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THE **USAID** ECONOMIC
SECURITY PROGRAM

SECTOR AND VALUE CHAIN ANALYTICS

THE FIRST ANALYTICAL REPORT



Research

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ACRONYMS

ACCA - Association of Chartered Certified Accountants
ADB - Asian Development Bank
ADE - Architecture, Design and Engineering
AIIB - Asian Infrastructure Investment Bank
ATSU - Akaki Tsereteli State University
BPO - Business Process Outsourcing
BSO - Business Service Organization
CAGR - Compound Annual Growth Rate
CAM - Competitiveness Appraisal Matrix
CENN - Caucasus Environmental NGO Network
CFA - Chartered Financial Analyst
CPA - Classification of Products by Activity
CRM - Customer Relationship Management
DAI - Development Alternatives, Inc.
DMO - Destination Management Organizations
EG – Enterprise Georgia
EPRC - Economic Policy Research Center
EU – European Union
EPR - Extended Producer Responsibility EPR
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
GTTC - Georgian Technical Training Center
HEI - Higher Education Institutions
HORECA - Hotels, Restaurants, and Cafes
HRM - Human Resources Management
HS - Harmonized System
HVM - High-Value Markets
ICT - Information and communications technology
ISET – International School for Economics at TSU
IT – Information Technology
MDF – Medium Density Fiberboards
MOH – Ministry of Labour, Health and Social Affairs
MSME - Micro, Small & Medium Enterprises
NACE - Statistical classification of economic activities in the European Community (**N**omenclature statistique des activités économiques dans la **C**ommunauté européenne)
PMAG - Packaging Manufacturers Association of Georgia
PMCG – Policy and Management Consulting Group

PPD – Public-Private Dialogue
PPE – Personal and Protective Equipment
PPP – Public-Private Partnership
SIDA – Swedish International Development Cooperation Agency
UK – United Kingdom
UNDP – United Nations Development Program
UNWTO - United Nations World Tourism Organization
US – United States
USAID – United States Agency for International Development
USD – United States Dollar
VAT – Value-Added Tax
VC – Value Chain
VET – Vocational Education and Training
WCO – World Customs Organization
WHO – World Health Organization
WMA – Waste Management Association
WMC – Waste Management Code

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 the selected value chains within six sectors to improve evidence-based decision-making by providing quality information and analytics. These specific sectors are tourism, creative industries, light manufacturing, shared intellectual services, waste management and recycling, along with cross-cutting sectors. The analysis tracks trends from 2014 to the third quarter of 2020.

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

Tourism (accommodation, catering, adventure tourism, gastronomic tourism, and cultural tourism): The analysis reveals that this sector enjoyed remarkable growth in nearly every metric (e.g. number of tourists, and revenues) over the past decade. More specifically, the number of visitors engaging in gastronomic and cultural tourism activities grew the most during the covered period. While the sites visited were primarily in Tbilisi and Batumi, the number of visitors grew immensely in other less-visited destinations as well. Ski resorts also enjoyed remarkable growth over the examined period. The latter two increases were primarily due to an exponential increase in the number of visitors, and the emergence of mass tourism.

During the COVID-19 pandemic, the tourism sector has been disrupted all over the world, putting the survival of myriad tourism operations and attractions at risk. Georgia has been no exception. The impact of receiving only a limited number of international visitors combined with stringent domestic restrictions throughout certain periods in 2020 resulted in nearly zero revenues for a large part of the Georgian tourism sector. Food services, as they are not exclusively tourism-dependent, saw a relatively smaller reduction in sales than other value chains in this sector. Even so, the situation has been dire and remains so at the time of writing. It is worth noting that Georgia suffered the largest decline in both number of visitors and tourism receipts among its immediate region². Now, with the winter tourism season all but non-existent, businesses are relying on support packages provided by the anti-crisis plans of the GoG to survive, and longing for tourism to return in some shape or form in summer 2021.

While Georgia's value proposition in key tourism value chains (such as gastronomic tourism, adventure tourism, and cultural tourism) remain strong, its markets have been disrupted and current trends show that mass tourism may not return for many years. The Marriott Corporation, for example, does not believe its business will return to 2019 levels until 2024. While the challenges of COVID-19 have been enormous, the eventual re-booting of global tourism offers Georgia a cherished opportunity to re-configure its tourism model from one of mass appeal to one of lower volume and higher value. To do so, however, it must recalibrate its products and services to appeal to more experienced and discerning tourists. It must also focus on specific countries and demographics where such customers are most prevalent, rather than simply conducting broad promotions with a "come one, come all" theme. This will require a significant focus on product development, the enhancement of skills in the hospitality industry, and the installation of a high-value service culture.

In addition to challenges posed by the COVID-19 pandemic, local and regional political challenges (such as the conflict between Armenia and Azerbaijan) are impediments to the re-formatting and re-emergence of Georgian tourism. In addition, the country will be outspent significantly by larger competitors trying to re-establish their own tourism bases. With this in mind, Georgia's tourism message during the recovery period must be focused, clear, and targeted at high-value customers.

Re-calibration of the country's tourism approach, eschewing mass marketing in favor of a lower-volume, higher-value approach, will require improvements in dialogue and collaboration between the public and private sectors, as well as a re-boot of the country's current tourism strategy. Investment in tourism infrastructure will be important here, as well as well-crafted sustainable skills development initiatives. A possible "silver lining" from the COVID-19 pandemic is that it triggers change; it is apparent from tracking global data that a lower-volume, higher-value approach could actually over the coming years yield higher tourism revenues through longer stays and increased expenditures.

Creative industries (media content production and post-production, and artisan): The creative industries sector's growth from 2017 up until the pandemic struck was fast. However, most of this momentum has since been lost as the sector contracted profoundly over the first two quarters of 2020. This contraction included a fall in value-added, employment, turnover, and productivity. However, the average salary surpassed the pre-pandemic levels in the third quarter of 2020, which may indicate that while there are fewer projects, those that are coming to Georgia are yielding higher-value opportunities for employees. The media content production and post-production value chain is highly competitive within the country and internationally. Therefore, it is not surprising that the value chain's performance is now significantly dependent on investments, subsidies, and other incentives. This same dependence was previously evident in the value chain's prior to 2017, when a lack of investment constrained its expansion. The subsequent flow of investments enabled the sector to expand and achieve sustainable growth, which lasted for two consecutive years. Those involved in film production are hoping for a resumption of the cash rebate program, which was halted in late 2019, to be redesigned. This incentive, the like of which is offered by a plethora of countries around the world, is critical to the sector's recovery from the COVID-19 pandemic. Interestingly, the varying effects of COVID-19 on the abovementioned value chains have little in common. The post-production industry has suffered the least as it has been less susceptible to general pandemic-related restrictions, albeit it did experience a shortage of demand due to the global recession. Nevertheless, in this area, the pandemic reduced costs and increased productivity. This is because post-production processes, such as sound and video editing, do not require on-site presence, so many artists were able to work effectively from home. On the contrary, media content production's characteristics necessitate the gathering of people, which has been restricted. Even with all the safety measures taken and permissions granted to work during curfew hours, the industry has faced enormous challenges, amplified by the aforementioned pause in the cash rebate program.

Meanwhile, in the artisan value chain, the lockdown interrupted normal sales channels, increased shipping costs, and triggered total recalibration of business models to which many individual artisans were unable to adapt. According to the stakeholders' survey, 45.5% of artisan companies saw their turnover fall by more than 50%, whereas only 9% reported that their turnover in the first three quarters of 2020 had increased. International trends indicate that with the right legal/regulatory and incentive environment, combined with a skilled workforce and the ability to meet international standards, the creative industries sector could yet play a significant role in the country's transition from a factor-based to a knowledge-based economy.

Light manufacturing (furniture, packaging, construction materials, personal and protective equipment (PPE), and wooden toys): There are some significant differences in the internal characteristics of the light manufacturing sector's value chains. While some of the value chains are nascent, others represent relatively well-established economic activities in Georgia. The value chains also differ in their exhibited potential for investment, sales growth, and job creation - only furniture and packaging have demonstrated the potential for expansion on a global scale. As our quantitative analysis suggests, the chosen economic indicators reveal somewhat similar trends across the observed value chains. In 2020, the majority of active enterprises in the targeted value chains were

small and were located outside Tbilisi. During 2014-2019, there were significant increases in the turnover of businesses in all of the targeted value chains, while output mostly followed such turnover trends. Almost all value chains are considered priority areas of Enterprise Georgia's business development, export promotion and/or investment attraction directions, meaning that the enterprises operating within these value chains can take advantage of diverse financial and business development services it offers. However, the light manufacturing sector faces challenges that have lingered over many years, including a lack of access to finance, a shortage of skilled labor, high dependency on imported raw materials, and limited access to local inputs of sufficient quality.

COVID-19 has taken a drastic toll on Georgian production under almost all of the selected value chains in this sector. The personal and protective equipment (PPE) value chain represents the only one that has benefited to some extent from the pandemic, considering the skyrocketing demand for PPE. However, due to the ramping up of global supply, even this advantage could dissipate especially as the need for PPE reduces during the recovery period.

Solid waste management and recycling: Solid waste management and recycling is a relatively new economic activity for Georgia; nevertheless, recycling practices have been established in the country for years for some types of waste. At present, Georgia's solid waste management and recycling sector unifies a range of business activities related to the reprocessing of different types of waste including plastic, paper/cardboard, wood, metal, glass, used oils, end-of-life tires, vehicles, electrical and electronic equipment, batteries and accumulators, and hazardous waste.

The key challenges faced by the value chain representatives remain mostly homogeneous across waste streams. The value chain has considerable potential to upgrade, given that it does not presently operate at its full production capacity. Producers constantly face a shortage of waste that is used as a raw material in the manufacturing process. In this regard, the absence of separated waste collection practices is considered the main obstacle at national level. Several significant steps have been taken in Georgia 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 separation in their waste collection practices. Nonetheless, the implementation of the WMC has been unsatisfactory. As a result, businesses operating in different waste streams have been competing over available waste resources nationwide. Furthermore, some companies cannot access municipal waste at landfills in order to obtain necessary waste to be used as inputs in their production.

The sector lacks both foreign and domestic investment. Georgian investors are generally reluctant to fund projects related to waste management due to a lack of familiarity with its business activities. Future investment flows across the sector will likely be dependent on the establishment of organized cross-sectoral waste collection in the country. In other words, it will depend on the generation of supply, much of which is now either being trucked outside the country for processing or is simply disappearing into landfills.

Only a small share of the inputs utilized in the sector are imported. As highlighted by respondents, production largely depends on locally-generated waste. The importing of waste from surrounding countries offers an opportunity to increase volumes, but no such precedent has yet been set.

Shared intellectual services (finance and accounting, architecture, design and engineering, customer relationship management, and human resource management): Major Shared Intellectual Services companies operating in Georgia include Majorel, Evolution Gaming, CMX Solutions, Base 4, SellTech, Shaw Academy, Sweeft, and FSP Global, among others. A key market

for Georgia's Shared Intellectual Services companies that provide offshore services is considered to be Western Europe, followed by Eastern Europe, North America, and Italy, and Turkey.

Georgia's SIS sector is still in the early stages of development. However, by highlighting its value proposition, namely location, low salaries, favorable tax and incentive systems, and a pool of unemployed youth along with assistance from government institutions, the sector has been growing in recent years. The SIS sector is actively supported by Enterprise Georgia, specifically its Investment Department which concentrates on attracting FDI. Despite all the advantages and government support Georgia has provided to the SIS sector's development, companies therein are still facing significant challenges such as:

(1) Lack of skilled labor – despite a high number of Georgia's HEIs and VET institutions providing professional courses related to the SIS sector, skill levels remain below the required standard to attract significant FDI. Graduates usually need additional training before they can start working in the field since universities mostly teach only theoretical knowledge.

(2) Insufficient quality of internet and electricity supply in the regions have been cited as further constraints to the regional development of the SIS sector.

(3) A shortage of affordable A-class office spaces, especially outside of Batumi, Kutaisi, and Tbilisi was highlighted by government representatives as a challenge for SIS companies. Office spaces are usually not adjusted to the needs of SIS companies and prices often do not accurately reflect the quality either.

(4) Insufficient visibility and branding of Georgia among multi-national companies as a SIS service provider country - The government representatives also highlighted the need for Georgian companies to increase their visibility and credibility among international SIS firms. Nevertheless, SIS firms have been less affected by COVID-19 with many Georgian firms already having re-directed their activities towards global e-commerce clients. Moreover, the pandemic has opened up new spaces for the SIS sector that were previously untouched in Georgia, such as ICT outsourcing. The SIS sector in Georgia could advance if it aligns its strategy, legal/regulatory environment, workforce skills, and value proposition.

Cross-cutting sectors (transport and logistics, ICT, and e-commerce): The cross-cutting sectors have expanded significantly in the past seven years, but stable growth is still not evident for most of the enterprises engaged, especially in the ICT and e-commerce value chains. The main driving forces behind the sectors' expansion have been increasing domestic demand and technological advancements. As the growth of demand has decelerated though, the companies in these sectors have faced some issues that remain unresolved. In order for the cross-cutting sectors to sustain their impressive rate of expansion, improvements in the regulatory framework (e-commerce-related legislation), secure payment facilities (similar to PayPal and Stripe), labor market, as well as access to loans and investments will be essential.

Lack of investment is considered to be one of the most acute issues in terms of the sectors' constriction. This is especially true in the ICT value chain. Regardless of the high level of investment in the ICT value chain between 2016 and 2018, the growth in turnover and value-added fell in 2019. Along with reduced growth numbers, the expansion of the value chains is further hindered by a lack of employment, mainly due to the domestic labor force not having the necessary skills, as well as a lack of interest in ICT among women. As Georgian ICT equipment is exported globally, as well as transport and logistics services, trade in both of the value chains decreased significantly in 2020 due to COVID-19. According to the surveyed stakeholders, global ICT enterprises are actively trying to

curb the amount of work being outsourced to countries like Georgia and, as a result, the export of domestic ICT equipment has been gradually diminishing. Furthermore, due to the increasing demand for digitalization in the Georgian private sector, in addition to the abovementioned issues, the growth of the ICT value chain may have peaked in 2017 and 2018. The ICT value chain is highly dependent on government demand for their products, which has been decreasing year after year as the GoG has been importing more ICT products from abroad.

Similarly, the transport and logistics value chain has been significantly affected by the pandemic, as the exports of transport services have decreased sharply. Exports of air transport services were almost non-existent in the second and third quarters of 2020. Meanwhile, exports of sea, railway, and road transport services, and most importantly pipeline transport and electricity transmission services, have not been negatively affected by the pandemic. Unlike Armenia, Azerbaijan, Turkey, and Ukraine (where sea and air transport services contribute the biggest shares in exports), Georgia's exports are not so dominated by sea and air transport services. Although railway and pipeline services are less susceptible to global crises, the abovementioned observation may indicate that the full potential of sea and air transport service exports for Georgia has not yet been reached.

The growth of the e-commerce value chain was notable in 2017, when improvements to infrastructure, a more favorable regulatory framework, and the introduction of advance payment systems allowed the sector to expand significantly. During the pandemic, the dependence of the economy on e-commerce has increased. However, according to the surveyed stakeholders, issues such as an insufficient regulatory framework, a lack of secure payment facilities, the high costs of setting up e-commerce platforms, and high levels of global competition are still prevalent. The expansion of e-commerce in Georgia is further hampered by fierce global competition, making it harder to achieve profitability. Even so, the analysis of the data suggests that Georgia can prosper in this value chain if it can align its legal/regulatory environment, workforce skills, and ICT infrastructure to create a foundation for growth.

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 and the World Health Organization¹.

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

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
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 PMCG 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. In order 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 and evaluation of the tourism sector in Georgia, the significance of which to the country's domestic economy has increased remarkably over the last decade. Pertinently, it is also one of the sectors most affected by the COVID-19 pandemic. The study on the tourism sector was categorized into the following four main value chains: accommodation; adventure tourism; gastronomic tourism; and cultural tourism. In addition, trends in travel services have been analyzed as these play a significant role in the sector's operation.

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), separately, expressed in FDI flows, number of visitors by country group, the purpose of visits, and expenditure; and, secondly, trends in priority value chains, incorporating dynamics in investments, turnover, value-added, employment, and productivity. 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.

The results of the quantitative analysis of the sector revealed that it has seen remarkable growth in nearly every area of tourism over the last decade. More specifically, the number of visitors engaging in activities related to gastronomic and cultural tourism have grown the most in this period. While the most visited sights are still concentrated in Tbilisi and Batumi, the number of visitors has grown immensely in other less-visited destinations. Moreover, ski resorts have also seen remarkable growth over the past decade.

The immense increase in the number of visitors heralded the emergence of mass tourism in Georgia. In this respect, the role of high-value markets (HVMs) in the development of the tourism sector is crucial, with visitors from the Gulf states standing out in terms of both expenditure per visit and expenditure per day.

In 2020, the COVID-19 pandemic hit, with the tourism sectors heavily disrupted all over the world. The impact of receiving only a limited number of international visitors, combined with stringent domestic restrictions during certain periods in 2020, resulted in near to zero revenues. Food services, largely due to not being tourism-exclusive, saw a relatively small hit compared to other value chains within the tourism sector. The GoG's strategy of making decisions based on the epidemiological situation at short notice, applying and lifting various restrictions at different times in a matter of days, further fueled the uncertainty and resulted in discontent within the sector with regard to the Government's actions. It is worth noting that Georgia has experienced the largest decline in both number of visitors and tourism receipts compared to the neighboring trio of Armenia, Azerbaijan, and Turkey. Now, with the winter tourism season almost entirely lost, a significant number of tourism-related businesses are struggling for their survival, relying on the support packages provided by the anti-crisis plans of the GoG, and hoping earnestly for some sort of tourism revival in the summer.

Observing the stakeholders' general attitudes, PPP is mostly associated with COVID-19 crisis management. The stakeholders generally agreed that the quality of dialogue between the private and respective public sector representatives was high upon the first spread of the virus (March 2020) in the country, when the recommendations from the private sector were carefully considered. However, today, many business representatives are alleging ignorance on the part of state authorities, in the

course of making unilateral decisions. Meanwhile, according to the feedback from stakeholders, the primary incentive for joining the sector association membership was the opportunity to make a possible contribution to amending regulations relating to tourism, especially at a time when the GoG is drafting a law on tourism.

According to accommodation industry stakeholders, only medium and large hotels had performed relatively well courtesy of domestic tourism during the pandemic, while most small and unregistered businesses had become insolvent. Meanwhile, many stakeholders pointed to a substantial number of construction projects which have been postponed due to the pandemic. A general concern in this value chain is that the country is losing a competitive advantage. After the tourism sector reopens, it is widely expected that supply will surpass demand and that price dumping might occur on the market. Substantiating this prediction, a slight downward trend in hotel prices was already observable even before COVID-19 struck. Crucially, the accommodation value chain is highly dependent on imports, with its stakeholders concerned about a decrease in quality of imported intermediate goods, largely attributable to recent fluctuations in the exchange rate.

Some primary factors have been identified as giving Georgia a competitive advantage. With respect to the adventure tourism value chain, these include quality of services, security, authentic culture, and natural and ethnographic diversity. However, when tourism numbers increase, these factors can be jeopardized. In particular, according to some interviewed respondents, the quality of the tourism experience in Georgia has been negatively affected by amateur clubs and unprofessional guides established following grant announcements by international organizations, posing a possible threat to this value chain in terms of security, quality, and competitiveness. Elsewhere, according to respondents, the main factors hindering investment flows in the adventure tourism value chain are political instability and underdeveloped infrastructure.

As assessed by the stakeholders, the development of cultural tourism represents one of the core prerequisites for attracting HVM tourists. Georgia's competitive advantage in this regard is thought to be the diversity of its regions and their unique histories and cultural heritage (tangible and intangible), including several items and traditions inscribed on UNESCO's corresponding lists. However, as is the case for the other value chains, the emergence of mass tourism threatens the preservation of cultural values. Importantly, the development of cultural routes in Georgia has been emphasized as being of paramount importance, especially after Georgia became a member of the Cultural Routes of the Council of Europe program in 2016.

Competition within the gastronomic tourism value chain was assessed by interviewed stakeholders as high, particularly in terms of delivery services during the pandemic. However, the culture of food delivery services (and thus competition) is very low in the regions, due to a lack of required sales and marketing skills. Meanwhile, taste is believed to be the most important competitive advantage of the gastronomic value chain on the international market, especially given the global trend of favoring simple and authentic dishes and tastes. Among other potential HVMs for Georgian gastronomy, the Baltic countries have been outlined, given the emotional links between those countries and Georgia. Finally, it is worth noting that the majority of those employed in the tourism sector are women, especially in food services and travel services.

Apart from the ongoing uncertainty surrounding the sector caused by the pandemic, the following other key challenges have also been identified:

- **Tourism Sector Strategy:** An output-oriented and inclusive tourism strategy including a rigid recovery plan for each value chain (accommodation, adventure, culture, gastronomy) of the tourism sector is urgently needed.
- **Public-Private Partnership (PPP):** There is a need to improve dialogue between the public and private sectors for each value chain.
- **Market Discipline:** The shadow economy and the uncontrolled business environment have been observed as critical issues for the sector. For instance, there are only 2758 officially registered accommodation facilities, while there are around 8000 listings on booking.com.
- **Impact of Mass Tourism:** The emergence of mass tourism in Georgia potentially undermines the potential and motivation to upgrade the quality of provided services for each value chain of the tourism sector.
- **Unskilled Labor Force:** A low level of sector-specific skills and weak cooperation between the tourism sector and educational and VET institutions have been identified as problems. Such issues are most prominent in the gastronomic sector, where the average monthly salary of workers in food services is approximately 40% lower than the national average.
- **Poor Infrastructure:** Regional hubs are underdeveloped when it comes to adventure tourism, with a lack of huts, clearly marked routes, and rescue services,

The following limitations should be borne in mind when reading this review of the tourism sector:

- Due to a sizable part of this sector falling under the shadow economy, the absolute numbers provided in this report are likely to be understated. However, the analysis of observed trends over time is still pertinent and valid.
- Due to the COVID-19 pandemic, the quarterly International Survey of Visitors has not been conducted since Q1 of 2020.
- Due to the COVID-19-induced uncertainty, developments in the sector occur quickly and are unpredictable, with some insights provided by the study likely to become outdated in the near future.

