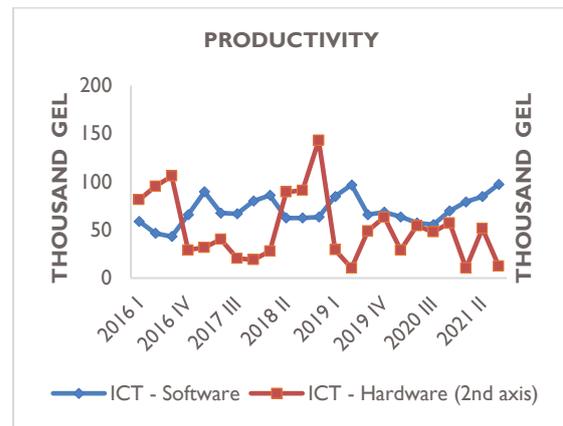
The software value chain employed 81 times more employees than the hardware value chain, having employed 3 663 employees, compared to 45 in the hardware value chain in Q3 2021. Employment in both VCs have increased in Q3 2021 compared to previous quarters.

Chart 6.5 Average monthly salary for the ICT value chain, divided by software and hardware



Source: National Statistics Office of Georgia

Chart 6.6 Productivity for the ICT value chain, divided by software and hardware



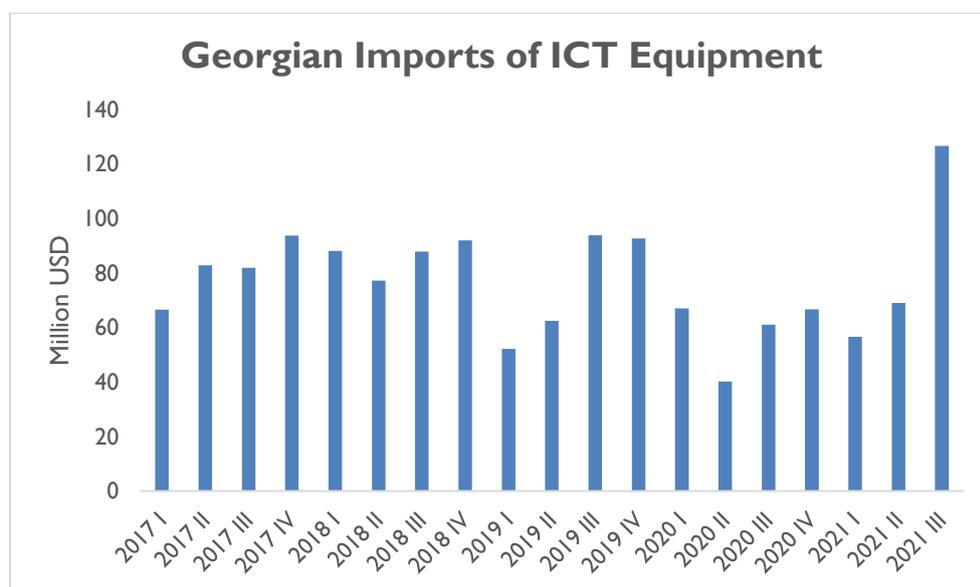
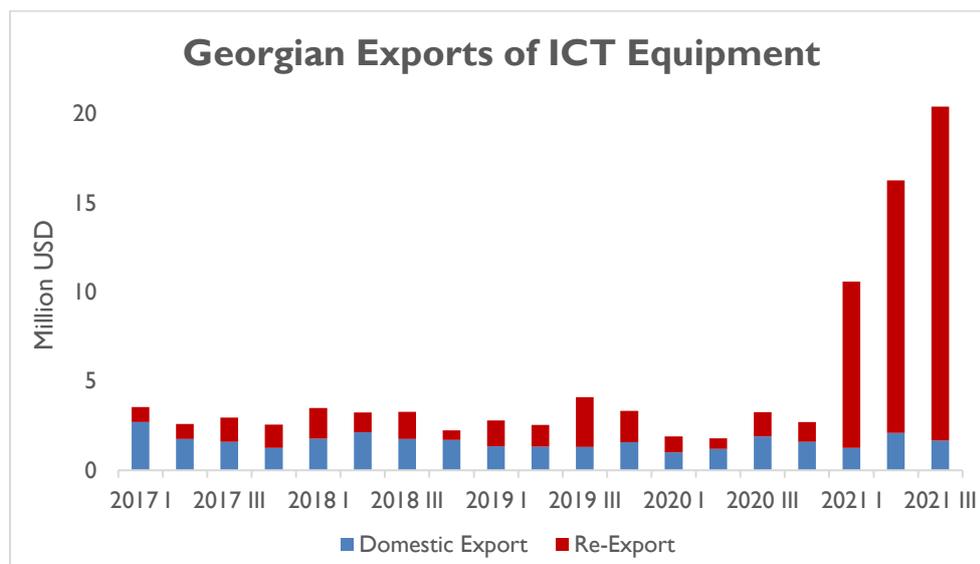
Average monthly salary in the software value chain has been relatively stable since the start of the pandemic, after declining significantly in Q1 2020 compared to the previous quarter. In Q2 2021, salaries in the VC have increased slightly compared to both, Q1 2021 and Q2 2020. In Q3 this growth has continued, with salaries growing by 26.0% compared to Q2 2021 and by 48.9% compared to Q3 2020. Salaries in hardware VC, albeit much lower than those in software VC, have also suffered due to the pandemic, and have also been relatively stable over the course of the pandemic. However, in Q2 2021 and Q3 2021 the average monthly salary has increased both compared to Q2 2021 and Q3 2020.

During 2020, the productivity of ICT software VC has remained stable, declining slightly quarter over quarter. In Q4 2020, an increase in productivity of the VC started, followed by another increase in Q1 2021 and Q2 2021. In Q2 2021, productivity of the VC is 7.4% higher than in Q1 2021 and 47.8% higher than in Q2 2020, while in Q3 2021 this growth has continued.

Georgia is primarily an importer of ICT equipment rather than an exporter. In Q2 2021, the value of the imports reached USD 69.0 million, compared to the exports which were USD 14.1 mln. In Q3, 2021 the value of the imports picked up to USD 126.6 million, which was 84% higher compared to the Q2 2021, 108% higher compared to the same period in 2020 and 35% higher compared to the same quarter of pre-pandemic 2019. Meanwhile, the exports, that as usual are significantly lower than imports, have also grown to the pick of USD 20.4 mln, which was 25.4% higher than previous quarter, 524.1% higher than Q3 2020 and 398% higher than Q3 2019.

It is worth noting that out of these exports, 91.8% were re-exported. Moreover, this extraordinarily high increase in exports, that was observed in first three quarters of 2021, was mainly due to jump in re-exports of ICT equipment. This is highly attributed to an abnormal increase in digital processing units re-export from Georgia to Ukraine in February, March and April, and to Azerbaijan from May till September. Notably, the imports seem to correlate well with the total turnover of the ICT, while exports don't seem to be following any long-term patterns.

Chart 6.7 Georgian exports and imports of ICT equipment



Source: National Statistics Office of Georgia

28% of imported ICT equipment in Georgia over the period of past year (October 2020-September 2021) come from Hong-Kong, 21% from the United Arab Emirates, 12% from Russia, 10% from the Czech Republic, 8% from China, and 21% from other countries. Unlike the imports, the domestic exports are predominantly concentrated among countries with a closer geographic proximity to Georgia, where 28% of ICT equipment exported go to Armenia, 23% to Israel, 11% to Azerbaijan, 7% to Ukraine, 4% to the United Arab Emirates and 27% to other countries.