SECTOR TRENDS (2015-2019)

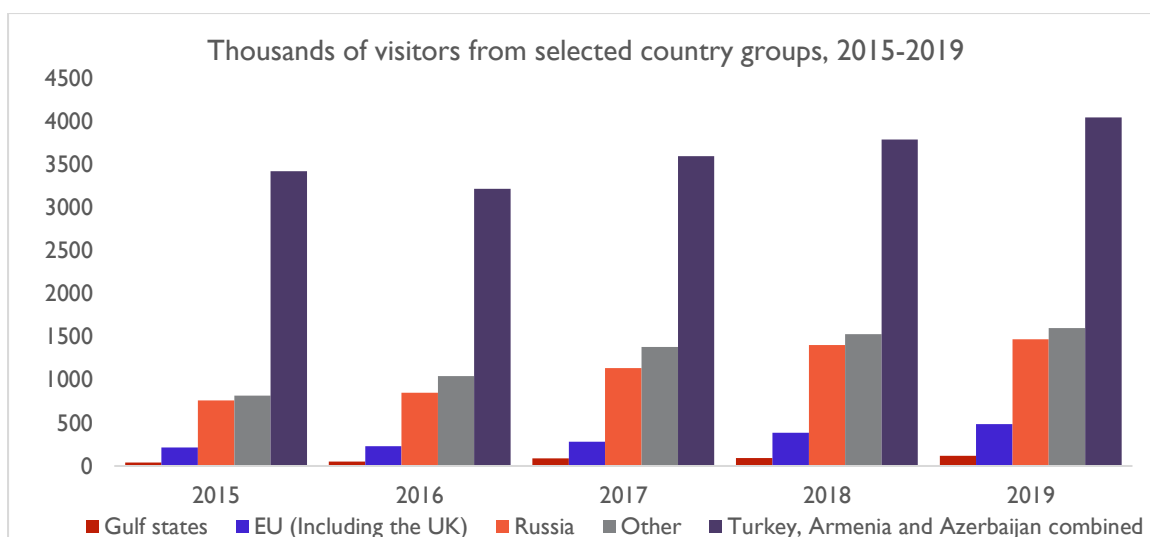
The tourism sector has been growing rapidly over the past decade. In this section, we highlight some trends in this sector throughout the period of 2015 to 2019.

Number of visitors by country group

In this period, the yearly increases in the number of international visitors to Georgia was one of the main driving forces in the expansion of tourism-related industries. Notably, the number of international visitors increased by 47% from 2015 to 2019, with an average annual growth rate of 9% over the same period. With regard to country groups, Georgia's four neighboring countries (Armenia, Azerbaijan, Russia, and Turkey) made up a significant proportion of total visitors. This share amounted to 71% in 2019, marking a slight decrease from 80% in 2015. Over the same period, the number of visitors in relative terms grew most significantly from the Gulf states² and the EU (including the UK), increasing by 203% and 127% respectively from 2015 to 2019.

Chart 1.1 Thousands of visitors from selected country groups, 2015-2019

² Gulf states: Bahrain, Kuwait, Iraq, Oman, Qatar, Saudi Arabia and United Arab Emirates.

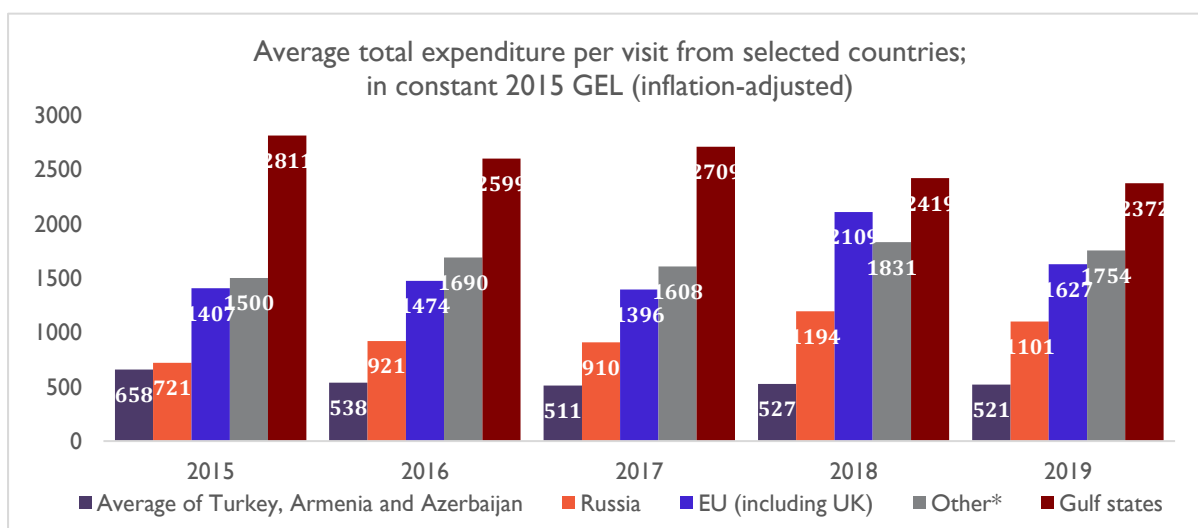


Source: Georgian National Tourism Administration

Expenditure of visitors by country group

It is also worthwhile to analyze expenditure from different country groups in order to identify sources of HVM tourists. First, if inflation-adjusted total expenditures per visit are analyzed, it can be observed that visitors from the Gulf states spend the most per visit, followed by visitors from “other” countries³, and then visitors from the EU (including the UK). Visitors from Armenia, Azerbaijan, and Turkey tend to spend the least per visit.

Chart 1.2 Average total expenditure per visit from selected countries

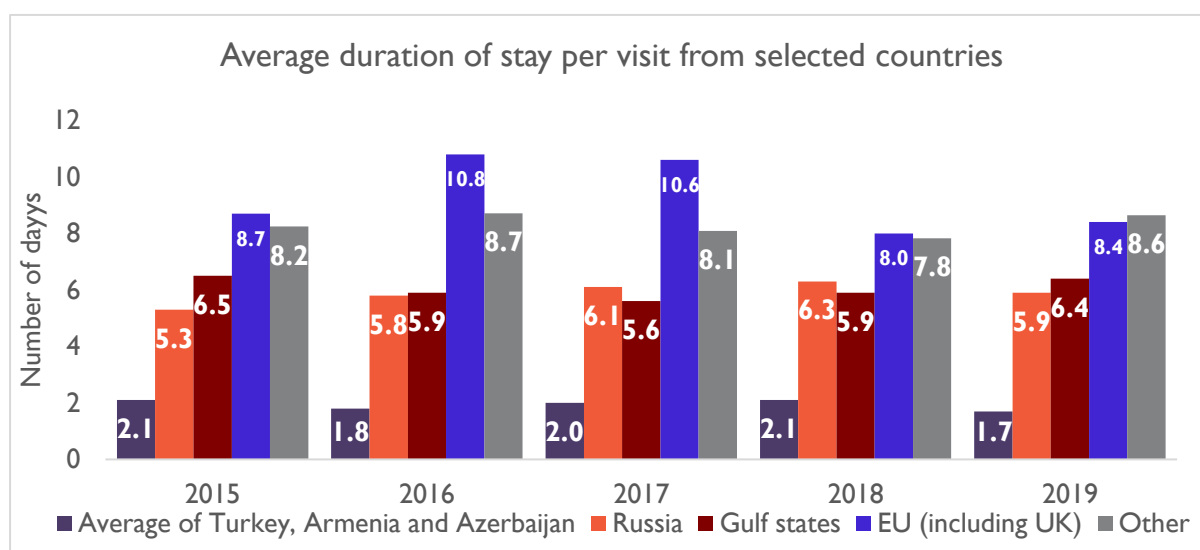


Source: International Visitor Survey; Georgian National Tourism Administration

To assess HVM tourists, it is important to also look at the average duration of stay per visit for selected countries measured in number of days. Visitors from the EU (including the UK) and “other” countries tend to spend the most time in Georgia, followed by those from the Gulf states and Russia, while the visitors from Turkey, Armenia, and Azerbaijan spend the least time per visit in Georgia.

³ “Other” countries: Australia, Belarus, Canada, China, India, Iran, Israel, Japan, Kazakhstan, Korea Republic, Philippines, Switzerland, Ukraine, Egypt, and United States.

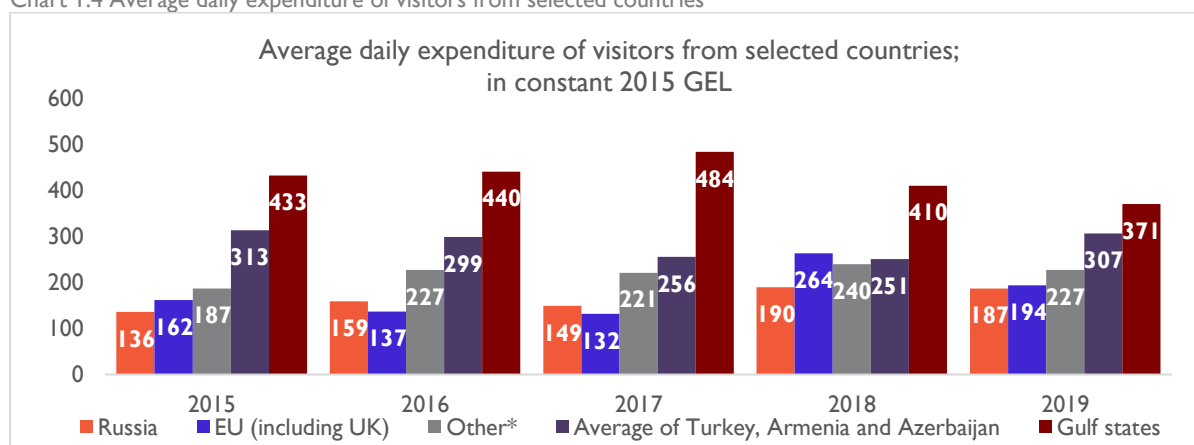
Chart I.3 Average duration of stay per visit from selected countries



Source: International Visitor Survey; Georgian National Tourism Administration

To assess the spending patterns of visitors from each country group, it is necessary to analyze daily expenditure. Due to the low average number of days spent in the country, visitors from Armenia, Azerbaijan, and Turkey⁴ spend a significant amount of money per day, while the daily amount spent by those from country groups with a longer average stay, such as the EU (including the UK) is relatively low. However, visitors from the Gulf states stand out for their significantly higher daily spending compared to those from other country groups. It is worth noting that there has been stagnation in the daily expenditure of visitors from most of the country groups. When the expenditures are converted into USD, this drops from stagnation to a negative trend due to the depreciation of the GEL over the analyzed period (34.4% depreciation against the USD from the start of 2015 to the end of 2019).

Chart I.4 Average daily expenditure of visitors from selected countries



Source: International Visitor Survey; Georgian National Tourism Administration

Number of visitors by purpose of international visits to Georgia

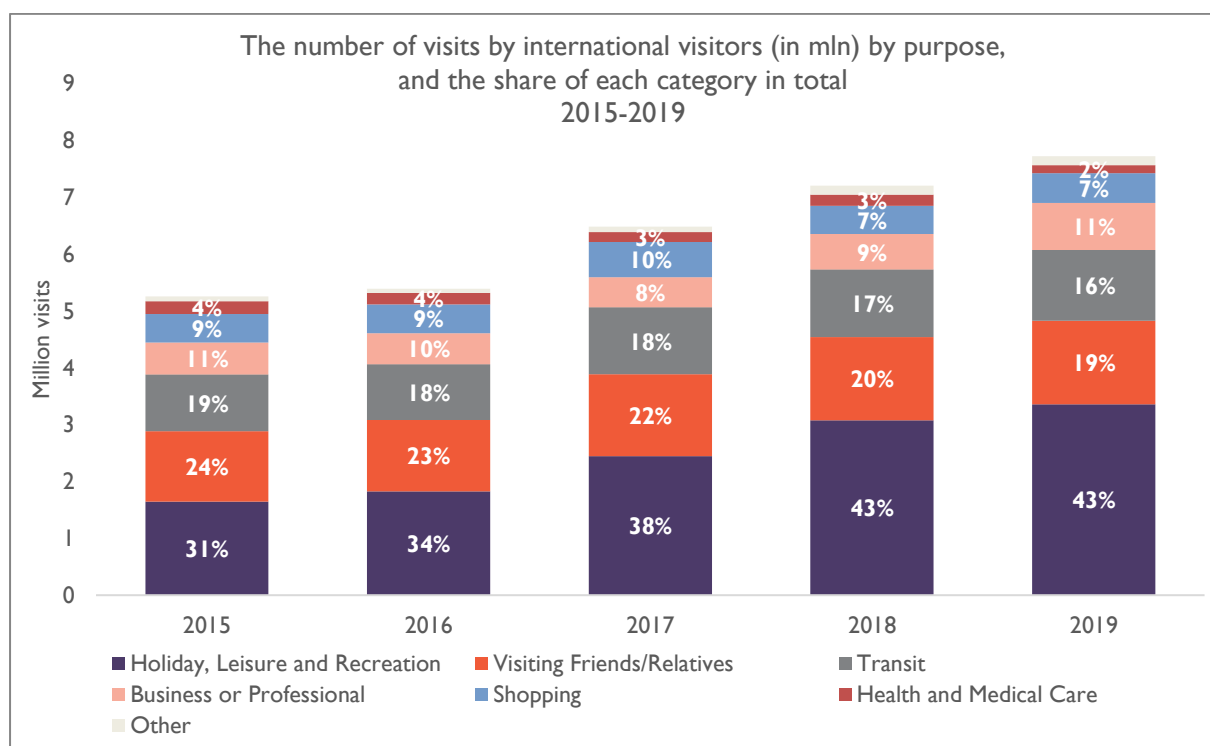
⁴ Visitors from Turkey spend the most from these three countries, with their daily spend close to that of visitors from the Gulf states.

Observing the structure of visitors in Georgia according to the main purpose of their visits reveals some interesting insights.

“Holiday, leisure, and recreation,” taken as one single category, was the most common purpose of international visits to Georgia in the covered period (2015-2019). Indeed, this category spearheaded growth in the number of total visits over the given period, growing by an average of 20% each year with the absolute number of visits in this category more than doubling from 2015 to 2019, and its share in total visits rising from 31% in 2015 to 43% in 2019.

The two other main categories of international visits are “visiting friends and relatives” and “transit.” The number of visits in both has been stable over time, growing by just 19% and 25% respectively from 2015 to 2019. Such modest growth led both categories’ share in total visits to decrease in this time. While the category of “business or professional” visits maintained a relatively modest share (11% in 2019), it grew significantly in absolute numbers, with an increase of 46% from 2015 to 2019. “Shopping”, with a 7% share in 2019, increased by 2.4% on average each year over the analyzed period, while “health and medical care” and “other” visits did not account for a noteworthy share of total visits over the given period.

Chart 1.5 The number of visits by international visitors by purpose, and the share of each category in total



Source: International Visitor Survey

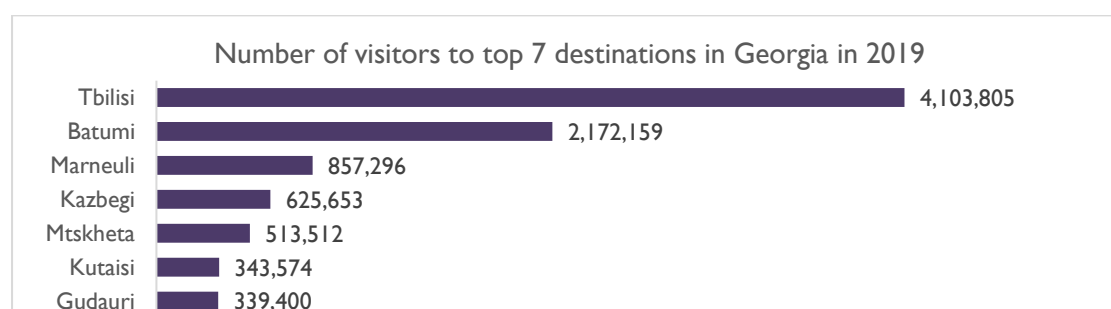
If we look at the purpose of visits by country group, based on the same survey, it is observable that in 2019, 74% of all visits from the EU (including the UK) were attributed to the “holiday, leisure, and recreation” category. This category was also the main purpose for visitors from Turkey (69%), whose second most popular purpose of visit was “business and professional.” “Holiday, leisure, and recreation” was also prominent for visitors from Russia (50%), with “transit” and “visiting friends/relatives” also having significant shares at 22% and 20% respectively. For visitors from Armenia, “holiday, leisure, and recreation” was overtaken by “transit” as the most dominant category (32%), followed by “visiting friends/relatives” (24%). As for visitors from Azerbaijan, their main purpose of

visit was “holiday, leisure, and recreation” (24%), however, followed closely by “visiting friends/relatives” (23%) and “transit” (22%).

Number of visitors by destination in Georgia

Using the International Visitor Survey by Geostat, the number of international visitors to Georgian cities and towns can be observed over time. The seven most visited locations in 2019 were Tbilisi, Batumi⁵, Marneuli, Kazbegi, Mtskheta⁶, Kutaisi⁷, and Gudauri.

Chart 1.6 Number of visitors in top 7 sights in Georgia in 2019



Source: International Visitor Survey

Some specific locations/sights which have stood out in terms of their average annual growth rate in number of visitors throughout 2015-2019 include Tusheti (61%), David Gareji (49%), Gudauri (47%), Shovi and Utsera (44%), and Shatili and Mutso (43%). As for growth in absolute number of visitors in 2019 compared to the number of visitors in 2015, Gudauri (260%), Ureki (203%), Signaghi (183%), Shovi and Utsera (173%), Kutaisi (165%), and Telavi (163%) recorded the highest increases.

It is also worth pointing out that most of the locations/sights are seasonal, as evidenced by the number of visitors revealed by an analysis of the quarterly data. More specifically, the number of visitors in Q3 of each covered year significantly exceeded the number of visitors in any other quarter. Some exceptions to this trend include Gudauri and Bakuriani, the two biggest ski resorts in Georgia, where Q1 and Q4 were dominant (albeit figures are still strong in Q3 for Bakuriani). Rustavi, a major car-trading center, and Bolnisi, Gardabani, and Marneuli, cities/towns with significant Azerbaijani populations, did not experience any pronounced seasonality.

The full yearly data on the number of visitors visiting Georgian locations/sights can be found in appendix 6.1.

Foreign direct investment (FDI) trends in the HORECA sector

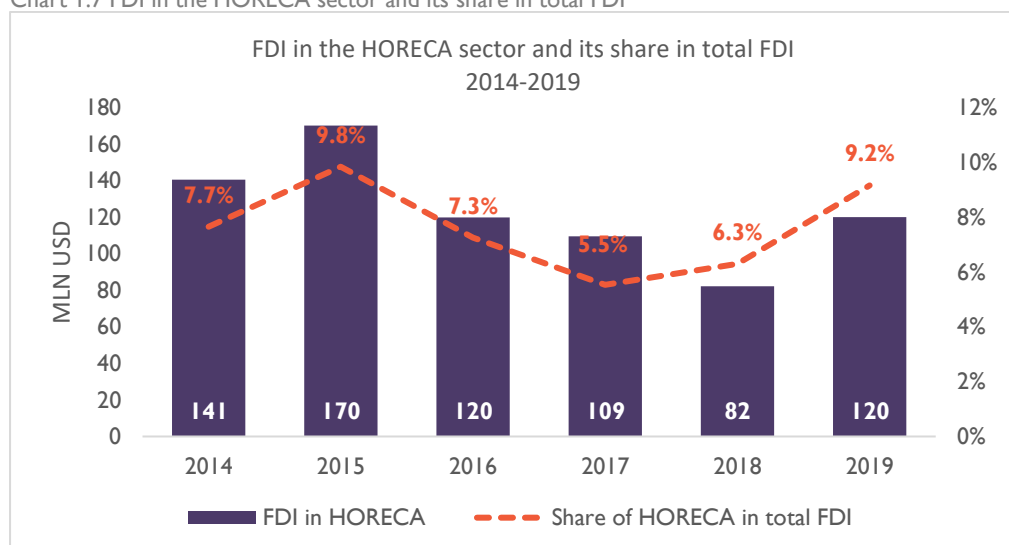
The prevalence of foreign direct investment (FDI) is a major factor in the development of every sector, especially in developing countries. The analysis of FDI patterns in the hotels, restaurants, and cafes (HORECA) sector reveals that it stood at USD 120 million in 2019. Starting from 2015, up until 2018, the trend for FDI flows was negative, with FDI in the HORECA sector decreasing from USD 170 million in 2015 to USD 82 million in 2018. In 2019, FDI in HORECA sector grew by 46.1%, allowing for a recovery to 2016 levels. Overall, FDI in HORECA sector increased by an average of just 0.8% each year in the analyzed period.

⁵ Including Kvartsi, Botanical garden, Gonio fortress, etc.

⁶ Including Svetitskhoveli Cathedral, Jvari monastery, Armazi fortress, Samtavro, Pompey's bridge, etc.

⁷ Including Gelati monastery, Bagrat's Cathedral, Tskaltubo caves, etc.

Chart 1.7 FDI in the HORECA sector and its share in total FDI



Source: National Statistics Office of Georgia

Trends in travel services

Travel services, provided mostly by travel agencies and tour operators, play a crucial role in the proper functioning of the tourism sector, as strong and professional travel services naturally boost the quality of tourism services offered.

According to the Business Register compiled by Geostat, the number of travel service providers in Georgia as of 1 January 2021 was 1453. Of these, 75.4% (or 1096) are located in Tbilisi. The sector mainly consists of small enterprises. In total, there are one large (in Tbilisi) and 17 medium-sized (14 in Tbilisi) enterprises in the travel services in Georgia as of 1 January 2021.

Turnover of enterprises in travel services increased throughout 2014-2019, with an annual average growth rate of 20.2%. In 2019, turnover reached GEL 760 million. The annual average growth rate has been similar to that of the aggregated sector (administrative and support service activities), which stood at 19.8%.

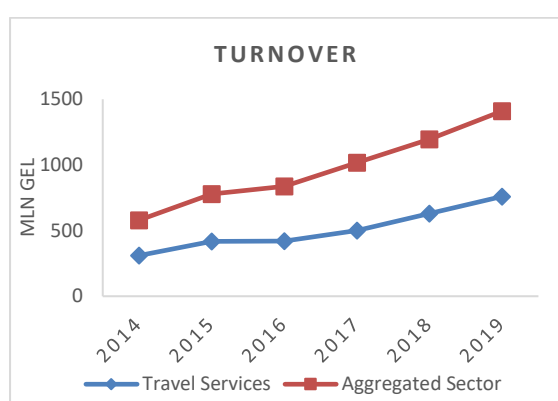


Chart 1.8 Turnover of travel services and corresponding aggregated sector

Source: National Statistics Office of Georgia

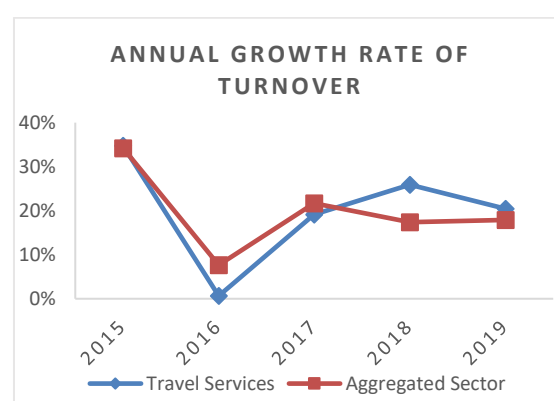


Chart 1.9 Change in turnover for travel services and corresponding aggregated sector

Value-added in travel services experienced strong growth over time, with a pronounced increase of 44% in 2016 (compared to 2015). On average, value-added in travel services outperforms that of the

aggregated sector, as its annual growth rate for 2015-2019 was 25.4%, as opposed to 15.6% for the aggregated sector.

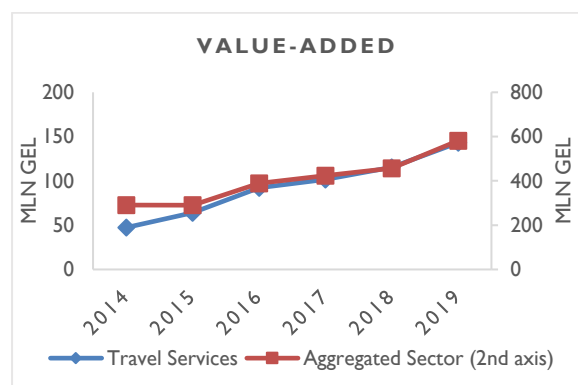


Chart 1.10 Value-added of travel services and the corresponding aggregated sector

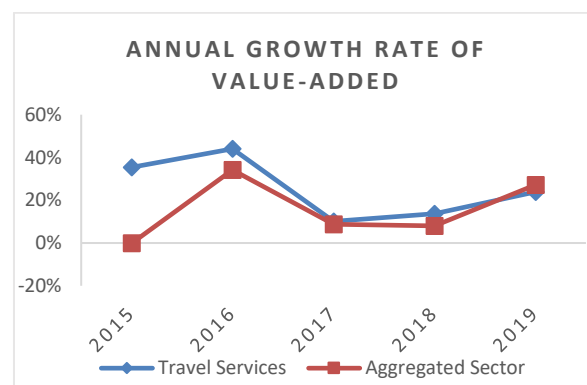
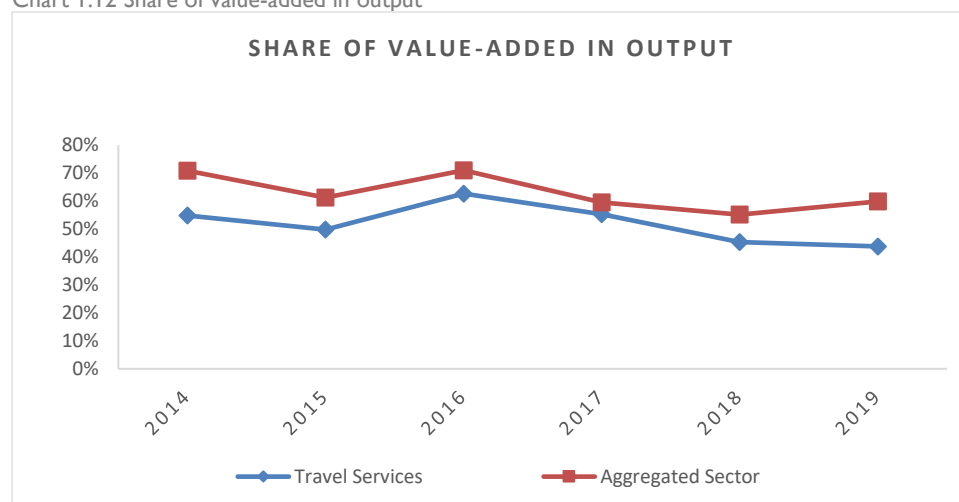


Chart 1.11 Change in value-added for travel services and the corresponding aggregated sector

Source: National Statistics Office of Georgia

The share of value-added in output was more or less stable over the analyzed period, albeit with a slight downward trend. The share of value-added decreased by 11 percentage points from 70.9% in 2015 to 59.8% in 2019. On average, the travel services sector's share of value-added in output compared to the aggregated sector was one percentage point lower.

Chart 1.12 Share of value-added in output



Source: National Statistics Office of Georgia

The patterns for employment growth are similar to those of turnover. Official employment in travel services reached 3 752 people in 2019, marking a 57.8% increase compared to 2 377 in 2014. On average, employment in the sector grew by 9.8% throughout 2015-2019, as opposed to the 3.2% growth recorded in the aggregated sector. The share of travel services employment in the aggregated sector's employment in 2019 was 14%.

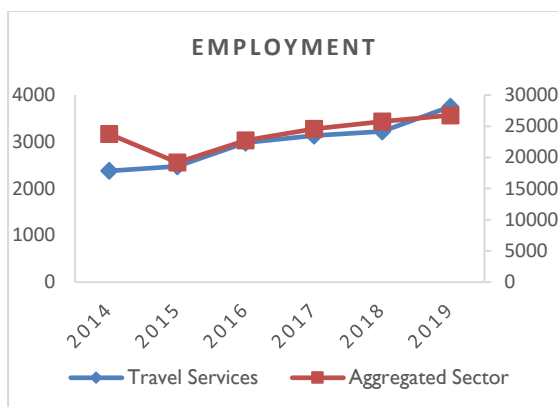


Chart I.13 Employment of travel services and the corresponding aggregated sector

Source: National Statistics Office of Georgia

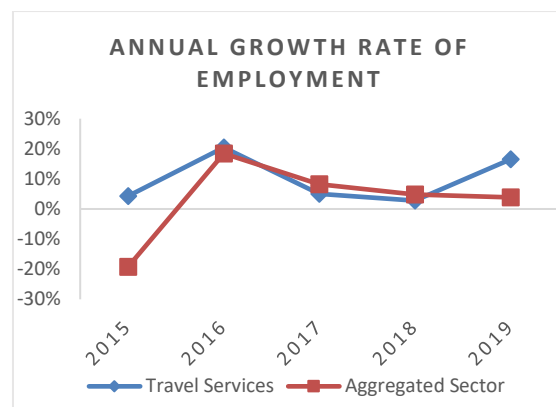
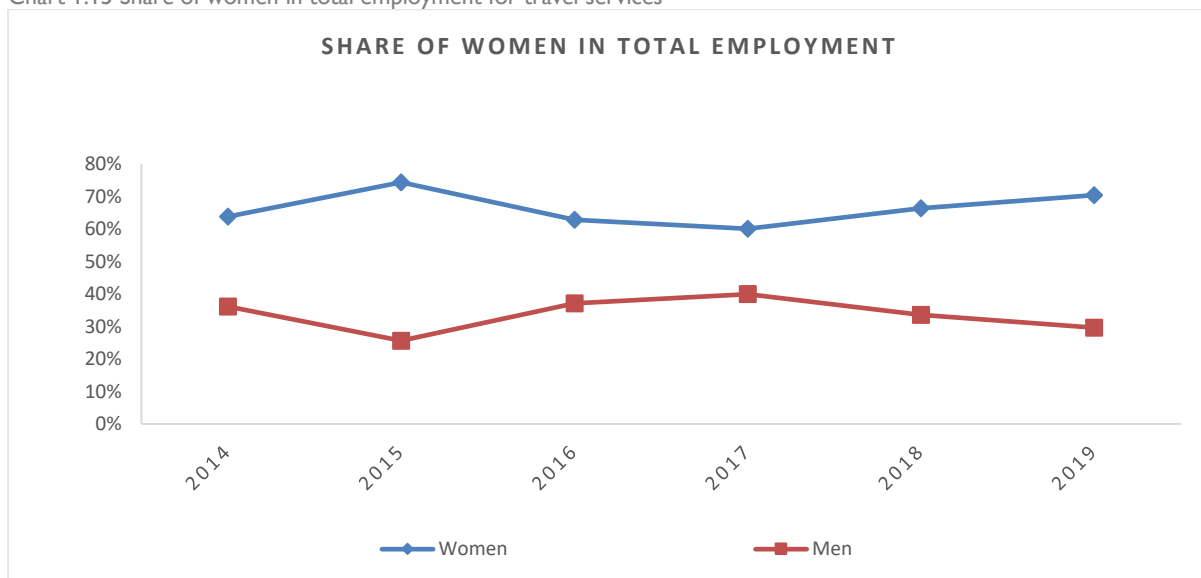


Chart I.14 Changes in employment for travel services and the corresponding aggregated sector

Importantly, travel services employ significantly more women than men. On average, the share of women in total employment was 32.6 percentage points higher than the men's share throughout 2014-2019, and it stood at 70.4% in 2019.

Chart I.15 Share of women in total employment for travel services



Source: National Statistics Office of Georgia

The average monthly salary experienced an annual average growth of 14.2% throughout 2015-2019 for travel services, while the aggregated sector experienced lower growth of 4.4% (average yearly inflation over this period was 3.9%). In absolute terms, the average monthly salary in travel services was GEL 1368.6 in 2019, which is GEL 504.4 higher than in the aggregated sector. To compare the average monthly salary in travel services to the overall average monthly salary in Georgia in 2019, the average salary in travel services was GEL 239.1 (or 21.2%) higher.

Productivity, as measured by output divided by the number of employed people, revealed a strong upward trend in the analyzed period for travel services. More specifically, it has been increasing by an annual rate of 20.4% on average, which is higher than that of the corresponding aggregated sector (16.9%).

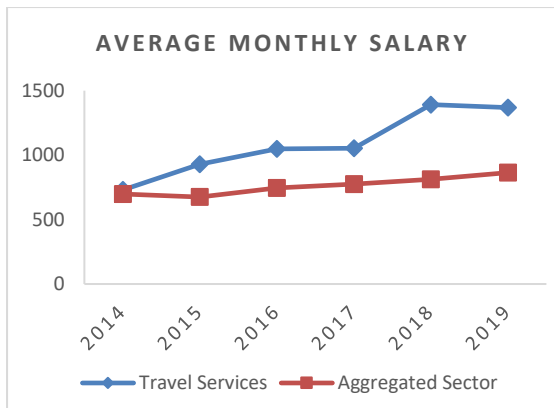


Chart I.16 Average monthly salary for travel services and the corresponding aggregated sector

Source: National Statistics Office of Georgia

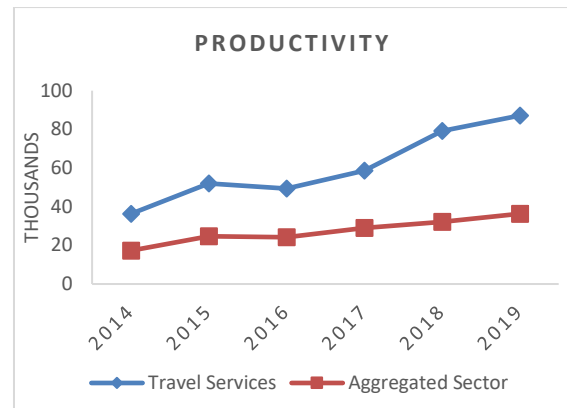


Chart I.17 Productivity for travel services and the corresponding aggregated sector

Investments in travel services have grown on average by 56.5% over the course of 2014-2019, experiencing a major rise in 2018, when investments increased more than fourfold compared to the previous year.

Chart I.18 Investments in travel services



Source: National Statistics Office of Georgia

SECTOR TRENDS (2020)

COVID-19 overview

Tourism across the world in 2020 was decimated by the COVID-19 pandemic. Since March 2020, the sector has been all but sidelined by various lockdowns including severe restrictions to international travel. To counter these difficulties, businesses in tourism-related industries were provided different support measures throughout 2020, and many of these have been extended into 2021.

On 26 February 2020, the first COVID-19 case was confirmed in Georgia. In order to stop the virus from spreading, the Georgian government banned regular international flights for all foreign visitors on 18 March 2020. Three days later, a state of emergency was declared, marking the start of the first

lockdown, which lasted for two months and ended on 22 May 2020. During this period, Georgia used one of the most stringent containment measures possible⁸.

The GoG has acknowledged the vulnerability of the tourism sector to the COVID-19 crisis since the very start of the pandemic. Indeed, the first anti-crisis measures were directed exclusively at the tourism sector. These measures included income tax deferral for four months for firms in tourism-related sectors, and the co-funding of 80% of interest payments for six months for small hotels. The package was designed to keep GEL 100 million in the economy, and to benefit 18,000 taxpayers and more than 50,000 employees.

On 24 April 2020, the economy-wide anti-crisis package was introduced, which included measures such as: 200 GEL monthly assistance to the newly-unemployed for six months; one-time 300 GEL assistance to the self-employed; full exemption from income tax for workers with monthly salaries under 750 GEL for six months; and the doubling of VAT returns to firms. These measures somewhat alleviated the burden of the crisis on the firms operating in all industries, including tourism.

On 7 May, the Government started to deliver a series of presentations about the sector-specific anti-crisis plans, rolling out the tourism-related anti-crisis plan first. The budget of the program amounted to GEL 200 million and it also provided approximate dates for the reopening of the tourism sector, with domestic tourism and foreign tourism scheduled to re-start on 15 June 2020 and 1 July 2020, respectively. Apart from the extension and modification of the two support mechanisms mentioned above, the anti-crisis measures included: credit guarantee schemes for accommodations and food facilities, which were offered a collateral subsidy of 90% on new commercial loans and 30% on existing loans in the process of restructuring; support in the introduction and implementation of UNWTO safety recommendations; a subsidy for travel agencies and guides on co-participation fees for tourism fairs and international travel; and a property tax exemption in 2020 for firms operating in the tourism sector.

In addition to these measures, during the lockdown and throughout 2020, the Georgian government used a number of hotels as quarantine zones, which partially helped these facilities to overcome the crisis.

In order to prevent the spread of the virus in tourism-related facilities, the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia (MoH) developed mandatory recommendations, which included several sector-specific safety requirements for accommodation facilities, food facilities, and tour guides. On 15 June 2020, domestic tourism reopened with the corresponding safety requirements in place.

Ultimately, the summer tourism season comprised exclusively domestic tourists, which inevitably failed to compensate fully for the loss of international visitors.

It is worth noting that regular international flights were initially supposed to resume from 1 July 2020. However, this planned resumption was subsequently postponed several times, and such flights did not return for the rest of the year on the intended commercial scale. These frequent changes in plans have added even more uncertainty to the troubled tourism sector. Eventually, regular international flights did resume as of 1 February 2021.

⁸ <https://ourworldindata.org/grapher/covid-stringency-index?tab=chart&stackMode=absolute&time=2020-01-22..2021-01-09&country=~GEO®ion=World>

On 15 September 2020, the UNWTO held the 112th session of its Executive Council in Tbilisi. At the time, the event was one of the first major international events not to be held virtually since March 2020.

From the end of September 2020, the epidemiological situation in the country began to worsen alarmingly, partially attributed to high levels of domestic tourism, especially in the Adjara region. In order to keep the number of COVID-19 cases down, the GoG announced a second two-month-long lockdown on 28 November 2020, with slightly less stringent measures than were applied in the first lockdown. During this period, restaurants, cafes, and other food businesses had to revert exclusively to a delivery service. More importantly, hotels in winter resorts were only allowed to function as COVID-19 quarantine centers, and the operation of ski lifts was suspended, resulting in a resulting in the winter season being all but lost for Georgian tourism for Georgian tourism.

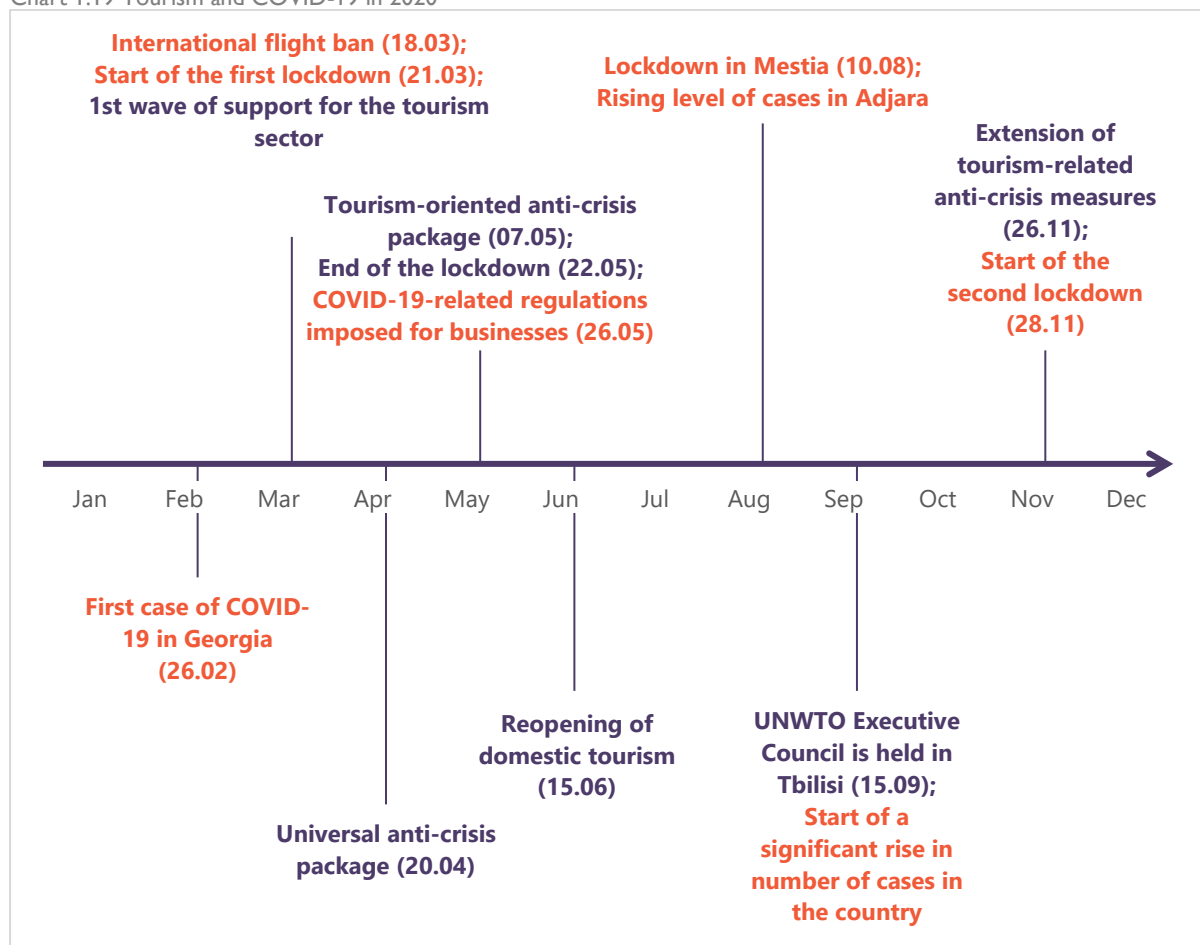
On 26 November 2020, the GoG extended some of the support measures for the tourism sector into 2021 and modified some of the measures for the rest of 2020. Specifically, a concession of the originally deferred property tax was made for firms in tourism-related industries (GEL 45 million), as well as a tax write-off for the previously deferred four-month income tax payments from 2020 (GEL 20 million). Moreover, interest subsidies for bank loans of hotels were extended for a further six months, with food facilities and event management companies also added to the list of beneficiaries⁹.

Since the start of the second wave of COVID-19 infections in September, discontent with the GoG's containment measures has been growing. Tourism sector representatives have been trying to push the GoG to alleviate these restrictions and allow for at least some international travel, with an escalation to mass protests throughout the year. At the time of writing, a pertinent issue for the sector is the reopening of ski-lifts in order to glean at least something from the winter season, while accelerating the process of reopening food facilities was also being loudly called for.

Please see the timeline of the key events for tourism in Georgia in 2020 in the diagram below:

⁹ IMF Policy Tracker - <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

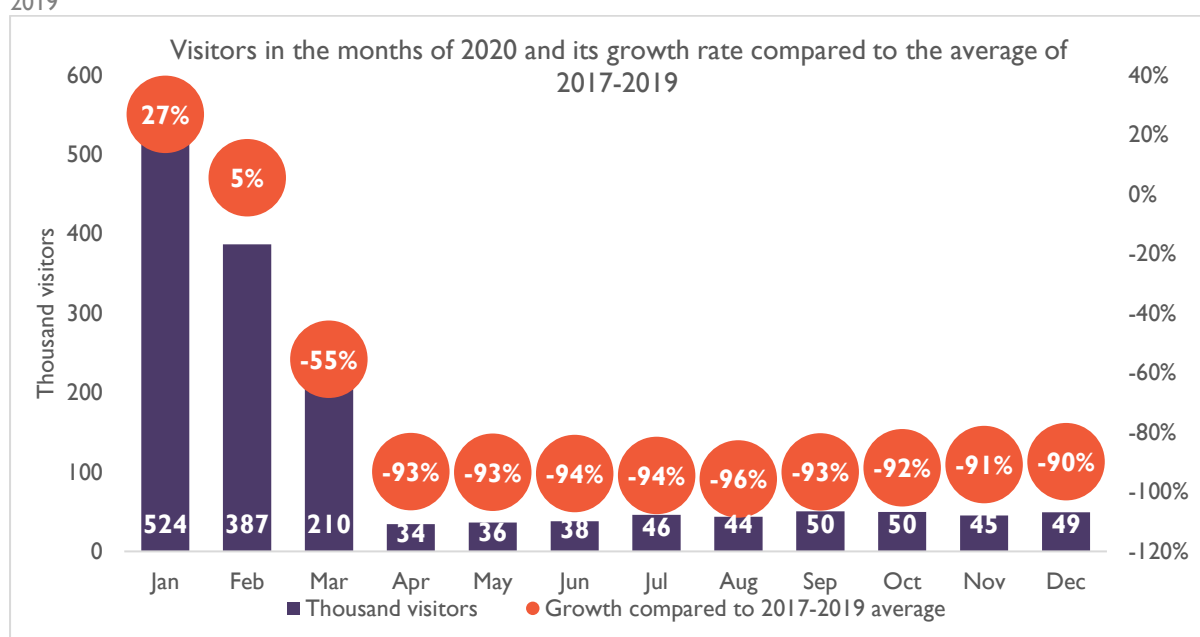
Chart I.19 Tourism and COVID-19 in 2020



Number of visitors in 2020

As already mentioned, COVID-19 and the related restrictions on mobility in and between countries have had a tremendous impact on the number of international visitors to the country. When compared to the average for the corresponding months of 2017-2019, Georgia experienced a drop of more than 90% in the number of foreign arrivals every month since April.