Chart 6.8 Georgian imports of ICT equipment by trade partner (Q3 2021)

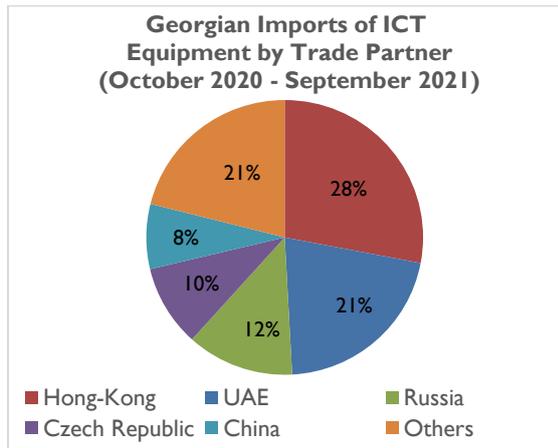
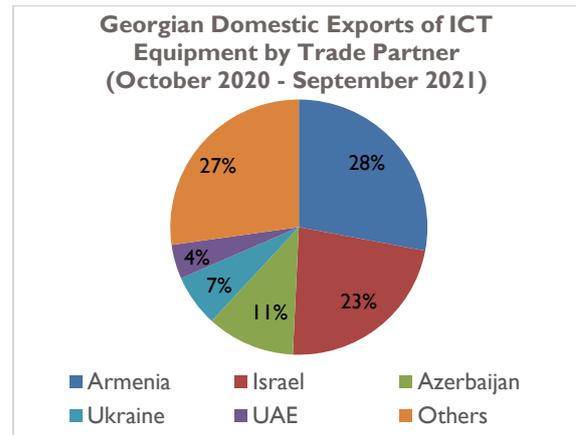


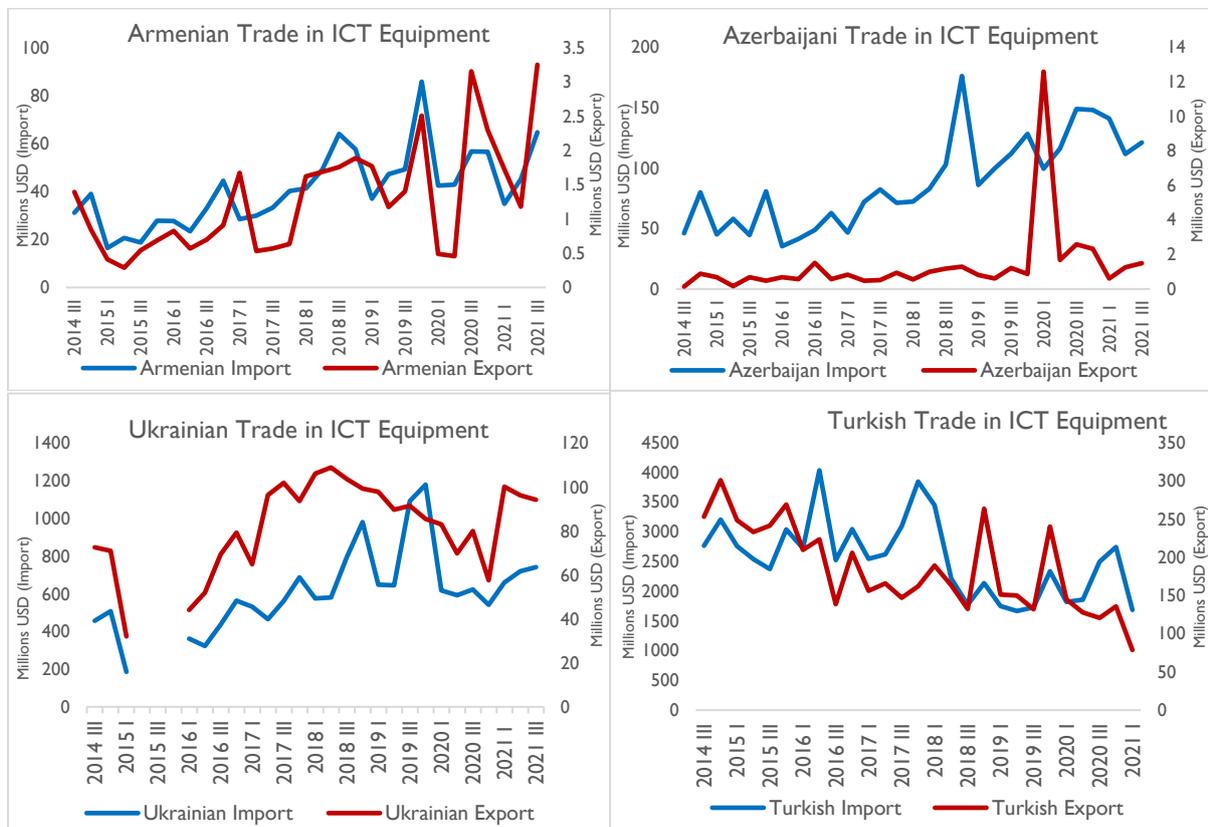
Chart 6.9 Georgian exports of ICT equipment by trade partner (Q3 2021)



Source: National Statistics Office of Georgia

On the regional level, Turkey is the largest importer and exporter of ICT equipment among all 4 countries. In January and February of 2021, Turkey imported roughly USD1.7 billion worth of ICT equipment, while exporting USD78.6 million, while there is no data available on Turkish Trade of ICT equipment for March and Q2 2021. This is in stark contrast to Armenia, Azerbaijan, and Ukraine, which imported roughly USD35.0 million, USD141.0 million, and USD660.3 million respectively, and exported roughly USD1.7 million, USD0.6 million, and USD100 million respectively, in Q1 2021. There is no significant ICT production sector in any of these countries, which makes their exports limited in scope compared to their imports.

Chart 6.10 Regional trade patterns in the ICT value chain



Source: UN Comtrade

E-COMMERCE

For many years, e-commerce has been considered a niche segment of the wholesale and retail trade sector. However, this perception has changed globally as e-commerce value chains have become among the most dominant and fastest growing in modern times. The ongoing pandemic has further cemented e-commerce's place as a vital part of the economy and, as the data show, Georgia is no exception.

Important to highlight that, as set out in the methodology, the Geostat data applied for the e-commerce value chain analysis depicts economic activities only of those enterprises that operate under the Nace code 47.9 "Retail trade not in stores, stalls or markets", the closest statistical classification of E-commerce. Nevertheless, as the qualitative analysis revealed, there might be a number of enterprises at the market engaged in e-commerce but operating within different economic activity Nace code (for example as a distribution company), making it impossible to distinguish and include their data in our analysis.

The analysis of the e-commerce sector in 2020 up to the 3rd quarter of 2021 uses the transactions via bank cards (VISA, MasterCard, etc.) online. Notably, a part and not the whole of the transactions with bank cards would be part of the turnover, as some corporations are labelled under different sectors. Thus, an assumption will be made that the data will reflect non-cash operations of e-commerce companies, and the gambling sector is also presented for a comparison.

Chart 6.11 Number of online transactions in Georgia decomposed by gambling and e-commerce

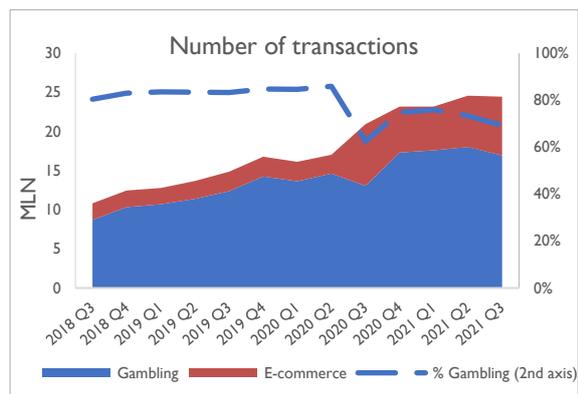
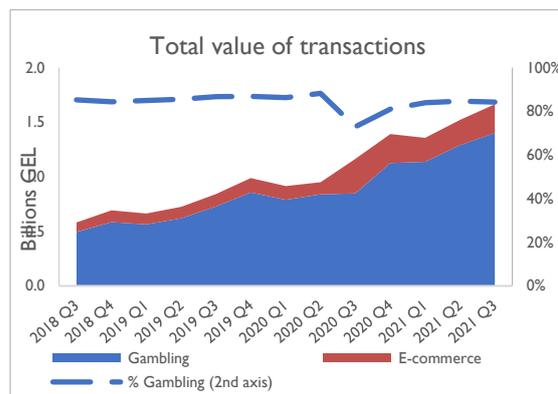


Chart 6.12 Total value of online transactions in Georgia decomposed by gambling and e-commerce



Source: National Bank of Georgia

While the online transactions excluding the gambling sector often hovered around 20% of the total operations from the 1st quarter of 2018 up to the 2nd quarter of 2020, from the 2nd quarter to the 3rd quarter of 2020, the overall share of the sector increased from 14% up to 38%. This increase was due to two key reasons: The pandemic led consumers to rely on online stores more as traditional stores were less available, while having less money to spend in total. The share of gambling recovered slightly in the subsequent quarters up to 73% at the 2nd quarter of 2021 and 69% in the 3rd quarter, but did not return to pre-2nd quarter of 2020 levels, mainly due to a permanent nature in the shift in terms of e-commerce transactions. Due to the approval of new restrictions on the gambling sector by the Parliament of Georgia in December 2021, the share of the gambling sector is expected to decrease further from 2022.