Chart I.20 Visitors by month of 2020 and the growth rate compared to the average for the corresponding month of 2017-2019



Source: Georgian National Tourism Administration

It is worth mentioning that the gender balance of visitors to Georgia since April 2020 has been uneven: males accounted for more than 90% of total visitors, which can be explained by the fact that during this period, the majority of visitors were truck drivers conveying goods through the country. Accordingly, comparing visitor expenditure in 2020 to previous years would be relatively meaningless. When the regional context is analyzed, Georgia seems to have fared worse in 2020 than its neighbors. More specifically, Georgia lagged behind Turkey, the best-performing of the four countries (the other two being Armenia and Azerbaijan) by 8% in terms of tourist arrivals and by 13% in terms of tourism receipts.

Chart I.21 Yearly change in tourist arrivals and tourism receipts in the region in 2020



* - data for Turkey are available up to November 2020

** - data for Armenia are available up to September 2020

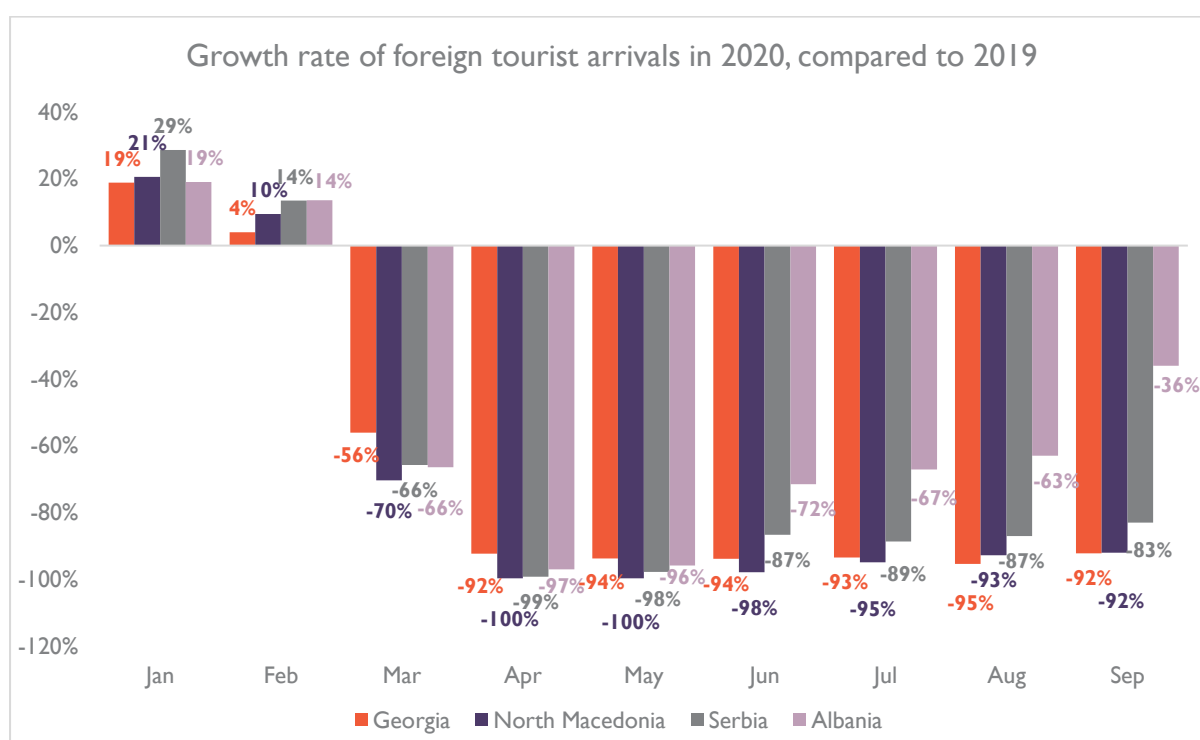
Source: United Nations World Tourism Organization (UNWTO)

Throughout 2020, the re-opening of borders for international arrivals was a contentious issue, with arguments lodged for both an unconditional re-opening of borders for the sake of the economy, as well as, on the other side of the spectrum, for the unconditional lockdown of the country for the sake of citizens' health. To analyze this issue from a broader perspective, in addition to the case of Georgia, three Southeast European countries were selected, each of which reopened without any testing and quarantine requirements: North Macedonia, Serbia, and Albania. In April and May 2020, each of these three countries had severe lockdown measures in place and subsequently registered a dramatic fall in the number of visitors, close to 100% compared to the corresponding period of 2019. In June 2020, some signs of recovery became visible for Serbia and Albania, albeit the Serbian numbers stagnated at around a 90% fall for the ensuing months of the year. The number of international visitors to Georgia and North Macedonia decreased by more than 90% in every month after April until September. Albania, meanwhile, managed more of a recovery, with its number of foreign visitors at -72% for June 2020 (compared to June 2019), and then -67% for July, -63% for August, and a more encouraging -36% for September.

The case of Albania could be considered a success story, especially as the spread of the virus has remained more or less in line with the average for Eastern European and Central Asian countries in terms of number of cases per million people, at least before the second wave hit in autumn 2020. However, there are several factors to bear in mind here that made it possible for Albania to recover its tourism sector to a greater extent than the other three countries (Georgia, North Macedonia, and Serbia). One of the most important factors was that the epidemiological situation in Albania was similar to that of its neighboring countries, and in August, 56% of foreign visitors to Albania came from these very countries.

While there has been much criticism of Georgia's cautious approach to reopening, after analyzing Albania's case, there are several factors that need to be taken into account that may justify the Georgian stance. Pertinently, in the case of Georgia, it would be impossible to significantly recover the number of visitors from its neighboring countries without risking the uncontrolled spread of the virus, as each of Georgia's neighbors has experienced relatively high infection rates in this period. In 2019, visitors from its four neighboring countries accounted for 71% of total visitors. This means that while reopening regular flights with relatively safe countries would compensate for some of the decline in tourism, it would most likely not have a sizable impact on the number of total visitors and would thus draw limited revenues as well. Moreover, if the epidemiological situation in the country was to worsen, domestic tourism would suffer as well.

Chart I.22 Changes in tourist arrivals by month in selected countries

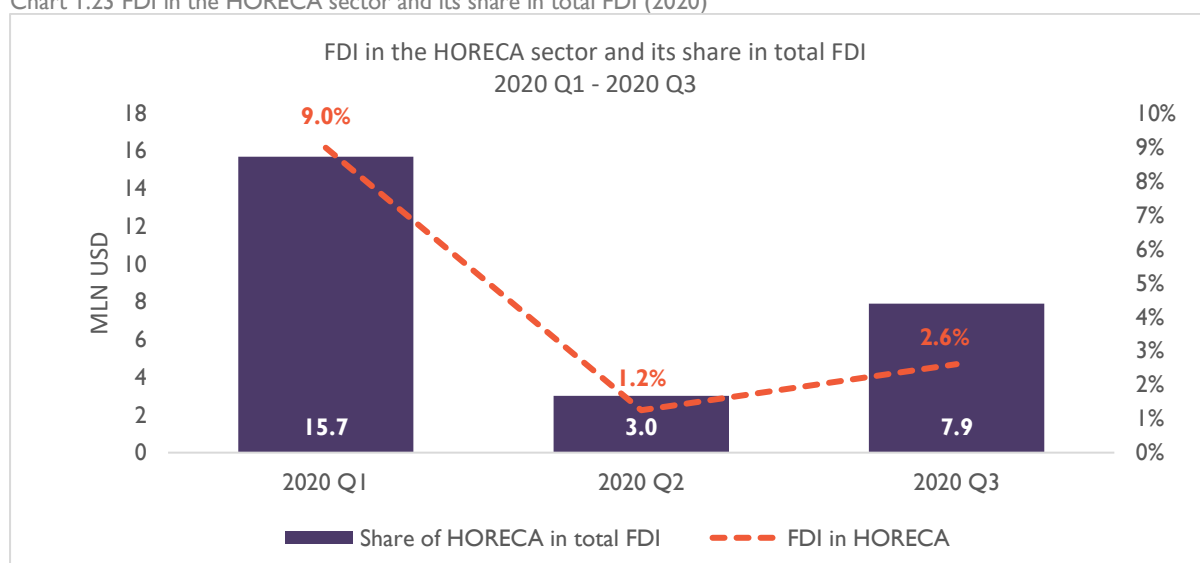


Source: United Nations World Tourism Organization (UNWTO), respective tourism administrations.

Foreign direct investment (FDI) trends in the HORECA sector

It is worth noting that due to the COVID-19 pandemic and the subsequent economic crisis, FDI has decreased overall as well as in most individual sectors. Given the magnitude of the crisis's impact on tourism, in 2020, FDI in the HORECA sector saw one of the sharpest declines in Georgia, with year-on-year falls of 73% in Q1, 85% in Q2, and 78% in Q3. Subsequently, the share of FDI directed to the HORECA sector from total FDI decreased to 9% in Q1, 1.2% in Q2, and 2.6% in Q3.

Chart I.23 FDI in the HORECA sector and its share in total FDI (2020)



Source: National Statistics Office of Georgia

ACCOMMODATION

Value chain trends

In Georgia, the growth of the accommodation value chain in recent years had been largely driven by demand from international visitors, with this value chain making up a significant proportion of the tourism sector as a whole.

According to Geostat's Business Register, the number of accommodation facilities in Georgia as of 1 January 2021 was 2 758. Of these, 57.3% (or 1 581) are located outside of Tbilisi. The accommodation value chain mainly consists of small enterprises. In total, there were eight large (five in Tbilisi) and 65 medium-sized (41 in Tbilisi) accommodation facilities in Georgia as of 1 January 2021.

It is worth noting however that on hotel and accommodation websites such as booking.com and Airbnb.com, there are far more advertised accommodations than those listed under the official statistics.

The analysis of turnover of the accommodation value chain and comparing it to the corresponding aggregated sector (accommodation facilities and food service facilities) reveals that both the accommodation value chain and the tourism sector overall had been growing each year substantially. More specifically, the value chain grew at an annual average growth rate of 30.8% in the period of 2015-2019, growing considerably faster than the aggregated sector (20%).

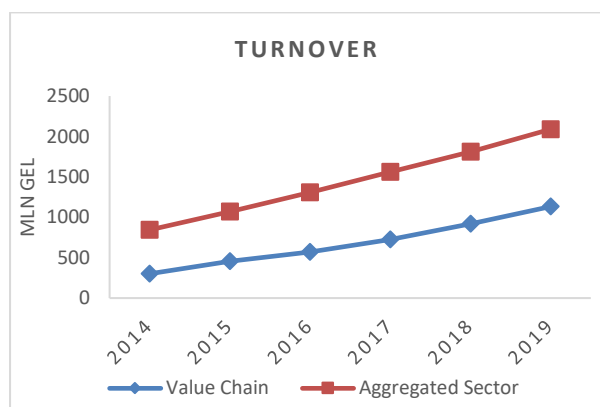


Chart I.24 Turnover of the accommodation value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

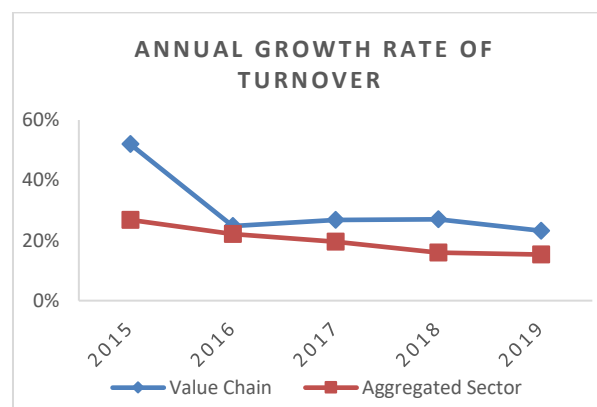


Chart I.25 Changes in turnover for the accommodation value chain and the corresponding aggregated sector

Value-added in the accommodation value chain has also experienced strong growth over time, with a pronounced increase of 53.1% in 2019 (compared to 2018). On average, the accommodation value chain's value-added growth has outperformed that of the aggregated sector, as its annual growth rate through 2015-2019 was 36.9%, as opposed to 27.5% for the aggregated sector.

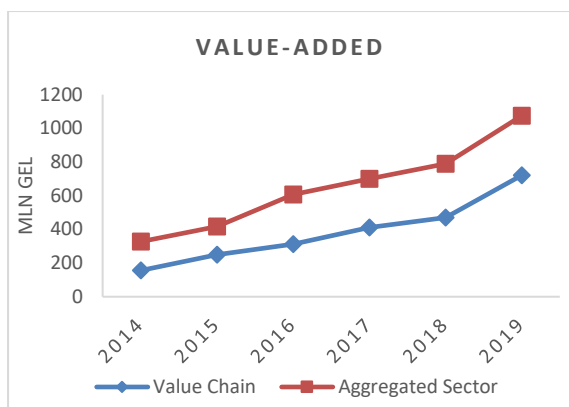


Chart I.26 Value-added of the accommodation value chain and the corresponding aggregated sector

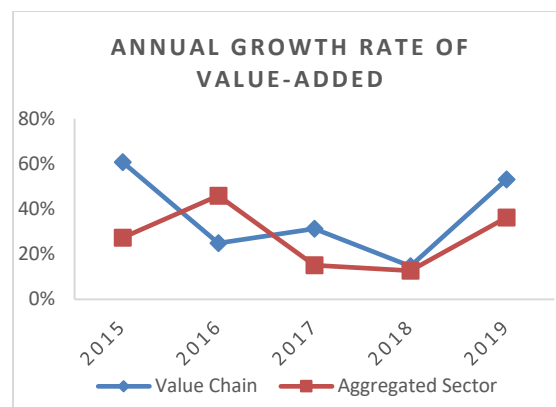
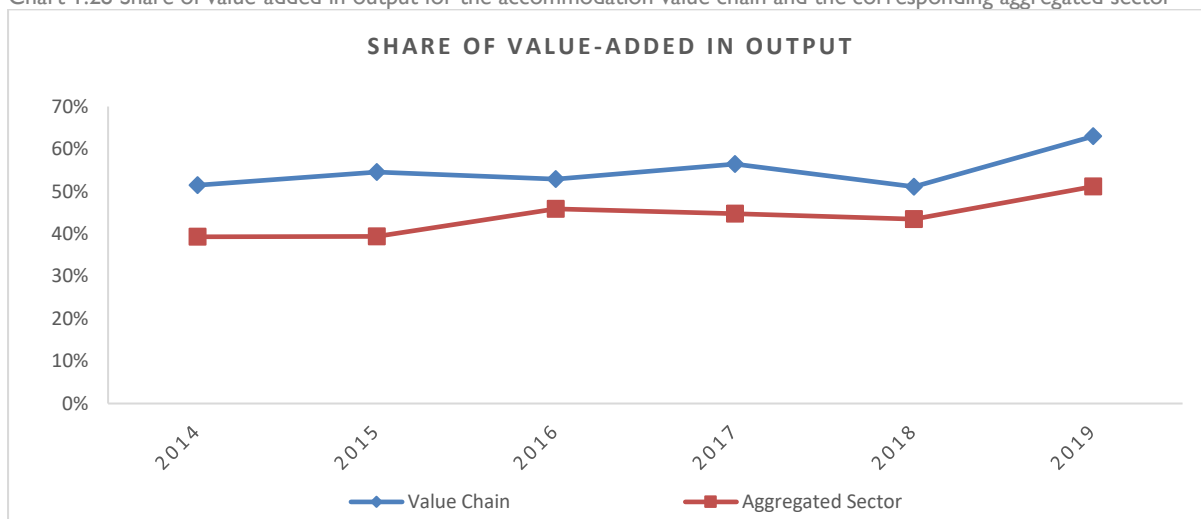


Chart I.27 Changes in value-added for the accommodation value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

The share of value-added in output has been more or less stable over the analyzed period, with the exception of a pronounced increase in 2019 (from 51.1% in 2018, to 63.0% in 2019). On average, the accommodation value chain's share of value-added in output is 10.9 percentage points higher compared to the aggregated sector.

Chart I.28 Share of value-added in output for the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The pattern in employment growth is similar to that of the aforementioned key indicators. In particular, employment in the accommodation value chain amounted to 21 078 people in 2019, representing a more than twofold increase from 9 013 in 2014. On average, employment in the sector grew annually by 18.6% throughout 2015-2019, as opposed to the 8.9% average annual growth recorded by the aggregated sector. Regarding the share of the accommodation value chain's employment in aggregated sector employment, this amounted to 45.9% in 2019.

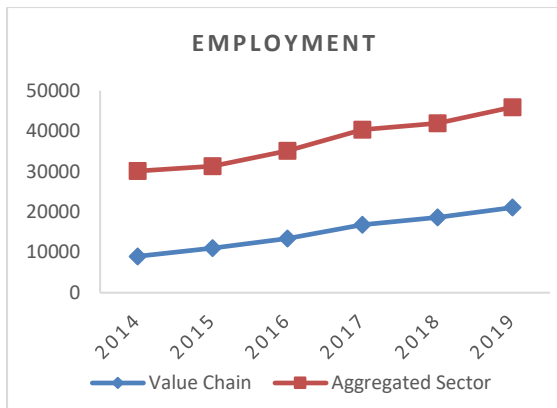


Chart I.29 Employment in the accommodation value chain and the corresponding aggregated sector

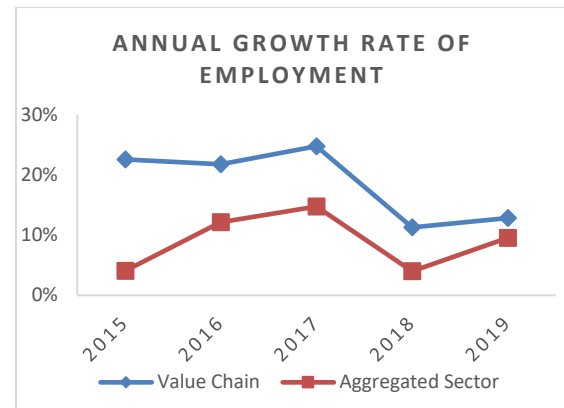
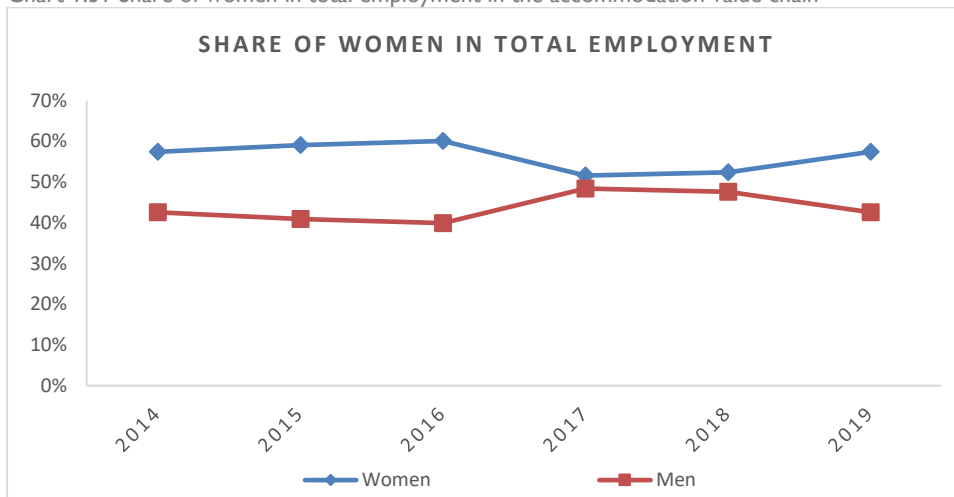


Chart I.30 Changes in employment in the accommodation value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

When it comes to gender, it should be noted that the accommodation value chain employs more women than men. On average, the share of women in total employment was 12.7 percentage points higher than that of men through 2014-2019, with women making up 57.4% of employment in this value chain in 2019.

Chart I.31 Share of women in total employment in the accommodation value chain



Source: National Statistics Office of Georgia

The average monthly salary in the accommodation value chain experienced annual average growth of 10.6% through 2015-2019, while the corresponding aggregated sector experienced slightly higher growth of 12.5% (average yearly inflation over this period was 3.9%). In absolute terms, the average monthly salary in the accommodation value chain reached GEL 1056 in 2019, which is GEL 202.4 higher than in the aggregated sector. Upon comparison of the average monthly salary in the value chain to the overall average monthly salary in Georgia as a whole in 2019, the former was GEL 74 (or 6.5%) lower.

Productivity, as measured by output divided by the number of employed people, was also on an upward trend in the analyzed period for the accommodation value chain. More specifically, it increased by an annual rate of 10.4% on average, compared to a slightly higher 10.8% for the aggregated sector.

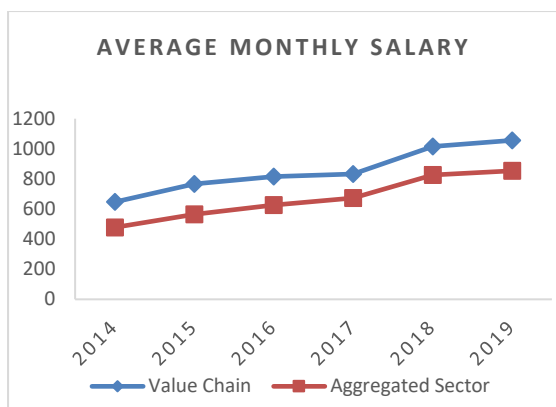


Chart I.32 Average monthly salary in the accommodation value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

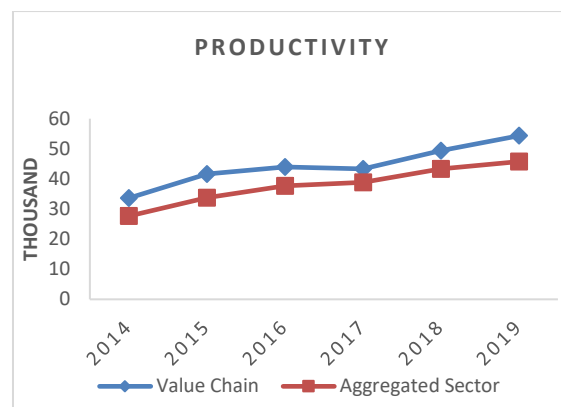
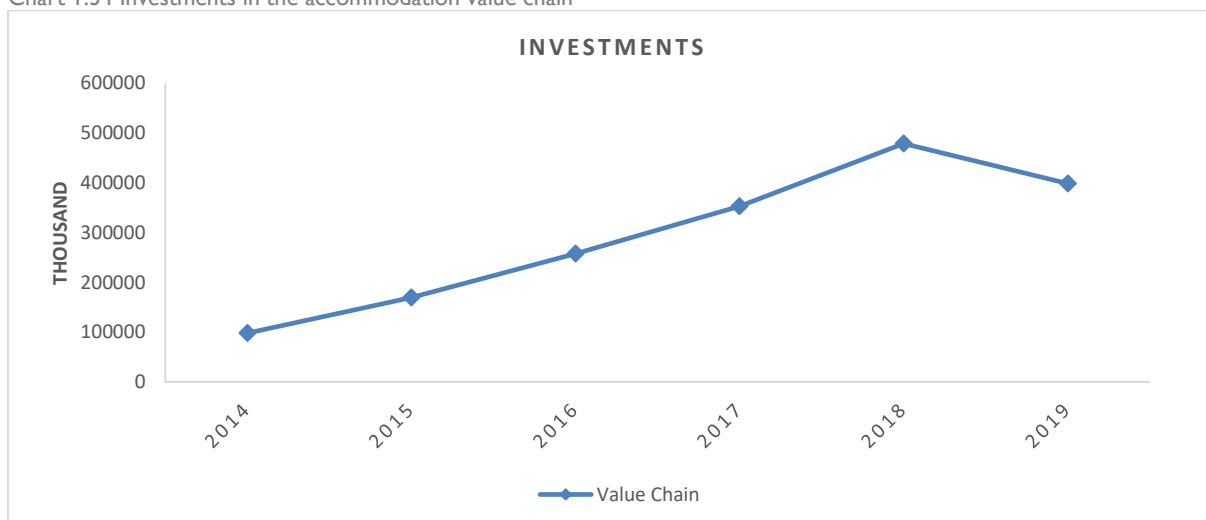


Chart I.33 Productivity in the accommodation value chain and the corresponding aggregated sector

Investments in the accommodation value chain also enjoyed an upward trajectory over the course of 2014-2018 before suffering a 16.8% drop in 2019. Even despite this drop, the average annual growth rate through 2015-2019 was still 36.2%.