With the recovery of the Georgian economy in the 2nd quarter of 2021, overall, total e-commerce transactions have increased both in quantity and in value when compared to the 1st quarter of 2021; having increased from 23.2 million up to 24.6 million in quantity, while in increasing in value from GEL

1.36 billion up to GEL 1.52 billion. This increase comes even despite loosening restrictions of the pandemic, with potentially more people utilizing cash operations rather than bank card operations. Even though in 3rd quarter total e-commerce transactions have slightly decreased in number (from 24.6 million to 24.5 million), they continued to increase in value amounting GEL 1.66 billion. This hints at more permanent nature of the shift to e-commerce, however, pent-up demand in Q2 and Q3 2021 could also be the key reason for this increase. Careful observation of evolution in e-commerce transactions in the subsequent quarters will allow to make more conclusive observations about the nature of the current increase, as while the pandemic forced people to utilize online stores and other forms of e-commerce transactions, they might continue to use these online and e-commerce transactions due to convenience, and an increased trust towards them.

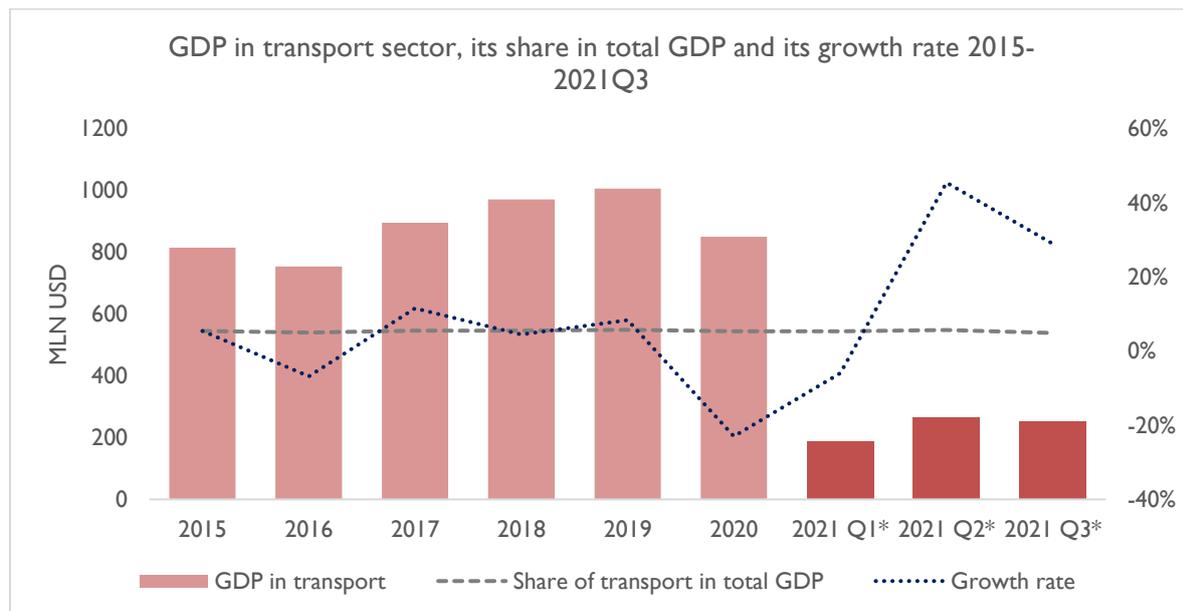
When it comes to online transactions made via non-Georgian bank issued cards, in Q3 2021 more than 99.9% are conducted in non-gambling e-commerce operations rather than gambling. The non-Georgian bank issued card E-commerce operations have a seasonal trend, whereby the 3rd quarters of every year reach local maximums as tourism usually increases at this time. Following this pattern, in Q3 2021, the number of non-Georgian bank issued card E-commerce operations reached 755 thousand, which was 2.1 time more than in Q2 2021 and 3.5 times more compared to Q1 2021. Moreover, the share of non-Georgian bank issues cards in total e-commerce generally is also low, amounting to just 3.1% of total transaction value in Q3 2021. Interestingly, in first three quarters of 2021 – with the loosening of COVID-19 restrictions – the quantity and value of abovementioned e-commerce transactions increased by a significant amount, reaching even higher than pre-pandemic levels, which might be explained by a tourism rebound.

As for online transactions made abroad via Georgian bank issued cards, they also almost fully consist of non-gambling e-commerce operations, with a share of 99.2% in Q3 2021. Interestingly, if we compare non-gambling e-commerce operations made via Georgian cards inside and outside country, higher number of operations is made inside country, however, the total volume of those operations is much lower compared to the volume of the transactions made abroad. In Q3 2021, if 6.8 million non-gambling e-commerce transactions were made in Georgia with Georgian cards, 4.7 million such transactions were made abroad. However, if total volume of those 6.8 million transactions that were made in Georgia amounted GEL 237 million, volume of 4.7 million abroad-made transactions was GEL 363 million. Thus, it can be implied that on average Georgian online-shoppers spend much more on goods they are purchasing from abroad, than the ones they are ordering inside country.

TRANSPORT AND LOGISTICS

Transport and logistics value chain is the largest VC among all cross-cutting value chains, as it includes rail transport, pipelines, taxi operations, air transport, water transport, postal courier services, warehousing activities etc. Due to the VC being intertwined with every other sector and playing a major role in domestic and international trade, it was significantly affected both by the recession and the subsequent economic rebound.

Chart 6.13 GDP of the transport and logistics value chain in Georgia



Source: National Statistics Office of Georgia

GDP of the transport sector in Georgia has been experiencing stable moderate growth, averaging yearly 4.6% in 2015-2019 period. In 2020, GDP of the sector suffered by a decline of 23.0%. In 2021, recovery is evident, with GDP of Q2 2021 GDP of Q2 2020 showing 45.5% YoY growth, while in Q3 2021 GDP experienced relatively lower growth of 29.0% compared to Q3 of 2020. However, it must be noted that GDP in transport in Q3 2021 exceeded the 2019 value of the corresponding period by 4.0%. The share of the sector in overall economy has been more stable, averaging 5.4 % in the period of 2015-2021 Q3.

Chart 6.14 Turnover of the transport and logistics value chain

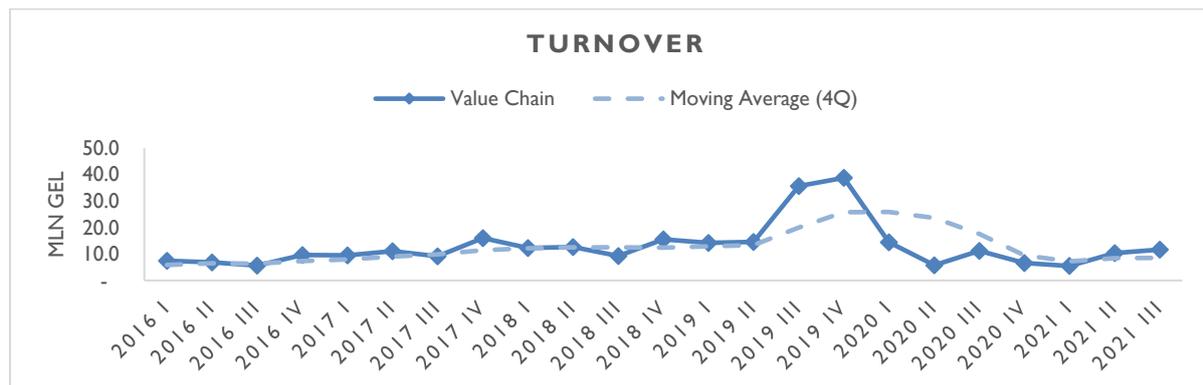
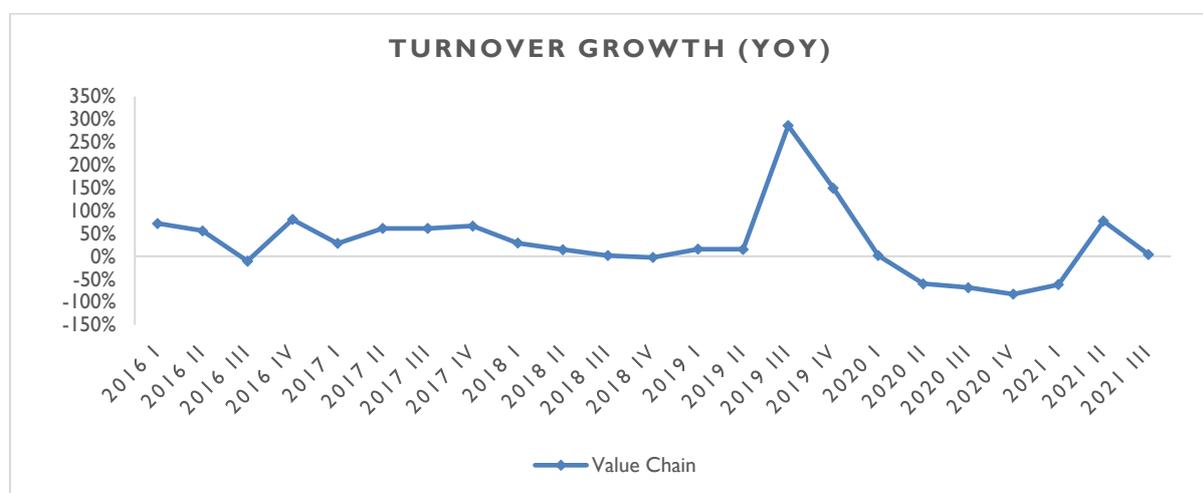


Chart 6.15 Annual growth rate of turnover for the transport and logistics value chain



Source: National Statistics Office of Georgia

After having experienced stable growth prior to the pandemic, the turnover of the transport and logistics value chain dipped 2020 and Q1 2021. In Q2 2021 and Q3 2021, VC's turnover saw a strong recovery. When Q3 2021 is compared to Q3 2020 – a growth of 28.6% was evident, reaching GEL 1.7 billion in absolute number. However, the recovery is only partially attributed to the low base effect, as growth was still present in comparison with Q3 of 2019 – 4.0%. Significant pick-up in exports and imports of Georgia can be considered as one of the main drivers of this growth.

Chart 6.16 Employment in the transport and logistics value chain

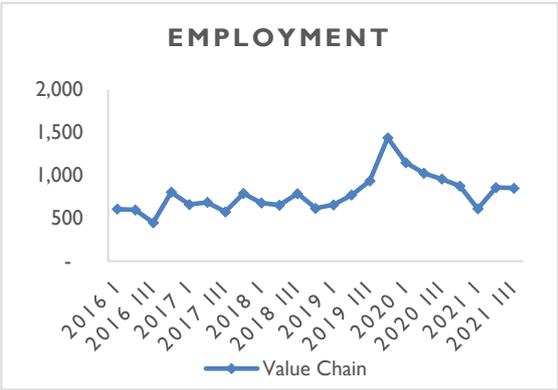
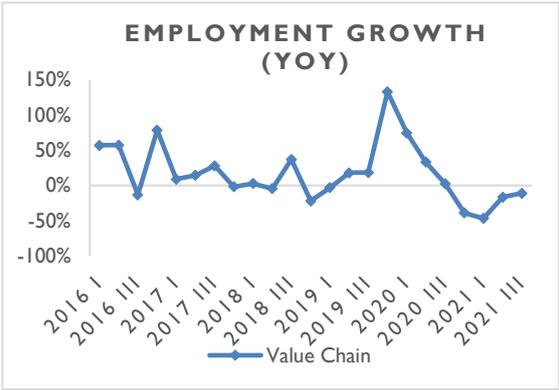


Chart 6.17 Growth rate of employment in the transport and logistics value chain



Source: National Statistics Office of Georgia

Employment in the VC saw a steady increase prior to the pandemic, gradually declining from 53.9 thousand in the 4th quarter of 2019 down to 46.5 thousand in the 1st quarter of 2021. Similar to turnover, Q2 2021 and Q3 2021 saw a rise in employment as well. Number of employees in the VC increased by 6.0% in Q3 2021 when compared to Q3 2020, and it also returned to Q3 2019 level.

Chart 6.18 Average monthly salary for the transport and logistics value chain

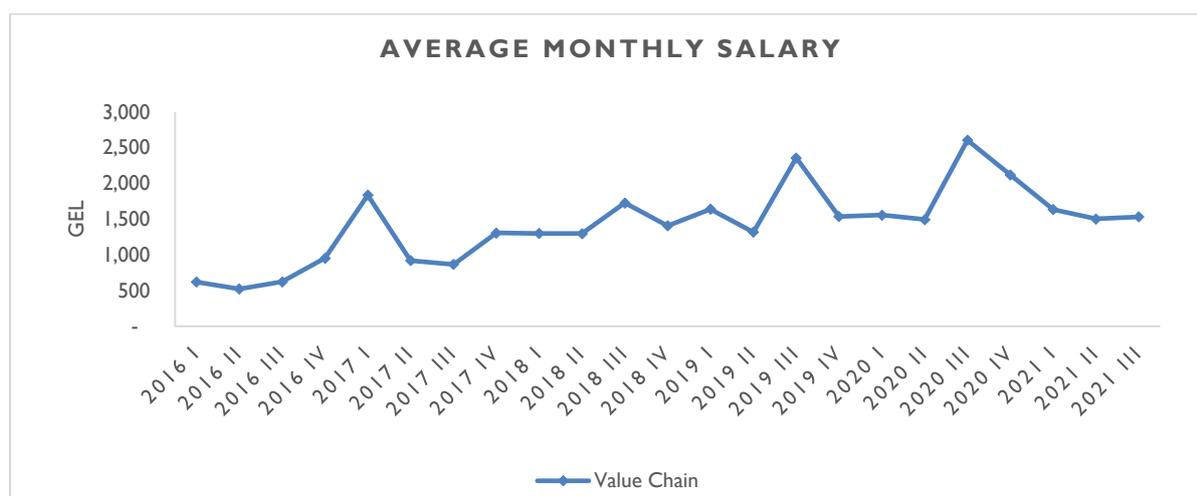
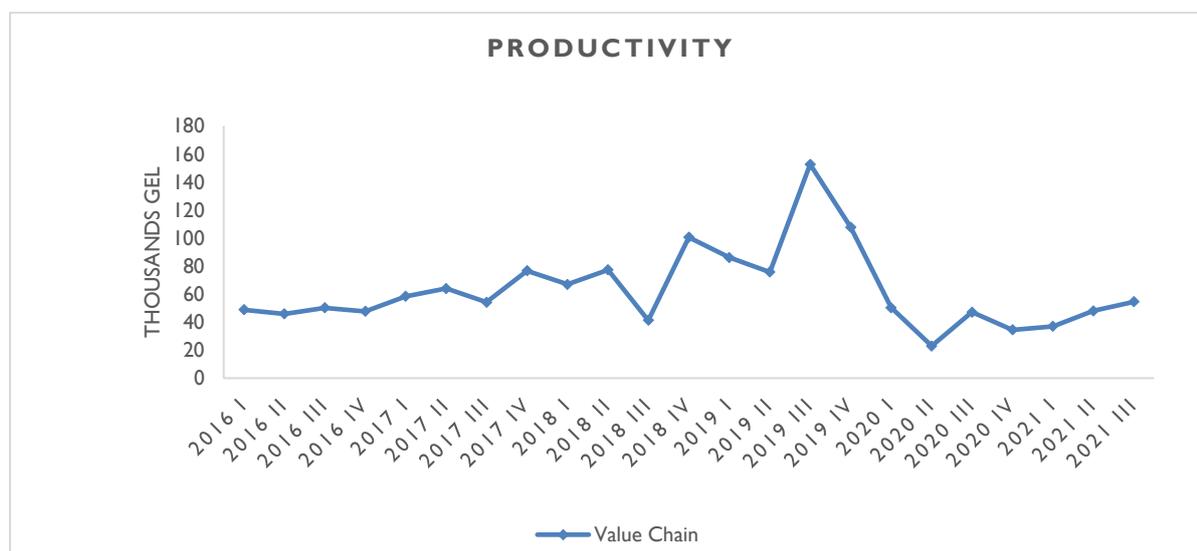