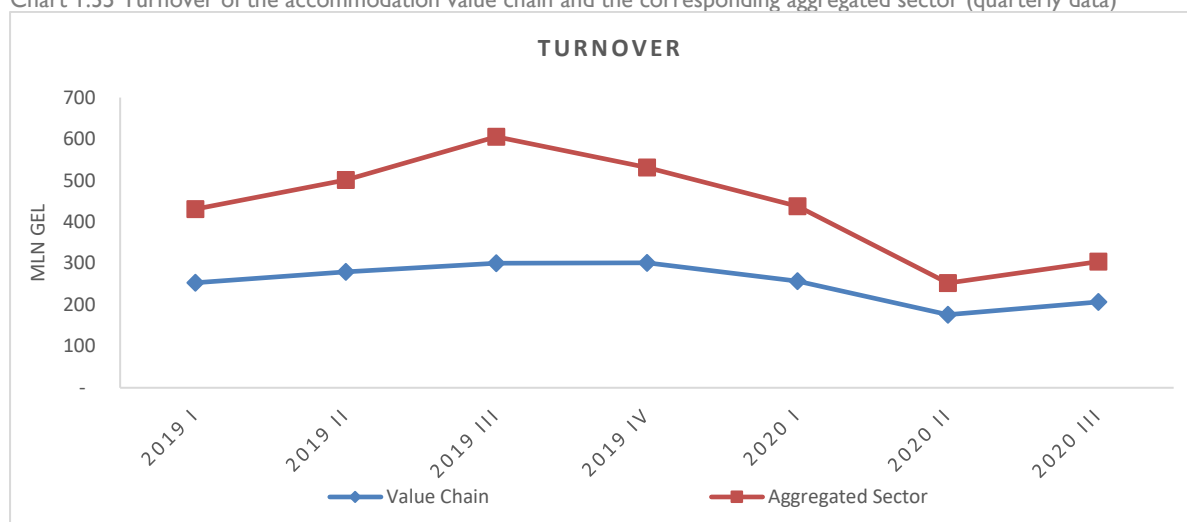
Chart I.34 Investments in the accommodation value chain



Source: National Statistics Office of Georgia

In 2020, due to the COVID-19 pandemic, most indicators witnessed a massive drop. In Q2 and Q3 of 2020, the turnover of accommodation enterprises fell by 65.7% and 68.3%, respectively, when compared to the corresponding quarters of 2019. Similar dynamics were visible in terms of output, while productivity also suffered, albeit at a slightly lesser magnitude – a 47.5% decrease in Q2, and a 51.8% decrease in Q3.

Chart I.35 Turnover of the accommodation value chain and the corresponding aggregated sector (quarterly data)



Source: National Statistics Office of Georgia

Employment and average monthly salary suffered less than the indicators discussed above, however a decline is still evident. In Q2 of 2020, employment in the value chain decreased by 15.6% (2207 employees) compared to the same period of 2019, and by 21.7% compared to Q1 of 2020. In Q3, this decrease soared to 26.2% year-on-year, equivalent to a loss of 4236 registered jobs. As for the average monthly salary, the indicator decreased more emphatically, by 20.1% (equivalent to a decrease in average monthly salary of GEL 239) in Q2 and by 22.4% (a decline of GEL 281) in Q3, both compared to the corresponding periods of the previous year.

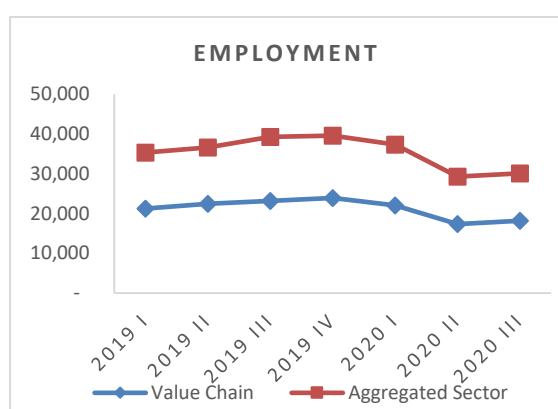


Chart I.36 Employment in the accommodation value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

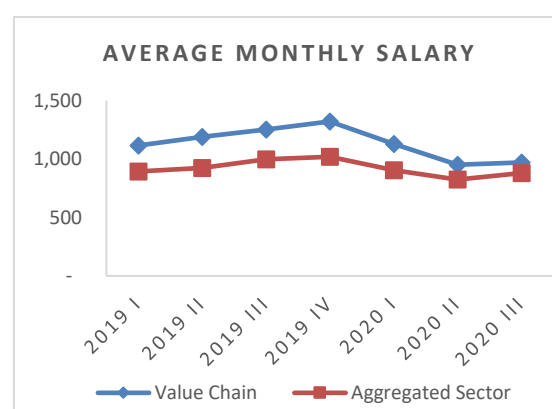


Chart I.37 Average monthly salary for the accommodation value chain and the corresponding aggregated sector (quarterly data)

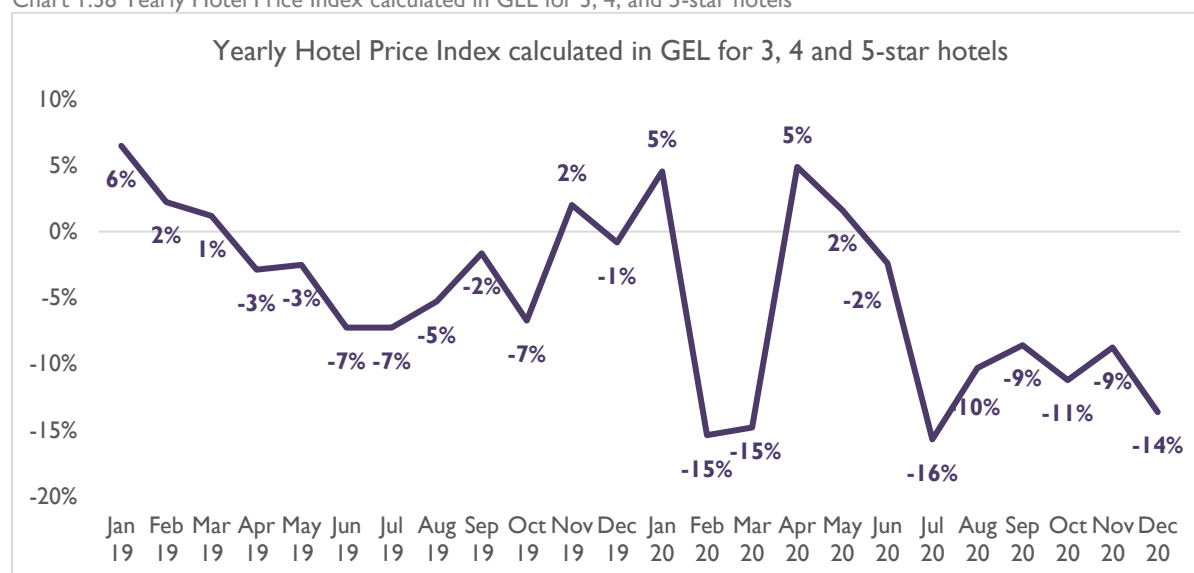
Hotel price dynamics in Georgia

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 hotels¹⁰ and guesthouses. Meanwhile, the Yearly Hotel Price Index shows how the average prices change compared to the corresponding months of the previous year.

¹⁰ 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 calculation of the Hotel Price Index is based on the recommendations given by the

When yearly hotel prices in Georgia are analyzed, a pattern of decreasing prices can be observed even before COVID-19 hit. It is worth mentioning that a significant number of accommodations did not change their prices during the year. Thus, the results with respect to price changes could be slightly distorted. This was especially evident during April and May 2020 when, despite the restrictions imposed on accommodations, the prices for 3, 4, and 5-star hotels¹¹ increased by 5% and 2%, respectively. After domestic tourism reopened in June, the index started to reflect a more realistic picture, even if a sizable share of accommodations still left their prices unchanged. It is highly probable that the decline in prices has been more severe than reflected in the index.

Chart 1.38 Yearly Hotel Price Index calculated in GEL for 3, 4, and 5-star hotels



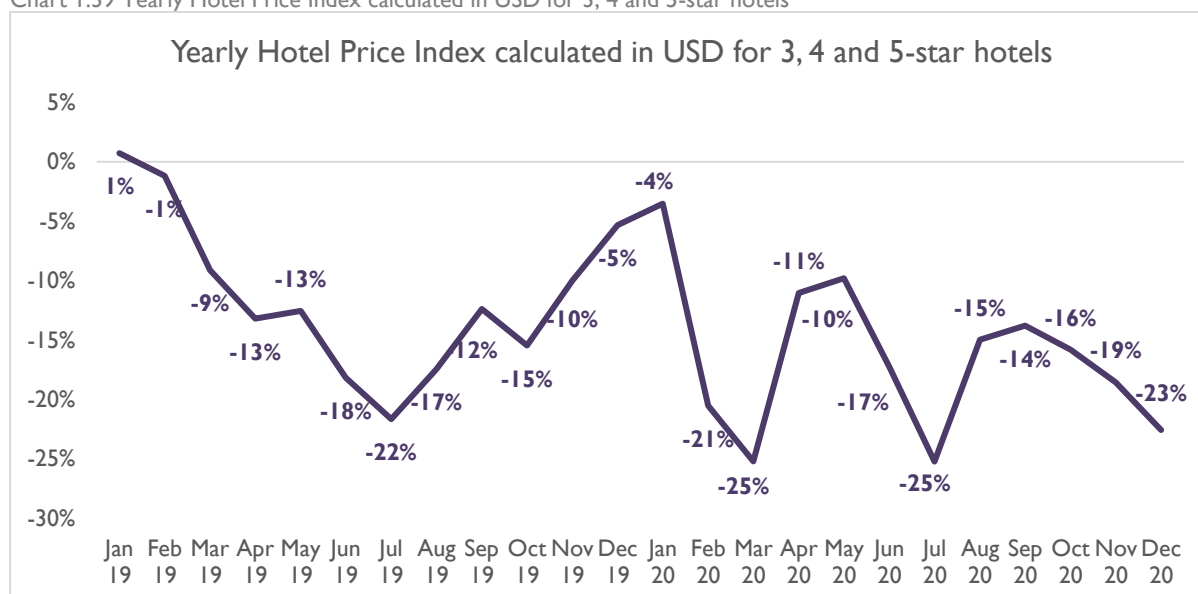
Source: PMC Research Center

In addition, it could also be useful to conduct an analysis of the Hotel Price Index calculated in USD. Indeed, the trend of decreasing prices is even more evident in USD, as the index recorded growth in only one month (January 2019) during the covered period. In 2020, the highest year-on-year declines were recorded for the months of March and June (both by 25%).

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)).

¹¹ As classified on www.booking.com listings. Georgia does not have an official regulation for assigning star ratings for hotels.

Chart 1.39 Yearly Hotel Price Index calculated in USD for 3, 4 and 5-star hotels



Source: PMC Research Center

Overview of the existing challenges and opportunities

This assessment is based on individual and focus group meetings with representatives from the private sector, business associations, and destination management organizations (DMOs).

In general, most of the stakeholders from the private sector are members of tourism associations. Nevertheless, opinion about the importance of business associations for the sector's development was split. On the one hand, some business actors expressed complaints about such associations in the tourism sector being ineffective and even worthless, while on the other hand some highlighted the important role associations can play as mediators between the private and public sectors as well as in policy advocacy. According to the most of respondents, for the first wave of the COVID-19 pandemic, the recommendations from the business sector were considered properly by the GoG and, in turn, their responses have been adequate and relevant to the ongoing situation. In this regard, the arguments signaled by representatives from the private sector, DMOs, and business associations coincided. However, according to respondents, the Government's approach has changed over time, with decisions of the authorities being made without sufficient consultation with the private sector. Besides, issues related to limited budgets and the corresponding incapability to deliver required services to business actors, were stressed by the Kakheti DMO. Yet, some business actors reported being surveyed to identify general issues and possible approaches to overcoming them. In these cases, such actors feel supported by and connected with state actors.

During the pandemic, medium and large hotels performed relatively well when domestic tourism reopened, while small and especially unregistered businesses faced huge obstacles and a substantial portion became insolvent. However, the competition in the accommodation value chain has been described as high. Meanwhile, according to the stakeholders, there were numerous construction projects that were planned for 2020, but have been postponed to the end of 2021.

A general concern of the value chain's representatives is that the country is losing its competitive advantage at the international level. Some respondents expressed expectations that, after the lockdown and reopening, supply will exceed demand in the accommodation market and some business

actors might be prone to price dumping. This, according to some stakeholders, will have a considerable effect on the quality of services.

As underlined in other value chains of the tourism sector, the disorderly business environment and the existence of a shadow economy were mentioned among the key challenges in the accommodation value chain. More specifically, this layer concerns uncontrolled business actors not paying taxes and yet being immune from penalties, which eventually impacts harmfully on quality and competitiveness in the market. As the stakeholders stressed, these uncontrolled businesses make deals with customers (even in Russian currency) and, on the other hand, were among those most actively demanding subsidies and later on receiving them from the Government. Thus, what stakeholders request from the Government is to enforce equal rules of the game for each player in this value chain. If the Government's approach is not rigid in this matter, according to the value chain actors, this will also have an impact on the attitudes of HVM tourists.

For majority of interviewed private sector representatives, public-private dialogue is not vigorous enough in the accommodation value chain, which has become obvious during the pandemic. Some business actors emphasize the extensive importance of a suitable tourism strategy for the country. According to them, the budget of Georgian National Tourism Administration (GNTA) for 2021 decreased compared to 2020. Although such a reduction has been mainly caused by the cancellation of international exhibitions that the GNTA would normally attend, this budget should have been used to stimulate the Georgian tourism sector in different directions. For example, the opening of Georgian restaurants in Western Europe has been marked as an important means of promoting Georgian gastronomy and hospitality at the international level. The GNTA's urgency in positioning Georgia at international markets has been marked as vital.

The stakeholders also cited some good results gleaned for Georgia from attracting tourists from post-Soviet countries, particularly from the Baltic states. Overall, the stakeholders requested that the GNTA consult initially with the accommodation value chain players and plan and build-up a promotion strategy thereafter.

In addition, the urgency of putting together a stable and exact plan for removing restrictions and reopening was brought up by many respondents. Sudden decisions made in setting and modifying lockdown periods, according to those surveyed, ruined the expectations of business operators and made them incapable making further plans. In contrast with other sectors, the tourism sector is not flexible and needs prior planning and arrangement periods.

The hotel industry's import dependency is high, and stakeholders are also concerned about the decreased quality of imported goods, caused mainly by exchange rate fluctuations and national currency devaluation. Among other input materials, food, on average, amounts to around one-third of hotel business operation costs. Not all food and beverage ingredients are produced locally, however, depending on seasonality, on average, 60% to 70% of total applied products are made in Georgia, as marked by some of the respondents.

According to the most of respondents, Georgia has to study and implement best international practices in the accommodation value chain developed to mitigate COVID-19. In the USA, for example, one of the methods through which social distancing has been achieved was closing certain rooms in hotels and ensuring distancing between available ski cabins at winter resorts. Besides, the majority of respondents suggested that Georgia has to be very active in its pursuit of know-how and innovations to rescue its tourism sector.

In summary, the following key challenges and possible outcomes have been observed:

Tourism sector strategy: First and foremost, the stakeholders highlighted the urgency and substantial importance of developing a pragmatic, output-oriented, and inclusive tourism strategy which would provide a rigid plan for each value chain (accommodation, adventure, culture, and gastronomy) of the sector.

Closed borders: As reported by a majority of stakeholders, closed borders and restricted air and land transport are hindering factor for the sector. In their opinion, the approach from the Government needs to be less strict. For example, this may include allowing vaccinated visitors to enter the country and, in general, setting different border control mechanisms with specific restrictions. Special marketing activities would also have to be carried out on international markets where the vaccination process is already well underway.

Country's positioning: Positioning Georgia today as a country that will soon be ready to host tourists and visitors is significant in the commencement of overcoming the crisis. The nation is in need of an immediate and results-oriented strategy to ensure the country's proper positioning on the market.

Tax relief: The tax burden is still one of the most challenging factors hindering business operations in the value chain. Grace periods were established by the Government, although these mainly involved suspensions rather than actual tax relief schemes. In order to recover from the crisis, the value chain and the sector will require additional tax liberalizations.

Market discipline: The uncontrolled business environment, and so-called shadow economy, are critical issues for the value chain. The respondents requested that the Government enforce equal rules for each business operator in the sector.

Introduction to the priority value chains of the tourism sector

Through consultations with the GNTA and the private sector, the following three key value chains (and related business activities) of the tourism sector (apart from the accommodation value chain) were prioritized by the program: *adventure tourism* (skiing, hiking, trekking, rafting, equestrianism); *cultural tourism* (cultural experiences, pilgrimages, and religious sites), and *gastronomic tourism* (food and wine).

This section introduces and compares these value chains while the following sections provide quantitative and qualitative assessments and analysis of each of the three value chains, separately.

Visitors' activities relating to the three priority value chains

When traveling in Georgia, different visitors are of course engaged in diverse activities. In this regard, the International Visitor Survey by Geostat estimates the number of visitors engaged in various categories of activity. Obviously, one visitor can engage in more than one activity, thus the sum of the people engaged in specific activities does not equate to the number of total visitors. The three most performed activities by visitors in 2019 included "Tasting Local Cuisine and Wine" (5 408 635 visitors engaged in this activity in 2019), "Shopping" (4 386 834), and "Sightseeing, Visiting Cultural and Historical Heritage, Museums" (3 294 920).

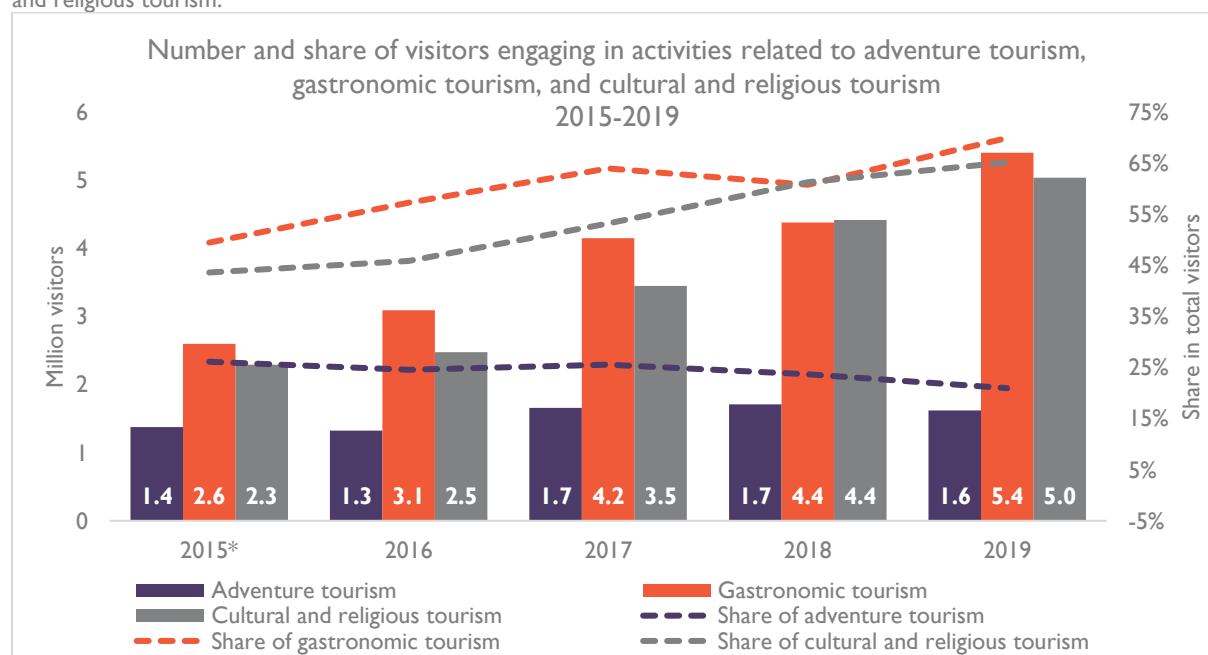
Unsurprisingly, the conducted activities are affected by the seasonality which is characteristic of Georgian tourism. However, there are some activities which are more common in quarters other than the most popular Q3. More specifically, "Skiing, Snowboarding, Heliskiing" and "Hunting and

Fishing” are more prevalent in Q1 and Q4. Some activities, such as “Attending Concerts, Festivals, Exhibitions, Cinema, Theatre, Participating in Local Holidays” and “Resting in Recreational Resorts” were as popular in Q4 as they are in Q3, while a higher number of visitors engaged in “Attending Sports Events” in Q4. Meanwhile, “Pilgrimages”¹² and “Getting Familiar with Local Art, Culture, Language, and History” were two activities that were not experiencing seasonal patterns as much.

Several of the conducted activities are associated with particular value chains of the tourism sector highlighted within this report. For instance, activities such as skiing, hunting, fishing, and visiting national parks are attributed to adventure tourism, while activities such as sightseeing, attending concerts/festivals, and pilgrimages are attributed to cultural tourism, while tasting local cuisine and wine is attributed to gastronomic tourism. The full yearly data about the number of visitors engaged in different activities are available in appendix 6.2. The activities therein are sorted according to their relation to one of the three selected value chains (adventure, cultural, and gastronomic).

When the number of visitors was analyzed by conducted activities linked to value chains, it was revealed that among the three selected value chains, adventure tourism was the least popular for the period of 2015-2019. Moreover, its share in total visitors decreased from 26% in 2015 to 21% in 2019. Still, the total number of visitors engaged in activities related to adventure tourism increased by 18% in 2019 compared to 2015. Gastronomic and cultural tourism value chains on the other hand recorded remarkable growth in the number of visitors engaged in related activities, as their numbers more than doubled in 2019 compared to 2015.

Chart 1.40 Number and share of visitors engaging in activities related to adventure tourism, gastronomic tourism, and cultural and religious tourism.



Source: International Visitor Survey

ADVENTURE TOURISM

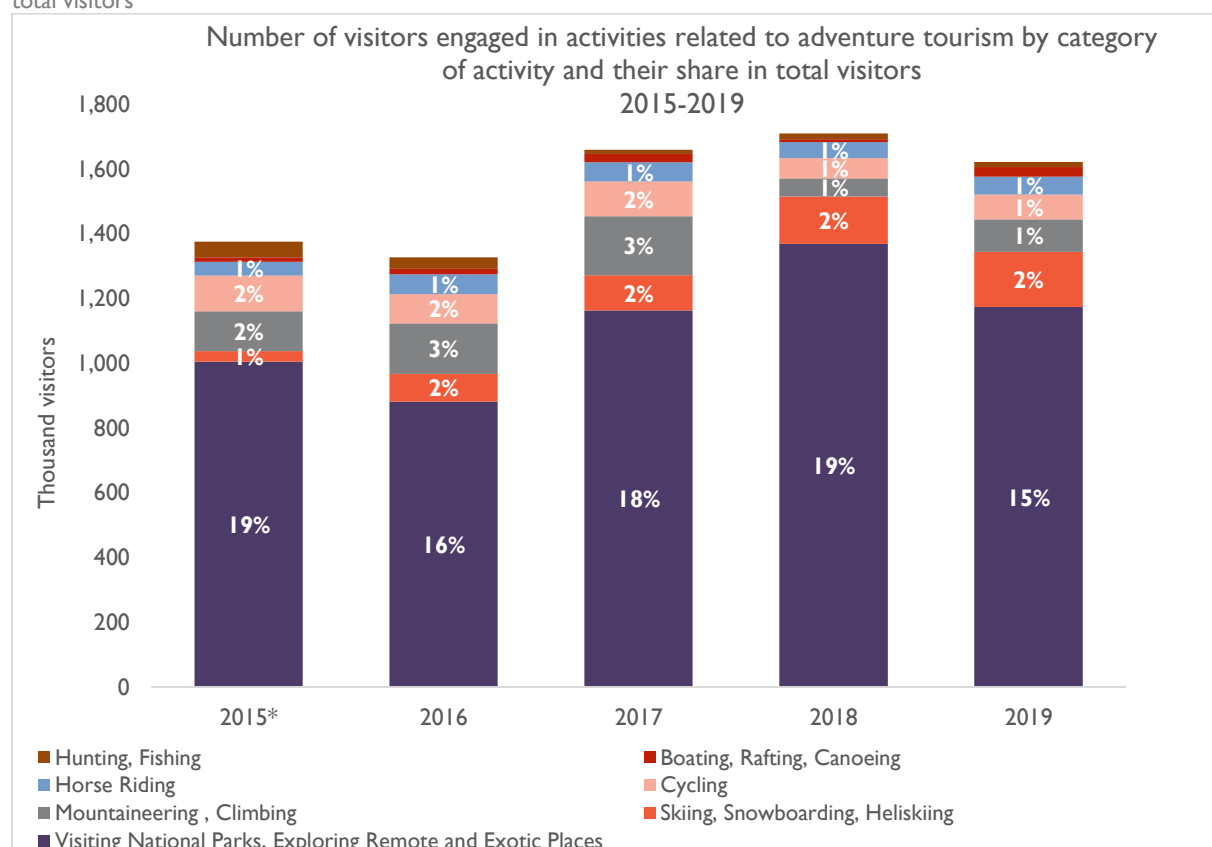
Among the three priority value chains of the tourism sector identified by the program, adventure tourism is significant in terms of value, potential for increased revenues, high-value job creation, and investment attraction.

¹² Includes also attending religious meetings and events, etc.

Activities related to adventure tourism

Individual activities related to each value chain have been analyzed separately. For adventure tourism, “Visiting National Parks, Nature, Landscape, Exploring Remote and Exotic Places” is a category of activity that dominates, with the share of visitors to Georgia engaged in this activity amounting to 15% of total visitors in 2019. Two other categories of activity - “Skiing, Snowboarding, Heliskiing” and “Boating, Rafting, Canoeing” - stand out as well with significant annual growth rates of 61% and 60% through 2015-2019, respectively. Moreover, the number of visitors engaged in “Skiing, Snowboarding, Heliskiing” increased fivefold in 2019 compared to 2015. Conversely, for the “Hunting and Fishing” category of activity the number of visitors decreased by 69% in 2019, compared to 2015.

Chart 1.41 Number of visitors engaged in activities related to adventure tourism by category of activity and their share in total visitors



Source: International Visitor Survey

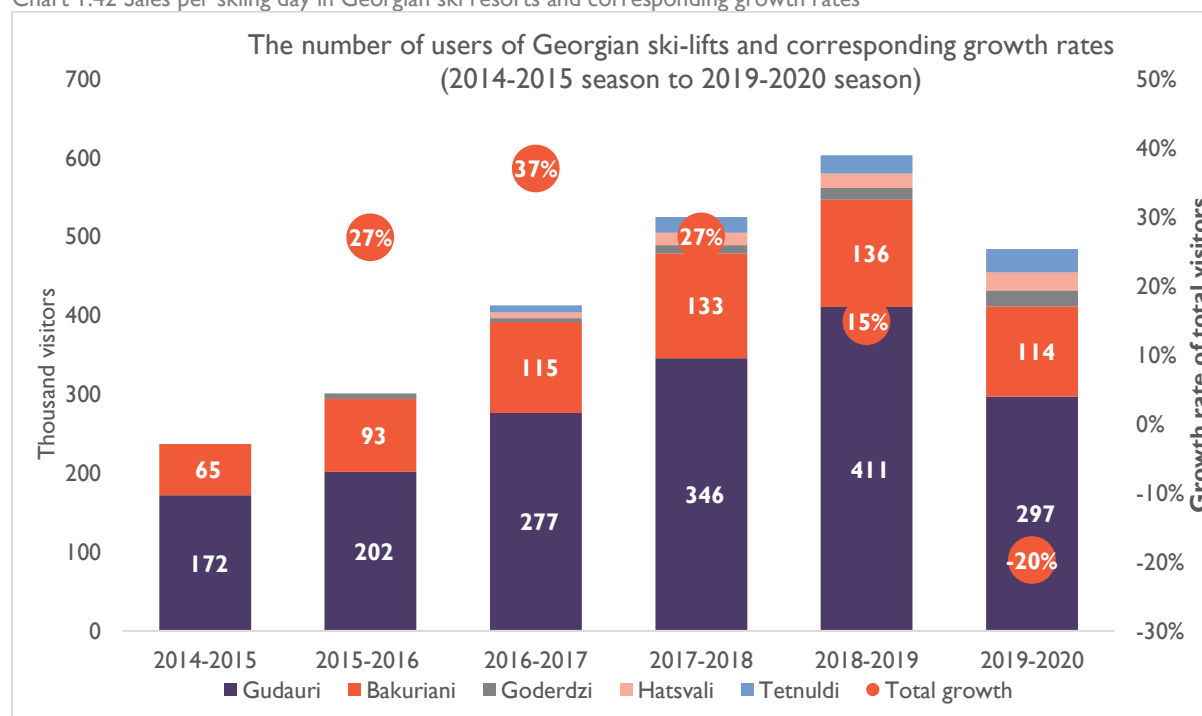
Skiing represents an important part of the adventure tourism value chain. In Georgia, there are five ski resorts, which had been generating a growing number of visitors and revenues until the pandemic struck.

The total number of visitors taking ski-lifts rose at an annual average of 27% over the period of the 2014-2015 winter season up to the 2018-2019 winter season. In the 2019-2020 winter season, due to the curtailment of the season mainly caused by the COVID-19 pandemic, the number of visitors declined by 20% compared to the previous season.

Gudauri is most popular among the ski resorts of Georgia, with an average share in the total number of visitors over the analyzed period of 67%. Meanwhile, Bakuriani sits second with a 26% share on average. The remaining 7% is shared between three relatively new ski resorts – Goderdzi in Adjara, and Hatsvali and Tetnuldi in Mestia. However, the number of ski-lift visitors had been growing

significantly in each of these resorts. Overall, the sector had experienced significant growth in the number of visitors up until COVID-19 hit in February 2020.

Chart I.42 Sales per skiing day in Georgian ski resorts and corresponding growth rates



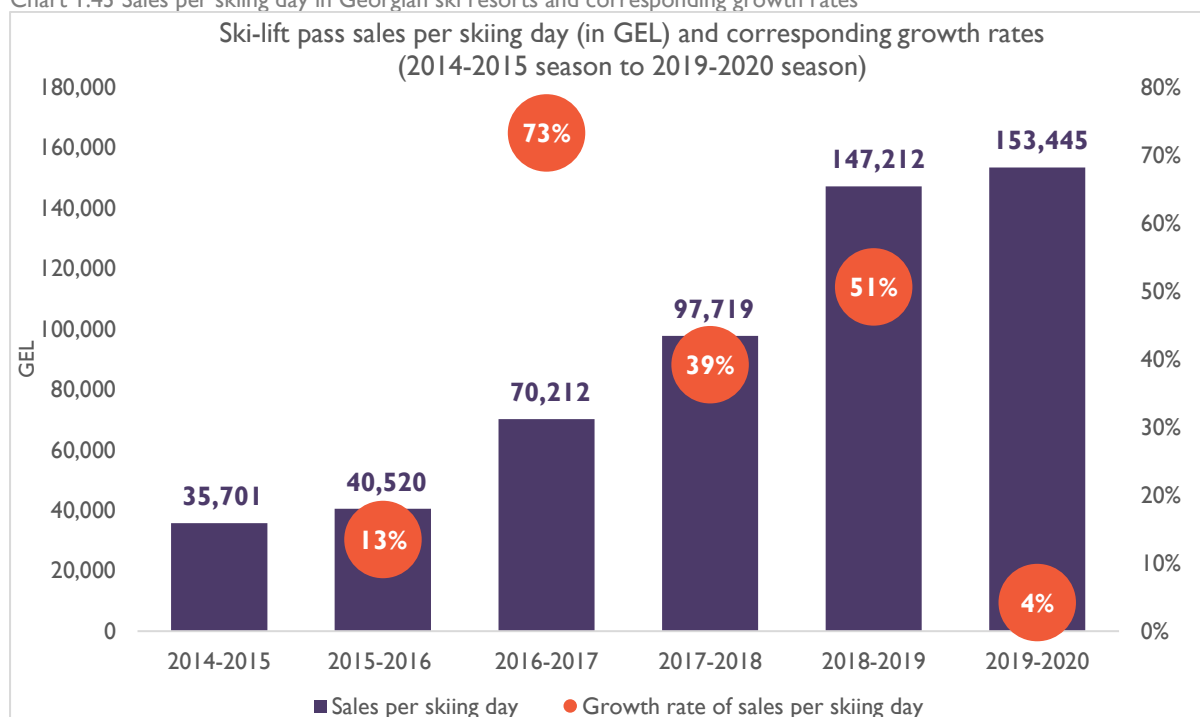
Source: Mountain Resorts Development Company Ltd¹³

Another enlightening indicator to observe is the number of sales of ski-lift passes, adjusted by the number of average skiing days¹⁴ in each skiing season. The sales per skiing day indicator had been growing significantly, at an average of 44% from 2014-2015 to 2018-2019. Moreover, it even registered modest growth (4%) in the 2019-2020 season. The exceptionally high growth rate of 73% recorded in 2016-2017 (compared to 2015-2016) was partially attributed to the opening of Hatsvali and Tetnuldi resorts.

¹³ Mountain Resorts Development Company Ltd is a state entity subordinated to the MoESD and in charge of managing skiing resorts

¹⁴ Calculated by taking the average of skiing days in all 5 skiing resorts in Georgia for each winter season

Chart 1.43 Sales per skiing day in Georgian ski resorts and corresponding growth rates



Source: Mountain Resort Development Company

Overall, the fast growth being enjoyed by ski resorts was brought to a shuddering halt by the COVID-19 pandemic. Even in the 2019-2020 season, the number of visitors and the number of sales per skiing day were affected. As the 2020-2021 season has been more or less canceled due to the unfavorable epidemiological situation in the country, it will be extremely challenging and important that the sector finds a way to return to pre-pandemic growth levels.

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 reserves.

Of the selected sites, Kazbegi National Park, Martvili Canyon, and Tbilisi National Park stood out in terms of number of visitors in 2019, with each of them hosting more than 100,000 visitors in that year. As for the share of foreign visitors in total visitors per site, Mtirala National Park (64.7% of visitors over the course of 2015-2020 were foreigners), Prometheus Cave (64.3%), Tusheti National Park (61.6%), and Martvili Canyon (59.8%) all stood out.

Some of the national reserves enjoyed immense growth in the number of visitors over the 2015-2019 period. More specifically, destinations which stood out in terms of average annual growth rate over this period were Machakhela National Park (85.7%), Tbilisi National Park (67.9%), Martvili Canyon (54.5%), and Algeti National Park (51.7%). In terms of growth in absolute number of visitors in 2019, compared to 2015, Tbilisi National Park (sixfold increase), Machakhela National Park (fivefold increase), Algeti National Park (fourfold increase), and Mtirala National Park (threefold increase) all stood out.

Predictably, domestic tourists did not compensate for the loss in number of visitors overall in 2020, with the number of visitors to the 18 selected destinations decreasing by 96.2% in 2020 compared to 2019.

Overview of the existing challenges and opportunities

The core contributors to carrying out qualitative analysis of adventure tourism are representatives from the private sector, DMOs as well as business associations including the Georgian Mountain Guides Association (GMGA) and the Adventure Tourism School, both of which were mentioned in USAID's Value Chain Prioritization and Gaps Assessment report as potentially successful models for matching supply with demand in the adventure tourism value chain.

Firstly, having observed the discussions and opinions presented by most of the respondents, the notion of business associations and their significance in organizing joint actions in pursuit of results-oriented goals, is as yet underdeveloped in Georgia, even though a small increase in memberships of adventure tourism associations was noted. However, apart from the value-chain-related benefits (market information, networking, facilitation of public-private dialogue, policy advocacy, etc.), one of the core incentives for joining tourism associations is the possibility of contributing to the dialogue between private and public sectors, especially while drafting or adopting regulations in the tourism sector. This aspect is especially important now, when the Parliament of Georgia, with the support of the USAID Economic Governance program, is working on a law on tourism, as well as, during the unsettling times of the COVID-19 pandemic, when every single step in the course of amendments to regulation can be of substantial importance for each value chain actor. According to the DMOs, today their primary task is the rapid delivery of information related to new amendments to regulations and existing market trends. Overall, the current level of intensity of public-private dialogue in adventure tourism was evaluated as medium.

With regard to market competition, strong competitors have reportedly been entering the Georgian market from nearby countries (e.g. Russia and Ukraine) and others. Specifically, these are professional guides in adventure tourism who, courtesy of the country's liberal economic and labor policy, have no restrictions nor limits affecting their economic activities (this trend will likely be revived after the pandemic). Although this trend carries some undesirable influences, it also has a positive impact on improving quality in the value chain. A suitable response to this challenge was stated to be the strengthening of educational platforms in adventure tourism in Georgia and the substitution of imports. A further issue mentioned was that when grants are announced in the value chain, unprofessional groups appear abruptly on the market. With the primary intention of commercial gain, such people establish amateur guide clubs which is believed to pose a threat to the value chain in terms of security, competitiveness, and quality.

While the quality of goods and services in the tourism sector has been declining over time in line with the emergence of mass tourism in Georgia, adventure tourism is considered to have significant potential when it comes to enhancing quality, giving it a competitive advantage. In particular, there are three main factors that can contribute to such an advantage being realized: quality of services, security, and authentic culture (i.e. Georgia's regional diversity in terms of nature and ethnography). According to some of the respondents, if Georgia can bring all three of these factors up to an international standard, then international tourists, even from HVMs, will feel comfortable enough to visit the country. Moreover, according to the DMOs, it is important to determine the needs and attributes of HVM tourists in order to develop attractive tour packages for them.

Particularly during the pandemic, domestic tourism is crucially important for Georgia, however, it is of course limited (as of 2019, the share of domestic visitors to Georgian hotels' total guests was 26%; for the sake of comparison, in Germany, the corresponding figure was 76%)¹⁵.

¹⁵ Geostat; World Tourism Organization.

While mass tourism threatens the cultural authenticity of the country over time, strategically, Georgia is believed to be well-positioned on international markets in this regard at the moment. Nevertheless, Georgia has lacked a strategy in terms of infrastructure readiness and maintaining authentic values.

Generally, vast potential for upgrading was stated by respondents, but the following main obstacles were said to be hampering development of and particularly investment flows into the sector: political instability and infrastructure (for instance, amendments in the constitution regulating the purchase of Georgian land by foreigners); and, secondly, the main products and means for adventure tourism such as huts, routes, and rescue services (as well as insurance services) are as yet underdeveloped. Both categories of obstacles represent serious impediments for investors. On the other hand, certain products and services can be packed into larger-scale lots and offered to investors (for example, a Caucasus horse riding lot including rehabilitation of up to eight abandoned villages, turning them into luxurious accommodations and building connecting routes and paths between them).

Because of the uncertainty in the business environment caused by the COVID-19 pandemic, adventure tourism stakeholders found it hard to make specific predictions about changes in the value chain's key parameters. However, general expectations for the next three months showed a decrease in market competitiveness and prices, an increase in sales and employment, and no change to investments in fixed assets.

Based on the conducted quality analysis, the following key gaps have been identified in the adventure tourism value chain:

Supply quality: Contradictions and inconsistency in terms of quality between the adventure tourism value chain's supply and the expectations of international tourists. Although being well-positioned on the international market, the country has failed to follow a suitable strategy to ensure the value chain's readiness.

Sluggish demand: Besides the halt in demand from international visitors (due to the COVID-19 pandemic), domestic demand remains lukewarm.

Lack of qualification: The emergence of mass tourism has negatively impacted on a level of competence and qualification in adventure tourism and all other value chains and business activities in the tourism sector. There is also a lack of vocational educational institutions.

Chaotic business environment and the shadow economy: According to the value chain stakeholders, 70-80% of the tourism sector falls under the shadow economy.

Access to knowledge: There is a lack of support for the leveling up of education and skills in the adventure tourism value chain, mostly in the context of the country's cultural and authentic values.

Political instability: Expectations of subsequent changes after changes in government were strongly correlated with a reduction in investments and the value chain's poor growth.

Underdeveloped infrastructure: Underdeveloped regional hubs, including the main products and means for adventure tourism – huts, routes, and rescue services - all of which are in urgent need of expansion and development.

Unsustainable tourism: The emergence of mass tourism, according to the associations, poses a huge threat to the preservation and sustainability of eco-tourism in Georgia. Notably, according to the Ecotourism Association of Georgia, a draft strategy (2020-2030) has been developed in cooperation

of GNTA, the Agency of Protected Areas (APA), and the National Forest Agency, with the support of GIZ, which will soon be approved.

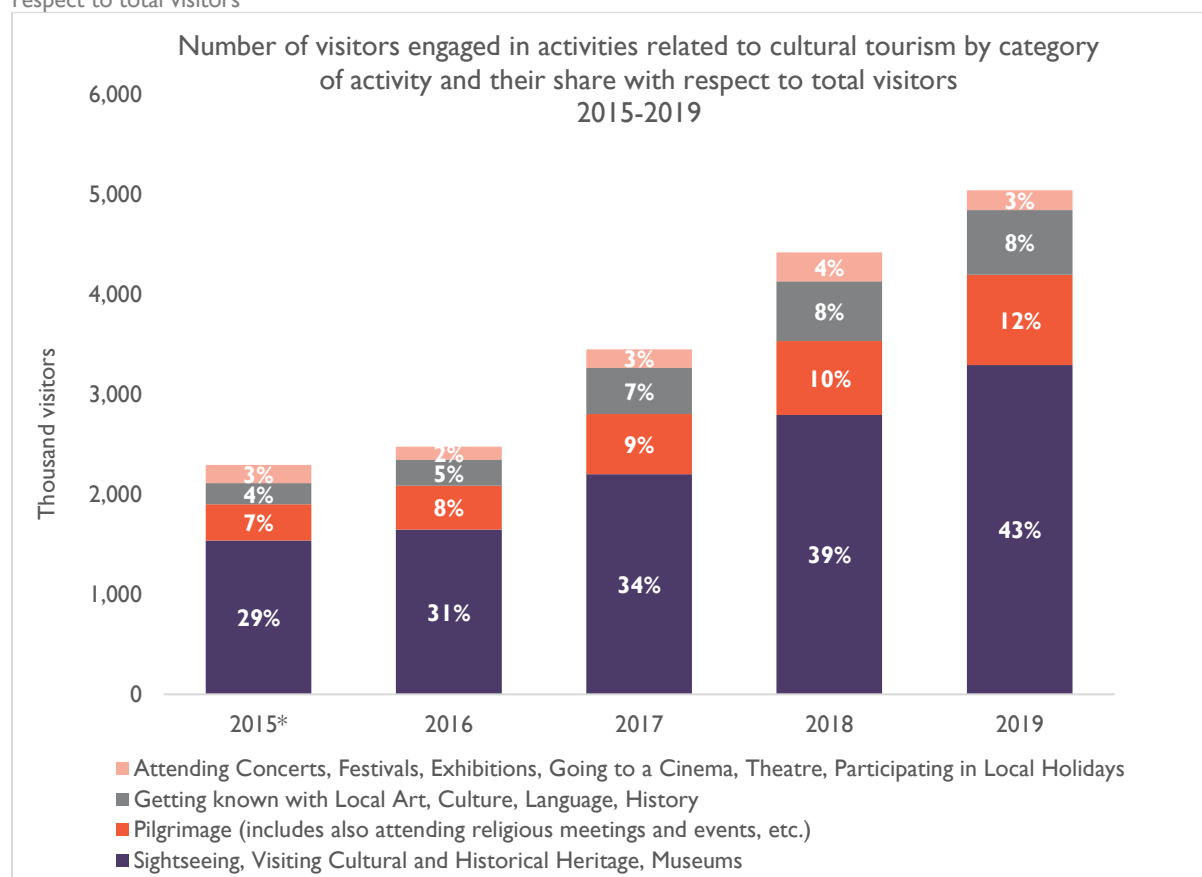
CULTURAL TOURISM

Despite being described as the lowest in value among the priority value chains by the program, 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.