Chart 6.19 Productivity for the transport and logistics value chain



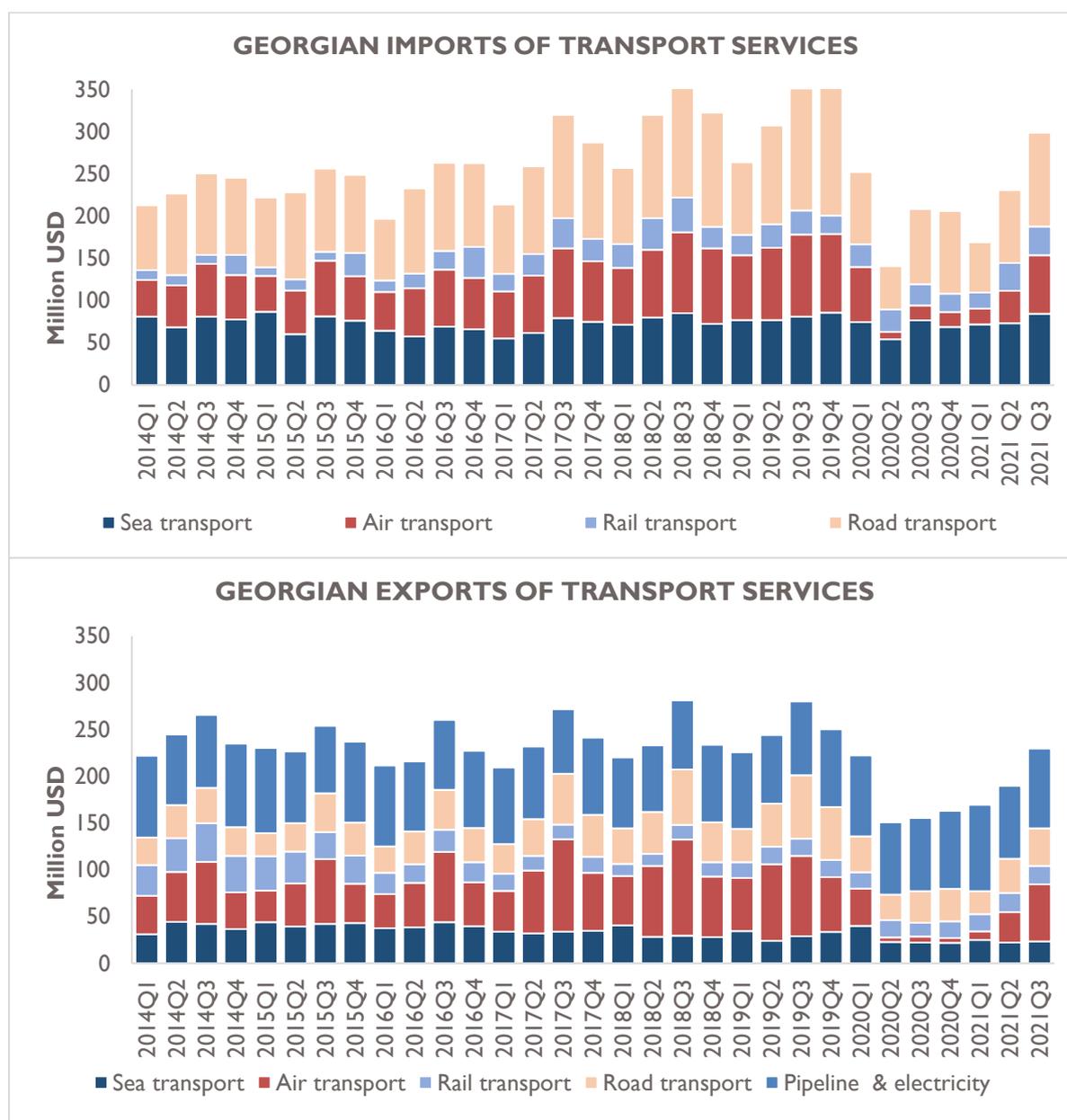
Source: National Statistics Office of Georgia

The average monthly salary for the transport and logistics value chain showed similar dynamics to turnover and employment, growing steadily before the pandemic, and then gradually declining until Q1 2021, with the recovery starting in Q2 2021. The only observed difference is a pick-up in Q4 2020 in average monthly salary, before dipping again in Q1 2021. In Q2 2021, average monthly salary reached GEL 1653, growing by 19.7% compared to Q2 2020 and by 13.2% compared to Q2 2019. In Q3 however, monthly salary declined compared to the previous quarter. When compared to Q3 2020 and Q3 2019, it showed a growth of 8.7% and 3.5%, respectively.

Productivity of the VC shared the dynamics of average monthly salaries; however, it was far more volatile. In Q3 2021, productivity increased by 18.9% compared to Q3 2020 and by 4.0% compared to Q3 2019.

Finally, as mentioned before, the sector is highly dependent on the performance of the overall economy, and with the recovery picking pace in the remainder of 2021, the transport and logistics VC is also expected to expand in the upcoming quarters.

Chart 6.20 Georgian imports and exports of transport services



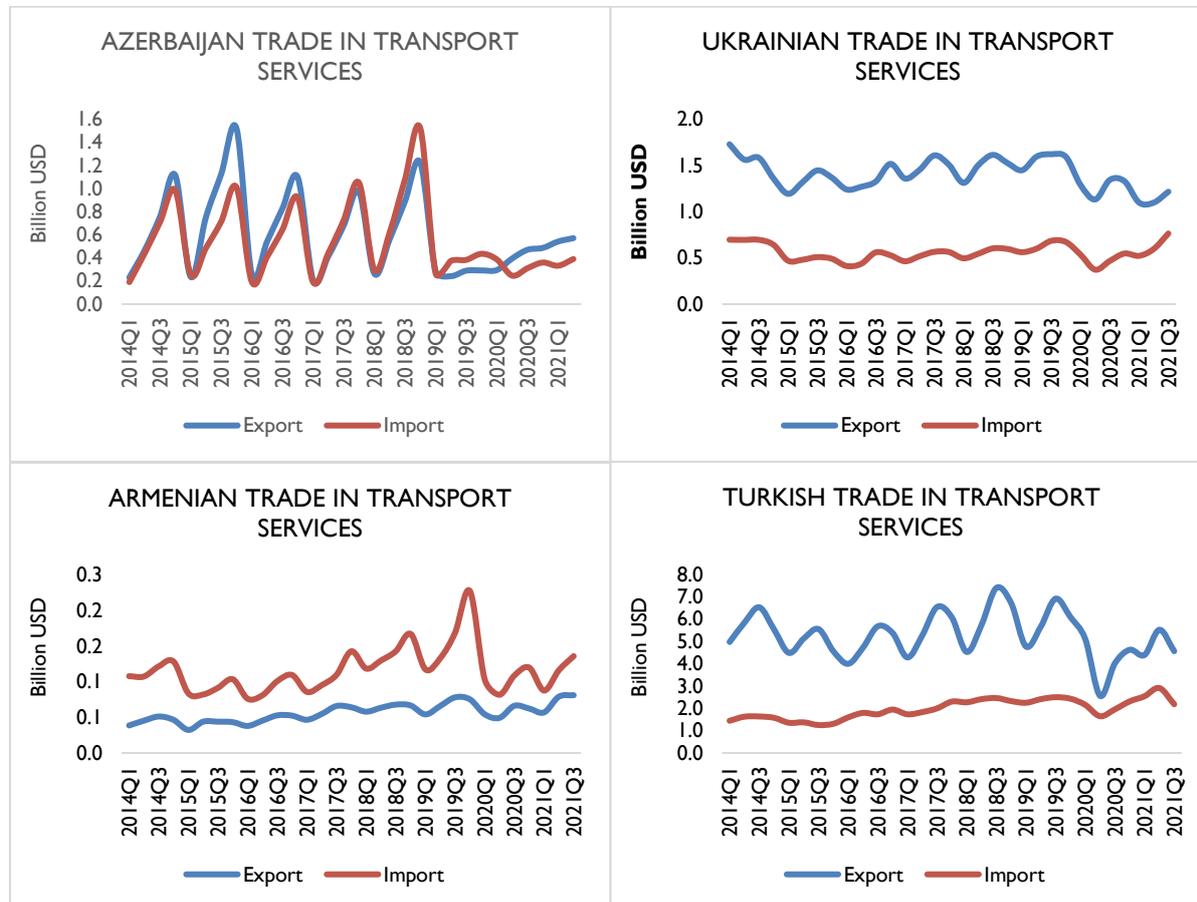
Source: National Bank of Georgia

Trade in the transport and logistics sector was heavily impacted by the pandemic, mainly due to disruption of aerial transport for a full year starting from Q2 2020. Since Q1 2021, a recovery in Georgian imports of air transport services is visible. In Q3 import of air transport services has shown strong YoY growth of 290.5%, however it is still 28.4% lower when compared to Q3 2019. Strong growth is visible in rail transport, with YoY growth in Q3 2021 at 35.6% and 18.5% growth when compared to Q3 2019. Overall, transport service imports managed to grow by an impressive 43.3% YoY but remain 14.9% lower when compared to Q3 2019.