Activities related to cultural tourism

When activities linked to cultural tourism are analyzed, the category of “Sightseeing, Visiting Cultural and Historical Heritage, Museums” stands out. In 2019, 43% of visitors to Georgia engaged in this category of activity, with this share growing from 29% in 2015. Indeed, the number of visitors engaged in this category of activity had more than doubled in 2019 compared to 2015. Meanwhile, “Getting to Know Local Art, Culture, Language, History” is a category of activity which saw tremendous growth in the number of visitors over the analyzed period. More specifically, in 2019, compared to 2015, this more than tripled, and its average annual growth rate was 35% over the 2016-2019 period. “Pilgrimages” (which also includes attending religious events such as weddings) recorded a 150% increase in the number of visitors in 2019 when compared to 2015, and an average annual growth rate of 26% through 2015-2019. The share of visitors engaging in this activity among total visitors also increased from 7% in 2015 to 12% in 2019.

Chart 1.44 Number of visitors engaged in activities related to cultural tourism by category of activity and their share with respect to total visitors

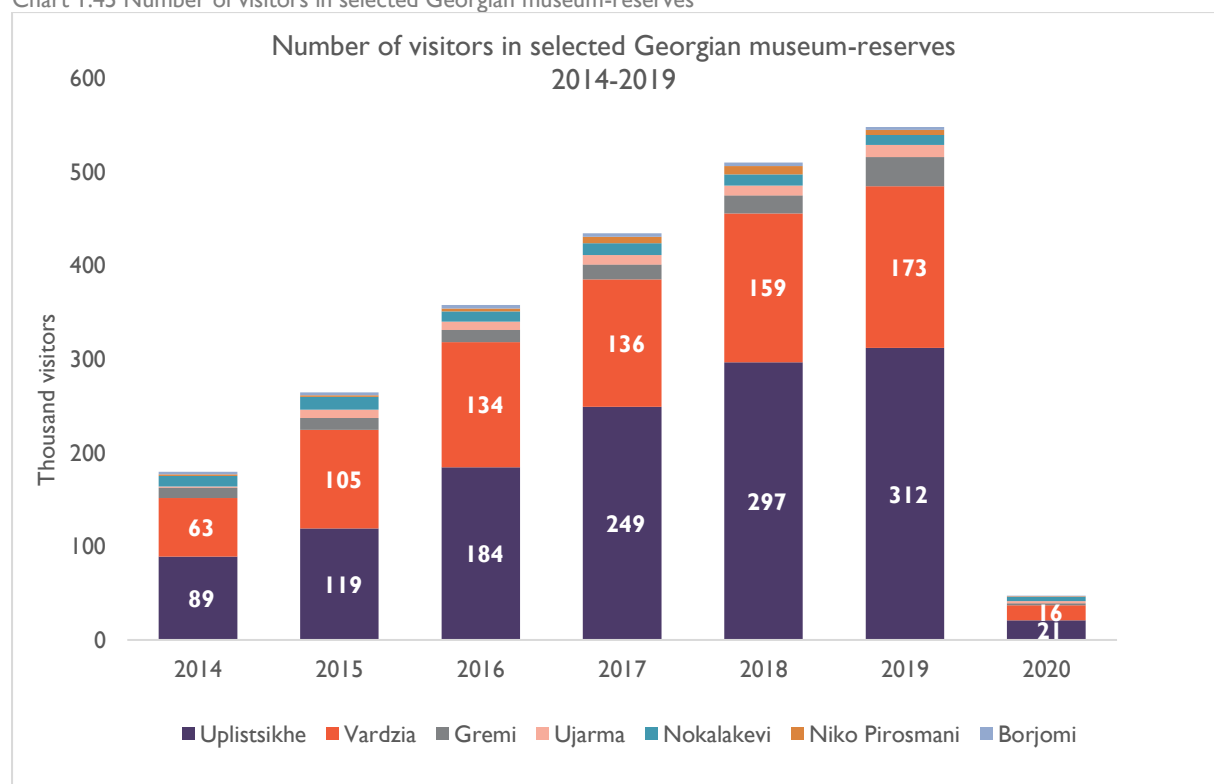


Source: International Visitor Survey

The number of visitors engaging in cultural tourism can be measured in part through visits to Georgian museum-reserves, which has been growing each year since 2015, and amounted to 570,000 visitors in 2019. On average, the number of visitors in selected Georgian museum-reserves grew at an annual rate of 26% on average through 2015-2019, before suffering a fall of 91% in 2020 (compared to the previous year) due predominantly to the COVID-19 pandemic.

Uplistsikhe and Vardzia, two historic cave-cities, dominate in terms of the number of visitors, with the average share of the two in total visitors to museum-reserves standing at 57% and 32% in 2019, respectively. From the selected sites, despite having a low total number of visitors, Ujarma stood out for its average annual growth rate over the period (102%).

Chart I.45 Number of visitors in selected Georgian museum-reserves



Source: National Agency for Cultural Heritage Preservation Georgia

Besides, when we look at the “Religion, Pilgrimage” category as a purpose of visit, it constitutes just a tiny share of the total. On average, its share was equal to 0.2% through 2015-2020.

Overview of the existing challenges and opportunities

The development of the cultural tourism value chain incorporates the popularization of the country’s culture, history, ethnography, folklore, and material and immaterial heritage. Importantly, to attract HVM tourists, cultural tourism has been cited as being among the most important value chains, providing an opportunity for visitors to yield unique and lasting impressions from authentic cultural features, the demand for which has been growing recently among HVM tourists.

According to stakeholders’ opinions which were gleaned from conducted interviews, Georgia’s competitive advantage on the international market lies primarily in its authentic culture and secondly in its regional diversity with regard to hospitality, art, music, dance, and cuisine. Indeed, among

Georgia's attractions in this respect are cultural heritage monuments and elements, which are inscribed in UNESCO's world heritage and intangible cultural heritage lists. Currently, there are four Georgian elements in UNESCO's list of intangible cultural heritage of humanity: Georgian polyphonic singing (2001); the ancient Georgian traditional Qvevri wine-making method (2013); the living culture of the three writing systems of the Georgian alphabet (2016); and 'Chidaoba,' a type of wrestling (2018).

To encourage the development of the cultural tourism value chain, the notion of cultural routes has emerged, gaining international attention. Put simply, these routes connect the country's most unique cultural destinations, rich in heritage. To develop cultural routes, Georgia was granted state membership of the Enlarged Partial Agreement on Cultural Routes in 2016, which was followed by the establishment of an advisory and multidisciplinary board of representatives from different ministries of Georgia. Besides, the importance of the memorandum of understanding, which was recently signed between the GNTA and the Ministry of Education of Georgia, the primary goal of which is to strengthen cultural tourism, was emphasized by the stakeholders. Joint actions have been planned to support and develop the Cultural Routes of the Council of Europe Program in Georgia. Indeed, the mobile app "Cultural Routes of Georgia" has already been developed, which is expected to play a crucial role in helping international tourists to plan their routes and become acquainted with Georgia's diverse culture.

Cultural heritage represents an excellent opportunity for Georgia and its tourism sector. As declared by the Kakheti DMO, there are many attractive tourist routes in Kakheti, comprising significant historical, religious, and geographical features. However, local business actors involved in cultural tourism are generally not capable of exploiting this opportunity properly and require support.

As defined in Georgia's Tourism Strategy 2025 document, preservation of the country's material and immaterial cultural assets including cultural heritage monuments, development of infrastructure and related services, are top priority goals. However, as emphasized by the survey respondents, there is a threat that Georgia might gradually lose its intangible cultural features, and thus the preservation of these represents one of the key challenges for the value chain.

With regard to intangible cultural values, besides the relatively well-known Qvevri wine-making method, one of the most prominent advantages of Georgia in this area, as emphasized by the stakeholders, is its traditional and authentic polyphonic music which dates back millennia. Besides, in 2001, Georgian polyphonic singing was recognized by UNESCO as a masterpiece of the oral and intangible heritage of humanity. Moreover, one of Georgia's polyphonic songs, "Chakrulo", was included in the Golden Record on board the Voyager spacecraft in 1977. As respondents cited, traditional Georgian polyphony, as a unique competitive advantage and attraction of the country, should be better promoted through national and international festivals and ought to be tightly linked to cultural tourism.

Moreover, in the geographical proximity of Georgia's main cultural tourism attractions was identified as a strength. For instance, within a radius of 300-350 km from the second-largest city Kutaisi, nearly all categories of cultural attractions can be reached.

In general, according to the interviewed associations, Georgia has to study and follow the successful paths taken by European countries in their development of cultural tourism. The successful case of the UK has been marked here, as it managed to establish a sustainable system by drawing a line between culture and economics in the 1980s. Thus, a system through which economic gain could be

achieved from culture and eventually produced standardized package tours, an aspect in which Georgia is underdeveloped.

The following represent key challenges in the cultural tourism value chain:

The necessity of a cultural tourism strategy: The need for a results-oriented and inclusive cultural tourism strategy has been emphasized, in which having a clear vision for the positioning of the country on the international cultural tourism market would be essential.

Public-private dialogue (PPD): The need for improved dialogue between the public sector administration, cultural organizations, and cultural tourism value chain actors has been highlighted (for instance, through regular consultations with local communities on developing sites based on unique cultural tourism potential).

Preservation of cultural values: Although efforts have been made toward preservation, over time Georgia has been losing its intangible cultural heritage. In response, there is a need to promote the most prominent and distinct cultural values (including traditional Georgian polyphony and Qvevri wine-making, both of which are recognized by UNESCO), and exploiting the country's competitive advantages.

Impact of mass tourism: As mass tourism emerges in Georgia, cultural attractions and authenticity are being suppressed over time. In addition, international tourists choosing Georgia for its culture may be perturbed by the effects of mass tourism.

Access to education: An urgent need to upgrade the education and qualification level in cultural and authentic values across value chain actors, was mentioned by stakeholders as a vital challenge.

Migration: The unfavorable living conditions in the rural areas of Georgia and lack of employment opportunities causes mass rural-to-urban migration. This leaves a shortfall of local workers for the tourism sector.

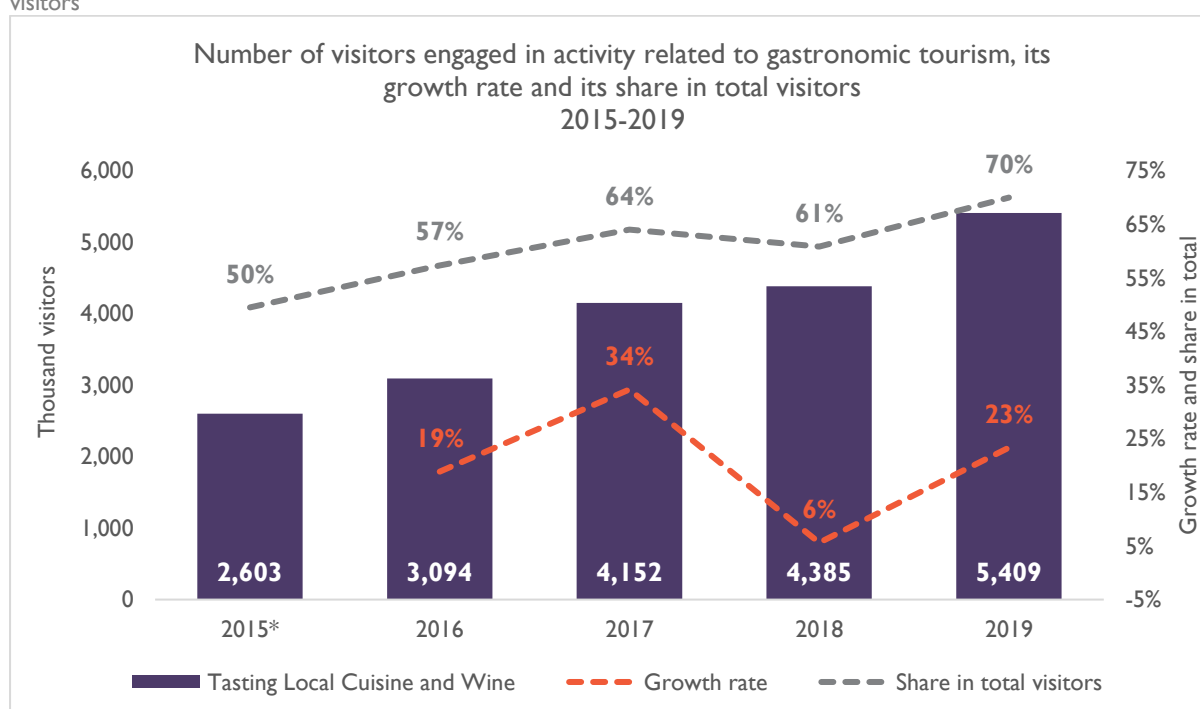
GASTRONOMIC TOURISM

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.

Activities related to gastronomic tourism

Only one category of conducted activities in the survey, namely "Tasting Local Cuisine and Wine," was attributed to gastronomic tourism. However, this category is the largest of all activity categories, and in 2019, 70% of visitors to the country engaged in this activity. Moreover, not only has this share been growing, there has been growth in terms of absolute numbers as well, with an annual average growth rate of 21% through 2016-2019, with the number of visitors more than doubling in 2019, compared to 2015.

Chart I.46 Number of visitors engaged in an activity related to gastronomic tourism, its growth rate, and its share in total visitors



Source: International Visitor Survey

Trends in food services

Food services are not directly a part of the tourism sector, however tourism plays a major role in its development and vice versa. In Georgia, this relationship is particularly pronounced. For more than half of food facilities, the share of foreign visitors in their total customers exceeds 40%¹⁶. Moreover, when asked about their most common customers, 74% of the surveyed facilities mentioned tourists. Thus, the growth of the food services, despite not offering services exclusively to tourists, is largely driven by demand from international visitors. Pertinently, food service providers are the core facilities for gastronomic tourism.

According to Geostat's Business Register, the number of food facilities in Georgia as of 1 January 2021 was 5025. Of these, 57.2% (or 2873) are located outside of Tbilisi. The sector mainly consists of small enterprises. In total, there were 10 large (all in Tbilisi) and 55 medium-sized (41 in Tbilisi) enterprises in food services in Georgia as of 1 January 2021.

The turnover of enterprises in the food services value chain increased through 2014-2019, with an annual average growth rate of 15.8%. In 2019, turnover in the value chain reached GEL 825 million. This increase was somewhat lower when compared to the annual average growth of the aggregated sector (accommodation facilities and the food service facilities) which reached 20%.

¹⁶ According to the survey of accommodation and food facilities conducted by USAID in June 2020, within the policy brief "Tourism Sector in Georgia"

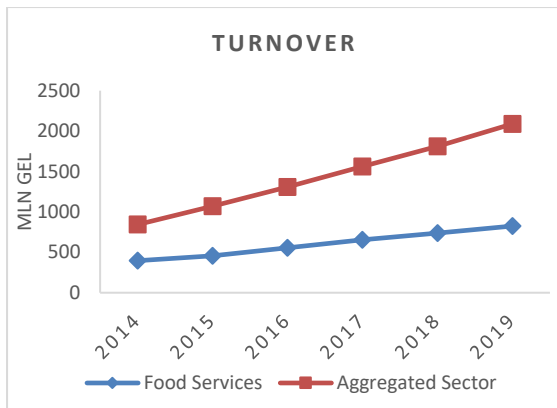


Chart I.47 Turnover of the food services value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

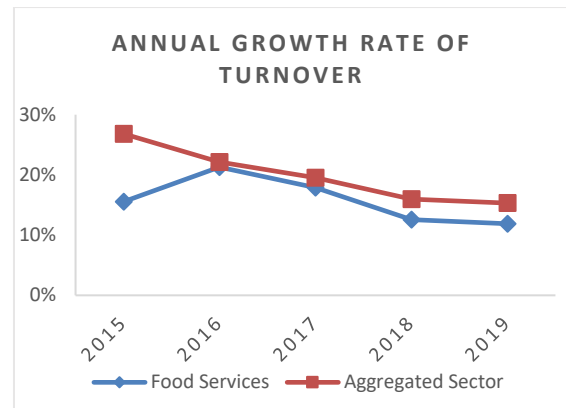


Chart I.48 Changes in turnover for the food services value chain and the corresponding aggregated sector.

Value-added in food services experienced strong growth over the covered period, with a pronounced increase of 73.7% in 2016 (compared to 2015) and then 23.8% in 2019 (compared to 2018). On average, food services underperforms the aggregated sector in terms of value-added, as its annual growth rate through 2015-2019 was 22.1%, as opposed to 27.5% for the aggregated sector.

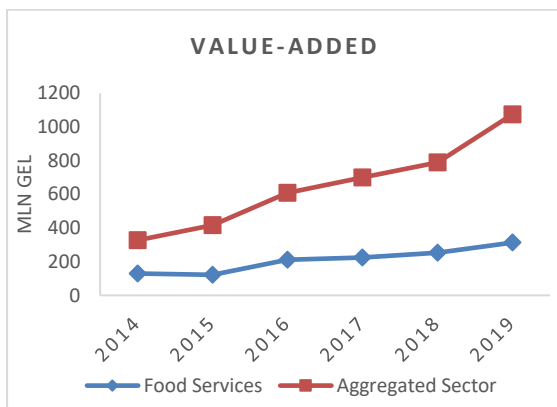


Chart I.49 Value-added of the food services value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

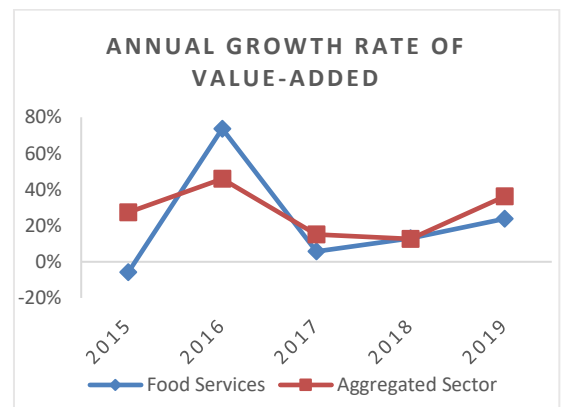
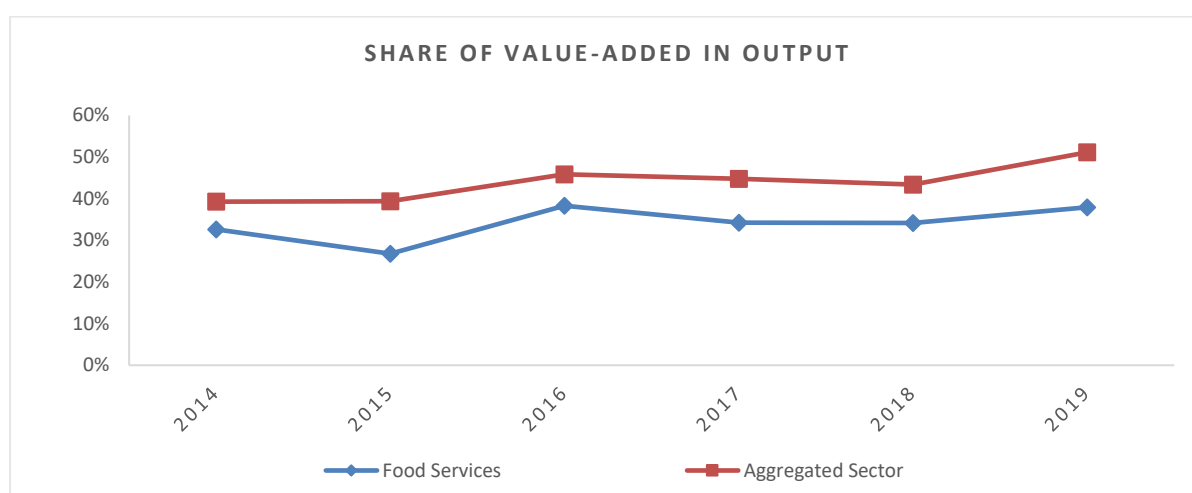


Chart I.50 Changes in value-added for the food services value chain and the corresponding aggregated sector

The share of value-added in output was more or less stable over the analyzed period, with the exception of a pronounced increase in 2016 (from 26.8% in 2015, to 38.3% in 2016) and in 2019 (from 34.2% in 2018, to 38% in 2019). On average, the food services value chain's share of value-added in output was 10 percentage points lower compared to the aggregated sector over the covered period.

Chart I.51 Share of value-added in output for the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The employment growth pattern is similar to that of the aforementioned key indicators. Employment in the food services value chain reached 20 900 people in 2019, marking a 35% increase from 15 389 in 2014. On average, employment in the value chain has been growing by 6.4% through 2015-2019, as opposed to 8.9% growth in the aggregated sector. The share of food service employees in the aggregated sector employment in 2019 was 45.5%.

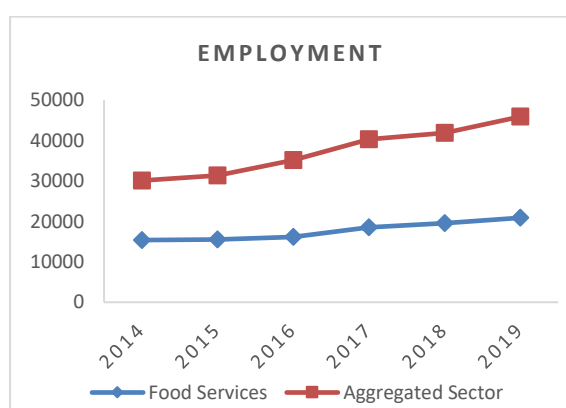


Chart I.52 Employment in the food services value chain and the corresponding aggregated sector

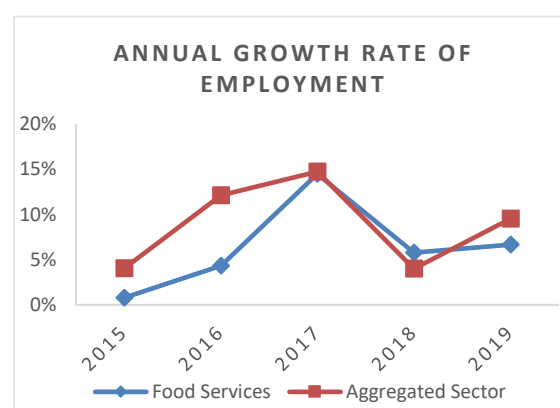
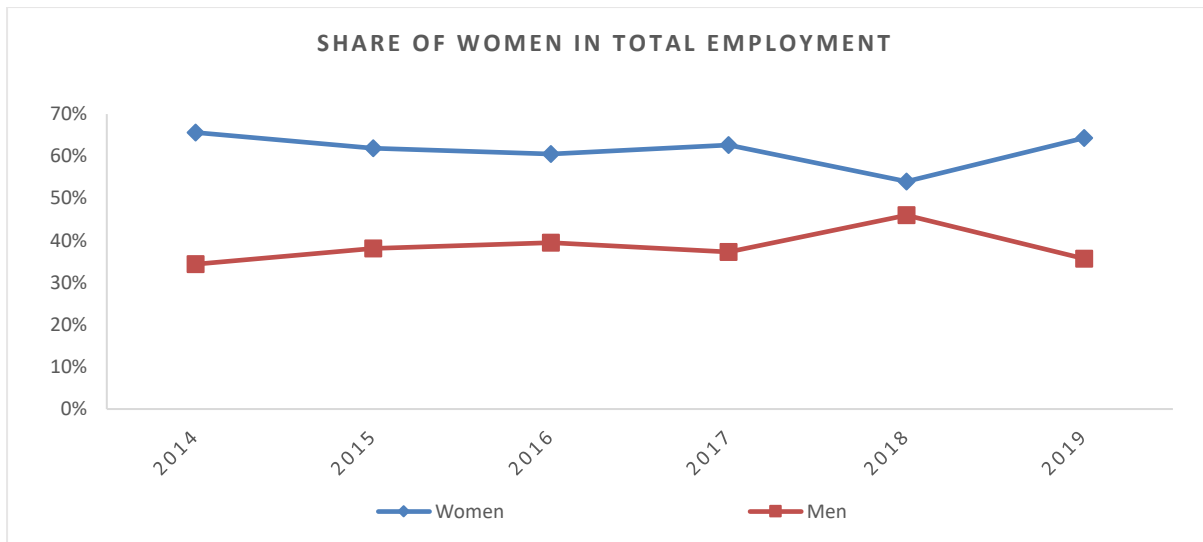


Chart I.53 Changes in employment in the food services value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

It is worth pointing out that the food services value chain employs more women than men. On average, the share of women in total employment was 23 percentage points higher than the men's share through 2014-2019, and the women's share stood at 64.4% in 2019.