As for the exports of the trade services, air transport again showed the most significant YoY recovery, with a growth rate of 835.4%. However, when compared to Q3 2019, the decline of aerial exports was 29.2%. Sea transport and road transport exports also remain below 2019 levels. Overall, transport service exports managed to grow by 47.7% YoY, but remain 17.9% lower when compared to Q3 2019.

Overall, trade in transport services recorded a deficit of USD 68.8 million, with lagged recovery in road exports and strong railway and air transport import dynamics being the main contributors to turning mild surplus of Q1 2021 to a deficit.

Chart 6.21 Regional trade patterns in the transport and logistics services



Source: Respective central banks

In Q3 of 2021, Armenian transport service exports grew by the most (by 22.4%) compared to Q3 2020 and even surpassing Q3 2019 levels by 3.9%. Turkish growth was also strong, with a YoY 13.5%, however exports remained 34.1% lower compared to Q3 2019. As for Ukraine, it has not yet managed to recover neither to Q3 2020 export level (-9.5%) nor to Q3 2019 level (-25.0%)⁵⁴.

As for transport service imports, Ukraine saw the highest growth, increasing by 63.4% YoY and by 11.5% compared to 2019. Followed by Armenia and Turkey, with YoY growth rate of 25.1% and 11.6%, respectively. When compared to 2019, transport imports decreased significantly both in Armenia (by 19.5%) and in Turkey (12.6%).

⁵⁴ Data for Balance of Payments of Azerbaijan is not available yet

APPENDIX I- NACE codes

Value Chain	Economic Activity Classification for Trade Data		Economic Activity Classification for Business Registry Data		Economic Activity Classification for Business Survey Data	
	NACE	Description	NACE	Description	NACE	Description
Any type of media content production			59.1	Motion picture, video and television programme activities	59.1	Motion picture, video and television programme activities
Post-production						
Artisan			N/A		N/A	
Furniture	31	Manufacture of furniture	31	Manufacture of furniture	31	Manufacture of furniture
	15.11	Tanning and dressing of leather; dressing and dyeing of fur	16.1	Sawmilling and planing of wood	16.1	Sawmilling and planing of wood
	16.1	Sawmilling and planing of wood	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	16.21	Manufacture of veneer sheets and wood-based panels				
	16.22	Manufacture of assembled parquet floors				
	16.29	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials				
Packaging	16.24	Manufacture of wooden containers	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard
	17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard
	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods
	23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
	25.92	Manufacture of light metal packaging				
Solid waste management and recycling			38	Waste collection, treatment and disposal activities; materials recovery	38	Waste collection, treatment and disposal activities; materials recovery
			39	Remediation activities and other waste management services	39	Remediation activities and other waste management services

Construction materials	16.23	Manufacture of other builders' carpentry and joinery	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	23.11	Manufacture of flat glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
	23.12	Shaping and processing of flat glass	23.3	Manufacture of clay building materials	23.3	Manufacture of clay building materials
	23.13	Manufacture of hollow glass	23.6	Manufacture of articles of concrete, cement and plaster	23.6	Manufacture of articles of concrete, cement and plaster
	23.32	Manufacture of bricks, tiles and construction products, in baked clay	23.7	Cutting, shaping and finishing of stone	23.7	Cutting, shaping and finishing of stone
	23.6	Manufacture of articles of concrete, cement and plaster	24.33	Cold forming or folding	25.11	Manufacture of metal structures and parts of structures
	23.7	Cutting, shaping and finishing of stone	25.11	Manufacture of metal structures and parts of structures	25.12	Manufacture of doors and windows of metal
	24.33	Cold forming or folding	25.12	Manufacture of doors and windows of metal		
	25.11	Manufacture of metal structures and parts of structures				
	25.12	Manufacture of doors and windows of metal				
Personal and protective equipment	HS-6	630790; 902000; 900490; 401511; 401519; 611610; 621600; 401590; 481850; 621010; 392620; 621050; 620322; 620329; 620422; 620423; 620429; 611693; 640110; 640291; 640340; 650610; 630720; 621040; 650599	14.12	Manufacture of workwear	N/A	
			32.99	Other manufacturing n.e.c.		
Wooden toys			N/A		N/A	
Customer relationship management			82.2	Activities of call centres	N/A	
Architecture, Design and Engineering			71	Architectural and engineering activities; technical testing and analysis	71	Architectural and engineering activities; technical testing and analysis
			74	Other professional, scientific and technical activities	74	Other professional, scientific and technical activities
Finance and accounting			69	Legal and accounting activities	69	Legal and accounting activities
Human resources			78	Employment activities	N/A	
ICT	26.1	Manufacture of electronic components and boards	26	Manufacture of computer, electronic and optical products	26	Manufacture of computer, electronic and optical products
	26.2	Manufacture of computers and peripheral equipment	58	Publishing activities	58	Publishing activities

	26.3	Manufacture of communication equipment	62	Computer programming, consultancy and related activities	62	Computer programming, consultancy and related activities
			63	Information service activities	63	Information service activities
E-commerce			47.9	Retail trade not in stores, stalls or markets	47.9	Retail trade not in stores, stalls or markets
Transport and logistics	49	Land transport and transport via pipelines	49	Land transport and transport via pipelines	49	Land transport and transport via pipelines
	50	Water transport	50	Water transport	50	Water transport
	51	Air Transport	51	Air Transport	51	Air Transport
	52	Warehousing and support activities for transportation	52	Warehousing and support activities for transportation	52	Warehousing and support activities for transportation
	53	Postal and courier activities	53	Postal and courier activities	53	Postal and courier activities
Accommodation			55.1	Hotels and similar accommodation	55.1	Hotels and similar accommodation
			55.2	Holiday and other short-stay accommodation	55.2	Holiday and other short-stay accommodation
Food Services			56.1	Restaurants and mobile food service activities	56.1	Restaurants and mobile food service activities
Travel Agency activities			79.11	Travel agency activities	79	Travel agency, tour operator reservation service and related activities

APPENDIX 2 - Survey questionnaire

A1. კომპანიის რეკვიზიტები:

კომპანიის საიდენტიფიკაციო ID	
კომპანიის დასახელება	
კომპანიის მისამართი	
კომპანიის ძირითადი საქმიანობა	
რესპონდენტის სახელი	
რესპონდენტის თანამდებობა	
რესპონდენტის საკონტაქტო ტელეფონი	
რესპონდენტის საკონტაქტო ელ. ფოსტა	

B1. როგორ იყო კომპანიის წლიური ბრუნვა 2019 წელში:

- ა. 1,000,000 ლარზე ნაკლები
- ბ. 1,000,001 – 3,000,000 ლარი
- გ. 3,000,001 – 5,000,000 ლარი
- დ. 5,000,001 – 12,000,000 ლარი
- ე. 12,000,000 – 60,000,000 ლარი
- ვ. 60,000,000 ლარზე მეტი
- ზ. უარი პასუხზე

B1. როგორ შეიცვალა კომპანიის ბრუნვა წლის კვარტალში წინა წლის შესაბამის კვარტალთან შედარებით?

ა. გაიზარდა 5%-ზე ნაკლებად	ვ. შემცირდა 5%-ზე ნაკლებად
ბ. გაიზარდა 5%-10%-ით	ზ. შემცირდა 5%-10%-ით
გ. გაიზარდა 10-20%-ით	თ. შემცირდა 10-20%-ით
დ. გაიზარდა 20%-50%-ით	ი. შემცირდა 20-50%-ით
ე. გაიზარდა 50%-ზე მეტად	კ. შემცირდა 50%-ზე მეტად

C1. რამდენი პირი გყავდათ საშუალოდ დასაქმებული ... წლის განმავლობაში?

- ა. 25 პირზე ნაკლები
- ბ. 25-50 პირი
- გ. 51-100 პირი
- დ. 100-250 პირი
- ე. 250-ზე მეტი პირი

C2. აქედან რამდენ პროცენტს შეადგენდნენ?

ქალები _____ % 15-29 წლის ახალგაზრდები _____ %

C3. როგორ შეიცვალა დასაქმებულთა რაოდენობა წლის კვარტალში წინა წლის შესაბამის კვარტალთან შედარებით?

ა. არ შეცვლილა	ე. შემცირდა 0.1%-10%-ით
ბ. გაიზარდა 0.1%-10%-ით	ვ. შემცირდა 10-20%-ით
გ. გაიზარდა 10-20%-ით	ზ. შემცირდა 20%-ზე მეტად
დ. გაიზარდა 20%-ზე მეტად	

APPENDIX 3 - Stakeholders

TOURISM		
Associations		
GITOA	Ia Tabagari	
HORECA	Shalva Alaverdashvili	
Georgian Mountain Guides Association	David Rakviashvili	
Gastronomic Association of Georgia	Levan Kokiashvili	
Georgian Ecotourism Association	Natalia Bakhtadze Engländer	
Public Sector		
Heritages Agency	Beka Baramidze	
Private Sector		
Inn Group Hotels	Erekle Kokaia	
Hotel Collection International	Ketevan Mikashavidze	
Restaurant 'Amo Rame'	Nikoloz Ivanishvili	
Mtserlebi resort	Givi Tchonkadze	
	Salome Sirbiladze	
CREATIVE INDUSTRIES		
Associations		
Georgian Film Cluster	David Vashadze	
Georgian Heritage Crafts Association	Ano Shanshiashvili	
Media Production and Post-Production		
Enkeny Films	Sophio Bendiashvili	
Post Red (Post-production)	Tina Bakashvili	
Producer	Natia Nikolashvili	
Producer, Film Asylum	Vako Kirkitadze	
Ana Kasrashvili Music	Ana Kasrashvili	
	Ilia Jgharkava	
Artisan		
Batik, patchwork	Nino Kvavilashvili	
Embroidery	Ketevan Karchava	
Enamel Jewelry	Natia Arveladze	
Felt	Ana Lagidze	
Beaded Accessories	Teona Iobashvili	
LIGHT MANUFACTURING		
Associations		
Georgian Furniture Cluster	Nika Tsipuria	
	Besik Verdzeuli	
Design Georgia	Keta Buachidze	
Georgian Construction Materials Cluster (GCMC)	Salome Arglyiani; Irma Topuria	
PMAG Cluster	Salome Kvaratskhelia	
Furniture	LTD Avangardi	Besik Verdzeuli
	Madera Georgia	Beso Matkava

	I.E. Akaki Gurgenidze	Akaki Gurgenidze
	LTD Conibe	Nika Tsipuria
	LTD Woodstyle	Vasil Shavidze
	LTD Randi	Londa Shavadze
Packaging	LTD Caucaspack	Guram Makarov, Amiran Tsertsvadze
	Poliedro	Nika Bitskinashvili
	LTD Greenpack	Salome Kareli
PPE	Elven Technologies	Vamekh Kherkheulidze
	LTD Elselema	Elguja Mamasakhlisi, Marina Tsiklauri
	LTD GL Style	Luara Gvaladze
Wooden Toys	LTD Sheni Mtsvane Satamasho	Melano Tkabladze
	LTD Mtsvervali	Tina Datukishvili
	Kodala	Kote Svanadze
	Geostyle Wood Art	Dato Gvantseladze
Construction Materials	LTD Basalt Fibers	Iveri Kutsnashvili
	LTD Akustiko	Avtandil Kraveishvili
SOLID WASTE MANAGEMENT		
Waste Management Association		Giorgi Guliashvili
LTD TRC		Zurab Bazghadze
LTD "Bio Diesel Georgia"		Murman Pataraiia
LTD KERE		Giorgi Kereselidze
LTD „Sanitar“		Levan Kvirkvelia
TENE		Aleksandre Liluashvili

APPENDIX 4 - Focus group questionnaire

თარიღი	
ფოკუს ჯგუფის პლატფორმა	<input type="checkbox"/> ონლაინ <input type="checkbox"/> პირისპირ
ფასილიტატორი	

1. ბიზნეს საქმიანობა

ეკონომიკური საქმიანობა	
ბიზნეს ოპერირების სფერო/ქვესექტორი	
ძირითადი პროდუქტები/სერვისები	
ბრენდები	

2. კერძო სექტორის მართვა, ხელმძღვანელობა, კონცენტრაცია (Private Sector Leadership)

რომელი ასოციაციის/კლასტერის წევრი ხართ და როდის გაწევრიანდით?	
წევრობის ძირითადი სარგებელი/ან რის გაუმჯობესებას ისურვებდით?	
დარჩებით თუ არა ასოციაციის/კლასტერის წევრი მოდევო 3 თვე?	
თუ არ ხართ წევრი, რატომ?	
სექტორის ძირითადი (lead) მოთამაშეები	
მათი როლი და მზაობა სექტორის განვითარებისთვის?	
საჯარო-კერძო პარტნიორობის (PPP) ხარისხი ?	<input type="checkbox"/> დაბალი <input type="checkbox"/> საშუალო <input type="checkbox"/> მაღალი

3. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

კონკურენტულობის დონე სექტორში	<input type="checkbox"/> დაბალ კონკურენტული <input type="checkbox"/> საშ. კონკურენტული <input type="checkbox"/> მაღალ კონკურენტული	კომენტარი
სექტორის კონკურენტული უპირატესობა საერთაშორისო ბაზრებზე (თუ ასეთი არსებობს)?	<input type="checkbox"/> ხარისხი; <input type="checkbox"/> ფასი; <input type="checkbox"/> ინოვაცია; <input type="checkbox"/> სხვა	
ძირითადი საექსპორტო ბაზრები?		
ახალ ბაზრებზე გასვლის პოტენციური მომდევნო 3 თვეში? დაინტერესება საერთაშორისო კლიენტებისგან?		
ექსპორტის პოტენციური უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?		
ძირითადი საერთაშორისო საბაზრო ტენდენციები? როგორ არის საქართველო პოზიციონირებული?		

4. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

იმპორტის ჩანაცვლების პოტენციური შემაფერხებელი ფაქტორები და შესაძლებლობები?	
დამატებითი ღირებულების გაზრდის შესაძლებლობა? სექტორის მზაობა უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?	
პროდუქტიულობა, ინოვაცია და ტექნოლოგიური მზაობა?	
ინვესტორების მოზიდვის შესაძლებლობა სექტორში/უკვე არსებული ინვესტორები ქვეყანაში?	

5. კავშირები ადგილობრივი მიწოდების ჯაჭვში (Local Supply Chain Linkages)

ძირითადი შუალედური პროდუქტები. იმპორტზე დამოკიდებულება	ადგილობრივი წარმოების (და %)
	იმპორტირებული (და %)
იმპორტირებული შუალედური პროდუქტები ჩანაცვლების შესაძლებლობა?	
Forward linkage შესაძლებლობები/შეფასება?	

6. პროგნოზი

თქვენი შეფასებით, როგორ შეიცვლება ბიზნეს საქმიანობის ძირითადი პარამეტრები მომავალ კვარტალში?

-კონკურენტუნარიანობა	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-გაყიდვები	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-ფასები	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-ექსპორტი	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-ინვესტიცია	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-გამოშვება	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმება	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმებული ქალი	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმებული კაცი	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმებული ახალგაზრდა	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება

7. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

- მოთხოვნის სიმცირე
- მიწოდების სიმცირე
- ფინანსებზე ხელმისაწვდომობა
- კვალიფიციური კადრების არქონა
- შესაბამისი ტექნოლოგიების არქონა
- საექსპორტო ბაზრებზე წვდომა
- შუალედურ პროდუქტებზე ხელმისაწვდომობა
- ბიზნეს გარემო
- საგადასახადო და მარეგულირებელი საკითხები
- კომუნიკაცია შესაბამის სახელმწიფო სტრუქტურებთან (PPP)
- არცერთი

8. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

-
-
-
9. დარგის ტენდენციები (ადგილობრივ და საერთაშორისო ბაზრებზე) შესაძლო ცვლილებები მომდევნო 3 თვეში?

APPENDIX 5 - Association's questionnaire

თარიღი	
შეხვედრის პლატფორმა	<input type="checkbox"/> ონლაინ <input type="checkbox"/> პირისპირ
ასოციაციის დასახელება:	
რესპონდენტის სახელი/გვარი:	
დაკავებული პოზიცია:	
საიდენტიფიკაციო ნომერი:	
საკონტაქტო ინფორმაცია (Tel, email):	

	ამჟამად	ცვლილება მომდევნო 3 თვეში
ასოციაციის წევრთა რაოდენობა		<input type="checkbox"/> შემცირდება <input type="checkbox"/> იგივე დარჩება <input type="checkbox"/> მაღალი
სულ სექტორში არსებული ასოციაციები/ბიზნეს კლასტერები		<input type="checkbox"/> შემცირდება <input type="checkbox"/> იგივე დარჩება <input type="checkbox"/> მაღალი

10. კერძო სექტორის მართვა, ხელმძღვანელობა, კონცენტრაცია (Private Sector Leadership)

ძირითადი სერვისები ასოციაციის წევრებისთვის?	
ამჟამად არსებული სერვისების გაუმჯობესების აუცილებლობა/შესაძლებლობა?	
სექტორის ძირითადი (lead) მოთამაშეები	
მათი როლი და მზაობა სექტორის განვითარებისთვის?	
საჯარო-კერძო პარტნიორობის (PPP) ხარისხი ?	<input type="checkbox"/> დაბალი <input type="checkbox"/> საშუალო <input type="checkbox"/> მაღალი

11. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

კონკურენტულობის დონე სექტორში	<input type="checkbox"/> დაბალ კონკურენტული <input type="checkbox"/> საშ. კონკურენტული <input type="checkbox"/> მაღალ კონკურენტული	კომენტარი
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სექტორის კონკურენტული უპირატესობა საერთაშორისო ბაზრებზე (თუ ასეთი არსებობს)?	<input type="checkbox"/> ხარისხი; <input type="checkbox"/> ფასი; <input type="checkbox"/> ინოვაცია; <input type="checkbox"/> სხვა	
ძირითადი საექსპორტო ბაზრები?		
ახალ ბაზრებზე გასვლის პოტენციური მომდევნო 3 თვეში? დაინტერესება საერთაშორისო კლიენტებისგან?		
ექსპორტის პოტენციური უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?		
ძირითადი საერთაშორისო საბაზრო ტენდენციები? როგორ არის საქართველო პოზიციონირებული?		

12. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

იმპორტის ჩანაცვლების პოტენციური? შემაფერხებელი ფაქტორები და შესაძლებლობები?	
დამატებითი ღირებულების გაზრდის შესაძლებლობა? სექტორის მზაობა უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?	
პროდუქტიულობა, ინოვაცია და ტექნოლოგიური მზაობა?	
ინვესტორების მოზიდვის შესაძლებლობა სექტორში/უკვე არსებული ინვესტორები ქვეყანაში?	

13. კავშირები ადგილობრივი მიწოდების ჯაჭვში (Local Supply Chain Linkages)

ძირითადი შუალედური პროდუქტები. იმპორტზე დამოკიდებულება	ადგილობრივი წარმოების (და %)
	იმპორტირებული (და %)

იმპორტირებული შუალედური პროდუქტები ჩანაცვლების შესაძლებლობა?	
Forward linkage შესაძლებლობები/შეფასება?	

14. პროგნოზი

თქვენი შეფასებით, როგორ შეიცვლება ბიზნეს საქმიანობის ძირითადი პარამეტრები მომავალ კვარტალში?

-კონკურენტუნარიანობა	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-გაყიდვები	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-ფასები	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-ექსპორტი	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-ინვესტიცია	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-გამოშვება	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმება	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმებული ქალი	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმებული კაცი	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება
-დასაქმებული ახალგაზრდა	<input type="checkbox"/> შემცირდება	<input type="checkbox"/> გაიზრდება	<input type="checkbox"/> უცვლელი დარჩება

15. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

- მოთხოვნის სიმცირე
- მიწოდების სიმცირე
- ფინანსებზე ხელმისაწვდომობა
- კვალიფიციური კადრების არქონა
- შესაბამისი ტექნოლოგიების არქონა
- საექსპორტო ბაზრებზე წვდომა
- შუალედურ პროდუქტებზე ხელმისაწვდომობა
- ბიზნეს გარემო
- საგადასახადო და მარეგულირებელი საკითხები
- კომუნიკაცია შესაბამის სახელმწიფო სტრუქტურებთან (PPP)
- არცერთი

16. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

17. დარგის ტენდენციები (ადგილობრივ და საერთაშორისო ბაზრებზე) შესაძლო ცვლილებები მომდევნო 3 თვეში?

APPENDIX 6 – About the program and project

ABOUT THE PROGRAM

This project is being implemented within the frames of the USAID Economic Security Program (the Program), a five-year, USAID-funded project implemented by DAI. The purpose of the program is to accelerate broad-based growth of sectors other than agriculture that show great potential to create jobs, increase incomes, increase the revenues of micro, small, and medium enterprises (MSME), and support diversification towards more productive economic activities, including tourism and up to three additional sectors.

In fulfilling this purpose, the Program focuses on the sectors and value chains that have the most potential to produce investments that will create high-value jobs for Georgians. This requires identifying and improving the ecosystem for each value chain, including both the supply- and demand-sides, as well as developing skills within the workforce, strengthening institutions that support these value chains, and establishing co-funding partnerships that catalyze investment and strengthen MSME positioning within the value chains.

Through its four components, the Program:

1. Strengthens cooperation in targeted sectors;
2. Supports MSMEs to improve productivity, sales, and quality, and to develop new products and services;
3. Supports industry-led workforce development;
4. Builds public-private partnerships.

ABOUT THE PROJECT

A comprehensive baseline study was conducted by the USAID Economic Security Program to identify target value chains. Based on competitiveness potential, systemic impact, and feasibility indicators, the following sectors that displayed potential for increased productivity and diversification were selected:

- Tourism
- Creative Industries
- Light Manufacturing
- Solid Waste Management and Recycling
- Shared Intellectual Services
- Cross-cutting sectors

The **overall goal** of this project is to improve evidence-based decision-making in selected industries/value chains. The project will assist the government, business associations, and the Program to understand recent developments and trends, identify needs, and make informed decisions. Decisions and policies based on quality evidence will, in turn, improve the economic potential of each of the targeted value chains.

The specific objectives of the project are:

Objective 1: Collect industry-related data and analyze economic trends and challenges and opportunities in the sector on a quarterly basis.

Objective 2: Analyze industry-related economic trends in the regional and global context to identify challenges and potential opportunities for economic growth.

Objective 3: Improve the capacity of business associations in the selected industries/value chains to collect and process industry-related quantitative and qualitative data and plan and implement research within their industries.

The project aims to conduct the analysis on a quarterly basis that includes aspects such as economic tendencies in the regional/global context, capacity analysis, opportunities, and challenges in the abovementioned sectors.

The project improves evidence-based decision-making by providing quality information and analytics on the selected industries. This will ensure that future decisions are made based on actual needs that will lead to the better formulation of policies and better monitoring and evaluation of the existing policies and programs.

This project will **improve the business associations' capacity** to collect quantitative and qualitative data and provide analysis. Business associations play a central role in economic resilience and strengthening the private sector. One of the most critical roles of business associations is to help companies access up-to-date information about the latest trends in their industries. Knowledge diffusion plays a key role in enhancing MSMEs' ability to innovate and strengthen their competitiveness, especially in developing economies. Therefore, it is essential that business associations are equipped with the skills to collect data and understand, interpret, and draw conclusions from various types of information.

REPORT OBJECTIVES AND STRUCTURE

Throughout the project a team of researchers will produce **analytical report quarterly** summarizing economic trends and challenges and opportunities of selected sectors and value chains.

The reports aim to provide Enterprise Georgia, various government ministries and agencies, private sector institutions, Business Service Organizations (BSOs), and the Program with an analytical assessment of data and economic trends on a quarterly basis. Specifically, the quarterly reports will serve to **improve evidence-based decision-making** by providing consolidated industry-level qualitative and quantitative data and analysis to relevant public bodies. The use of quality information is vital for making decisions that guide the identification of needs and formulation of better policies, monitoring existing policies and programs, and evaluating the effectiveness of policy decisions.

The report is structured as follows:

- **Data and Methodology** overview data types and sources, and the range of methods used throughout the research.
- The rest of this report is arranged in five sections - **Chapters** – each devoted to one sector. These chapters each include an executive summary, providing an overview of the key trends, challenges and opportunities of the entire sector, and subsections.
- **Subsections** - corresponding to value chains in the respective sectors - describe industry trends. Subsections are arranged according to the indicators (see Methodology).