Chart I.54 Share of women in total employment in the food services value chain



Source: National Statistics Office of Georgia

The average monthly salary experienced annual average growth of 12.2% through 2015-2019 for the food services value chain, while the aggregated sector experienced similar growth of 12.5% (average yearly inflation over this period was 3.9%). In absolute terms, the average monthly salary in the food services value chain was GEL 687.8 in 2019, which is GEL 165.8 lower than in the aggregated sector. When comparing the average monthly salary in the food services value chain to the overall average monthly salary in Georgia in 2019, the former is GEL 441.7 (or 39.1%) lower.

Productivity, as measured by output divided by the number of employed people, was also on an upward trend in the analyzed period for food services. More specifically, it increased at an annual rate of 9% on average, compared to 10.8% for the aggregated sector.

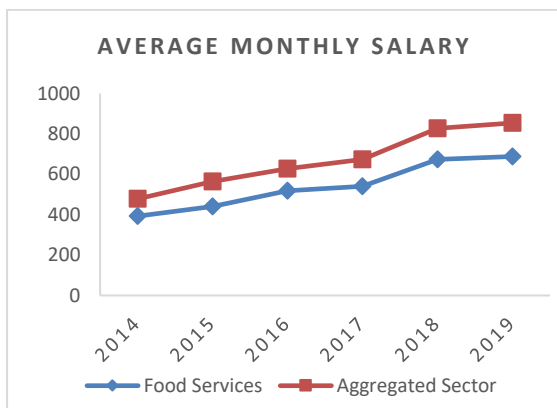


Chart I.55 Average monthly salary for the food services value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

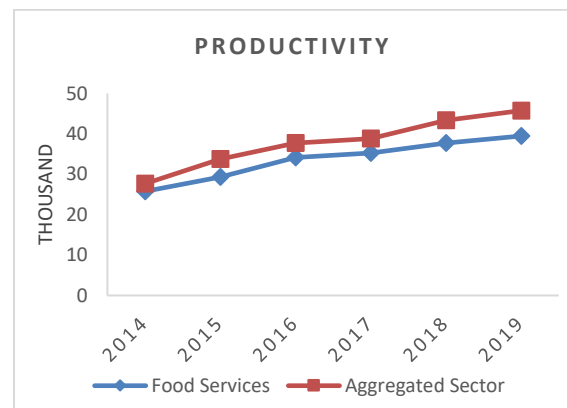
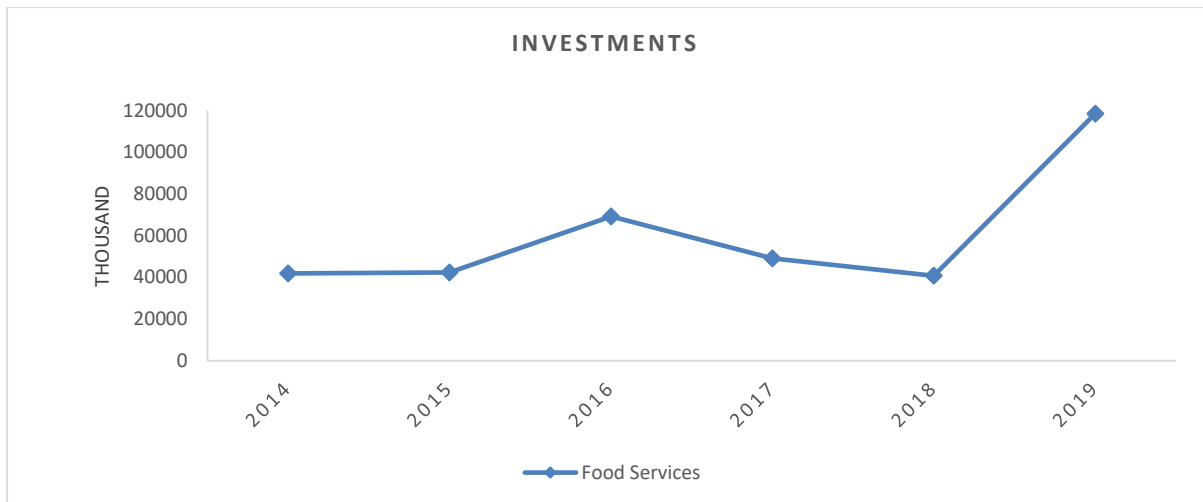


Chart I.56 Productivity of the food services value chain and the corresponding aggregated sector

Investments in the food services value chain were more or less stable over the period of 2014-2018, with an average yearly growth over this period of 4.6%. In 2019, however, there was an almost twofold increase in investments, compared to 2018.

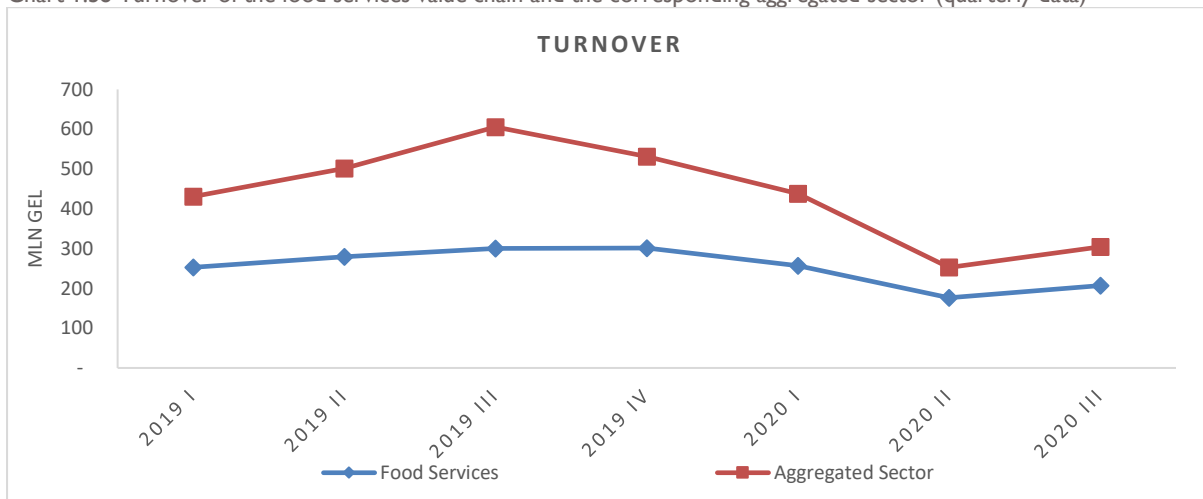
Chart I.57 Investments in the food services value chain



Source: National Statistics Office of Georgia

In 2020, due predominantly to the COVID-19 pandemic, most of the indicators suffered a massive drop. In Q2 and Q3 of 2020, turnover of food service enterprises fell by a massive 36.9% and 31%, respectively, when compared to the corresponding quarters in 2019. In addition, output shared similar dynamics.

Chart I.58 Turnover of the food services value chain and the corresponding aggregated sector (quarterly data)



Source: National Statistics Office of Georgia

Employment, productivity, and average monthly salary suffered less than the indicators discussed above; however, decline in these was still evident. Productivity suffered a 20% decrease in Q2 and a 12% decrease in Q3 compared to the corresponding quarters of the previous year. In Q2 of 2020, employment in the food services value chain decreased by 22.7% (5090 employees) compared to the same period of 2019, and by 21.4% compared to Q1 of 2020. In Q3, this number was equal to -21.4% year-on-year, equivalent to a loss of 4944 registered jobs. As for the average monthly salary, the indicator decreased by just 2.8% in Q2 and by 0.1% in Q3, both compared to the corresponding period of the previous year.

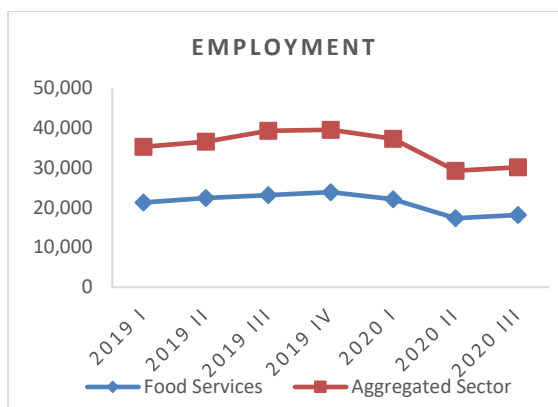


Chart I.59 Employment in the food services value chain and the corresponding aggregated sector (quarterly data)
Source: National Statistics Office of Georgia

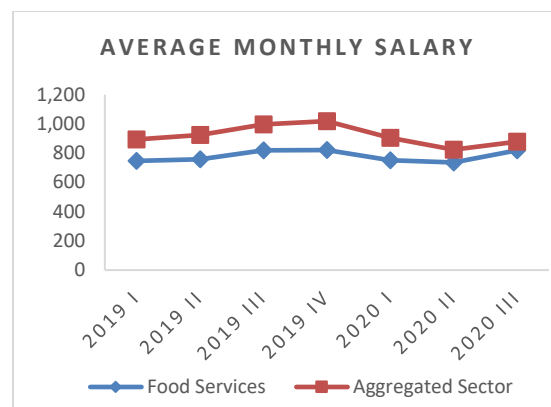


Chart I.60 Average monthly salary in the food services value chain and the corresponding aggregated sector (quarterly data)

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, business associations, and DMOs.

The following associations are involved in the development of gastronomic tourism in Georgia: the Georgian Culinary Federation; the Gastronomic Association of Georgia; the Natural Wine Association; the Gastronomic Tourism Business Association Georgia; the Georgian Restaurateurs Association; and the Georgian EcoTourism Association. In addition, an important development within the value chain has been Bocuse d'Or Georgia, an important educational academy founded by the Georgian Culinary Federation and the Gastronomic Association of Georgia, which gathers nearly all professional chefs around the country. A common view shared by sector representatives is that Georgia should pursue more European gastronomy trends and tendencies. However, some of the associations cooperate with the Japanese Gastronomy Tourism Association and its equivalents in the USA, the UK, and Asia.

Overall, the stakeholders mentioned the following key and leading actors of the sector in Tbilisi and across the country: Nikala's Marani (Kardenakhi, Kakheti); Iago's Marani (Mtskheta, Mtskheta-Mtianeti); Mtserlebi Resort (Kvishkheti, Khashuri, Shida Kartli); Irina Inasaridze (Mestia, Svaneti); 'Tsetse' (Omalo, Tusheti); Natenadze's Wine Cellar (Meskheti, Southwest of Georgia); Casa de Khasia (Zugdidi, Samegrelo); Sisatura (Chkhorua, Samegrelo); Rooms Hotel (Kazbegi, North of Georgia) and restaurants in Tbilisi: Keto da Kote, Barbarestan, Gwino, Shavi Lomi, and Rigi Gastrodouqan). However, because of unfavorable circumstances brought on by the COVID-19 pandemic, the chances of survival of these and other gastronomic businesses across the country are being diminished. The Kakheti DMO, for example, emphasized the significant harm done to the wine tourism sector (mostly small wine cellars).

The existing cooperation between public and private sectors in the gastronomic value chain was assessed to be at a low level. Such partnership was well perceived by the private sector during the pandemic. Initially, the stakeholders claimed they had found it hard to communicate with the respective state representatives. For instance, during the second lockdown a problem emerged regarding "mobility passes" during curfew/lockdown that could have been solved in days, but instead dragged on for two months, which meant small restaurants incurred significant unnecessary losses.

The DMOs mentioned the importance of the program and the GNTA's new initiative of matching funds. Incorporating social marketing and other service support, the initiative has been offered to 50 business operators in the Kakheti region, as cited by the Kakheti DMO.

In terms of competition in the food services value chain, restaurants are competitive at the medium and high levels, however the level of competition in delivery services (especially during the pandemic) is very high. In the regions, the competition is very low. Even today, family businesses lack trust in delivery services, partly as they lack sales and marketing skills and know-how.

Most stakeholders believe that Georgian flavors represent a competitive advantage of Georgian gastronomy on the international market. Although Georgia's first attempt at the European gastronomic contest entitled Bocuse D'or (held in Tallinn, Estonia in October 2020) was not successful, Denmark, which ranked number one in gastronomy in Europe, gave the highest points to Georgia for taste. Currently, there is a global trend in gastronomy to go back to the past and look for simple and authentic tastes. Thus, HVM tourists may be attracted to the simple flavors and tastes of Georgian cuisine, which eventually can position Georgia well on the international market. Regarding wine culture, the unique opportunity to restore authentic wine varieties in Samegrelo was underlined by the Samegrelo-Zemo Svaneti DMO. Indeed, some small wine cellars have already expressed an interest in this direction, however they lack relevant experience and know-how.

Among HVM markets, the following countries were stated as vital for Georgian gastronomic tourism: the Baltic states (due to emotional links with Georgia as fellow post-Soviet countries); the US (specifically for those strictly oriented toward healthy and organic food who pay more for higher quality food and wine); the UK; and Japan. However, one common challenge has been stressed across Georgian gastronomy, namely low-quality ingredients (vegetables, fruits, meat, and others), in contrast with European countries, for example.

With regard to supply chain linkages, as the DMOs noted, the conducted surveys showed strong business relations between business actors and farmers, for example. Yet, after in-depth observations and examining the available information, the consumption of locally-produced goods was found to be insignificant. The core challenges identified in this regard are related to quality and unstable supply. Nevertheless, several success stories were given, including: Georgian tea, grown and made in Martvili, has partially substituted imports in the Samegrelo hospitality sector; ceramic pottery produced in Zugididi facility, is more actively used in Samegrelo; Georgian traditional and heritage crafts have been used in Samtskhe-Javakheti tourism; home-made furniture and wooden gastronomy vessels in Tusheti; and 'Nikvi's Communa' has come to specialize in mushroom-foraging.

Most of the surveyed business actors are prepared for strict regulations and uncompromising penalties. Meanwhile, gastronomic tourism stakeholders have the following general expectations about changes in the sector's key parameters for the next three months: a decrease in competitiveness (for instance, if previously there were 750 supplier restaurants in Glovo's list, only 380 were left after the first lockdown, and this number will further diminish); prices are expected to increase by an anticipated 20-25%; and investments are expected to stay unchanged.

The following key challenges have been identified in the gastronomic tourism value chain:

Country's positioning: The government institutions promoting the country in traditional markets do not commit significant financial resources on attracting HVM tourists. During the reign of the former head of the GNTA, efforts were made to concentrate on the UK market, but a corresponding strategy has not yet been implemented.

Security: A lack of hygienic and food security standards and norms was mentioned, representing one of the obstacles hampering the value chain's upgrade potential.

Privileges for the gastronomic sector: According to the stakeholders, the short-term tax liberalization and grace periods provided by the Government in the wake of COVID-19 were not sufficient for most actors to maintain their businesses. Thus, additional fiscal support from the Government, including ensuring protection of the incomes of employees, is requested.

Miscommunication with the Government: After the first lockdown in March 2020, relevant government entities were impelled to meet frequently with the private sector representatives to listen to the challenges and recommendations of the latter, however, according to the surveyed representatives, these have not been considered properly. Moreover, the need for a bilateral and constructive dialogue platform was addressed.

Sector experts in decision-making: The stakeholders emphasized the importance of the gastronomy value chain's specialists' involvement in the decision-making process relating to lockdown or other restrictions. In this case, the epidemiologists and respective authorities would have known that closing restaurants at 9 or 10 PM puts most establishments at great risk of bankruptcy (65% of total income of restaurants is yielded after 9 PM). Besides, 75% of total incomes in this value chain come from tourists, of which there are currently none. Accordingly, the imposition of a later curfew would have enabled more restaurants to survive.

Financial distress: The most urgent challenge for gastronomy businesses relates to the subsidization of commercial loan liabilities. Since the grace period concluded, commercial loans and property rents needed to be repaid. Besides, monthly operational costs (on average, US\$10,000-15,000 per month for medium-size entities) have increased by 12-13% due to meeting sanitary regulations. For this reason, many restaurant owners had no option but to go to microfinance organizations and get loans at high interest rates. As a result, many such owners' loan liabilities have doubled.

Skilled labor force: The qualification of staff in the gastronomy value chain, expressed in the overall level of vocational and academy education, was emphasized as a primary challenge. Elsewhere, the lack of internationally-recognized culinary certification institutions was also cited.

Food delivery culture: Food delivery services were described as being at an emerging stage both in terms of supply and demand. In reality, such services have saved many businesses in this value chain, albeit such services are scarce in the regions.

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. While most of the surveyed companies were based in Tbilisi, respondents from Gori, Mtskheta, and Telavi were also surveyed.

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

In terms of key indicators, 60% of surveyed companies each reported turnover of under GEL 100,000 with regard to catering services, while 40% reported turnover in this regard of GEL 100,000-500,000. As mentioned previously, during Q1-Q3 of 2020, all surveyed catering service providers experienced turnover declines of more than 50%, and for some turnover declined by 100%.

The median number of employed personnel equaled five persons for catering service providers during Q1-Q3 of 2020. Meanwhile, some of the companies reassigned their catering staff to deliver other services during 2020, and some companies stated that initially they cut their number of employees by half, before letting go of all employees by the end of the year.

The average gross monthly salary equaled GEL 770 in the catering value chain during Q1-Q3 of 2020 among the surveyed enterprises, which is slightly higher than that of the aggregated food services sector in 2019 (GEL 687.8).

The main challenge for the catering value chain has been the COVID-19 pandemic and subsequent restrictions placed on their activity. Due to these restrictions, almost all surveyed companies completely halted their catering divisions in 2020 and focused their efforts instead on other services. One of the surveyed companies cut the salaries of their employees by half to keep afloat, while another put their staff onto part-time schedules. By the end of the year, both of these companies had stopped operating at all.

With little to no sector-specific help for this value chain for most of 2020, it has switched to survival mode. Recently, event-planning companies, including those providing catering services, were included in a co-funding scheme which was originally developed for accommodation facilities. It is yet to be seen though whether this support measure will help companies in this value chain to survive.

2. CREATIVE INDUSTRIES

SECTOR SUMMARY

Two value chains – the media content production and post-production value chain, and the artisan value chain – are emerging in this sector, with high growth and job creation potential. Due to the diverse characteristics of these value chains, they each face different challenges when it comes to sustainable growth. Meanwhile, the COVID-19 pandemic has directly hit creative industries in the most vulnerable parts of their business models.

The media content production and post-production value chain, especially the movie industry, is highly competitive not only within the country, but on an international level. The performance of this value chain is highly dependent on investments, subsidies, and other incentives. This dependence could be observed in the lack of growth in the value chain prior to 2017, when the lack of investments constrained expansion of the industry. In the following years, a flow of investments enabled the value chain to expand and achieve sustainable growth, which lasted for two years. Another issue that the movie industry is facing is the lack of a cash rebate program, which was halted in late 2019 with the aim of redesigning it. Thereafter, during the pandemic, the industry was left without the programs it so heavily depended on.

When it comes to the artisan value chain, the challenges that it faces are as niche as the industry itself. Due to the fragility of the products, the costs of transportation, advertisement, and other necessary expenses, which sometimes exceed the price of the product itself, consume a significant portion of the revenue. Another important factor contributing to the high costs in this value chain is the unavailability of materials of sufficient quality on local markets, which instead have to be imported at a significantly high price. Furthermore, even when there is a possibility for a company to expand its operations, the compulsion to avoid extra VAT imposes additional barriers and creates negative incentives.

Breaking down the first of these two value chains, the post-production industry has suffered the least from COVID-19 as it has been less susceptible to general restrictions. However, it did suffer from a shortage of demand due to the global recession. Nevertheless, in a way, the pandemic reduced costs and increased productivity, with many artists in this field able to complete their work (such as sound and video editing) from home. On the contrary, the nature of media content production necessitates the gathering of people, which was suddenly restricted as the pandemic struck. Even with all the safety measures in place and relevant permissions granted to work during curfew hours, the industry has faced enormous challenges, amplified by the lack of a cash rebate program.

Meanwhile, the artisan value chain has had to endure additional cost hikes due to increasingly expensive transportation, through paying for employees' daily commutes and adjusting to the domestic market. According to the stakeholders' survey, 45.5% of artisan companies saw their turnover fall by more than 50%, whereas only 9% reported that their turnover in the first three quarters of 2020 had increased.

Meanwhile, the media content production and post-production value chain experienced a period of accelerated growth from 2017 until the pandemic hit. Since then, the value chain contracted profoundly in the first two quarters of 2020. This contraction included a fall in turnover, value-added, employment, turnover, and productivity. However, the average salary in the value chain surpassed pre-pandemic levels in the third quarter of 2020.

The enterprises in the abovementioned value chains have been hit unevenly. In the media content production and post-production value chain, larger enterprises have incurred a higher share of losses due to having more permanent employees and fixed rents, whereas companies with fewer artists have been less susceptible to the abovementioned constraints. The case of the artisan value chain has been quite the opposite: enterprises with an annual turnover of GEL 100,000-500,000 reported that their turnover shrank by 30% in the first three quarters of 2020. Whereas, for enterprises with turnover of less than GEL 100,000, they suffered a year-on-year fall of 45%. Ultimately, in this value chain, smaller firms endured higher losses.

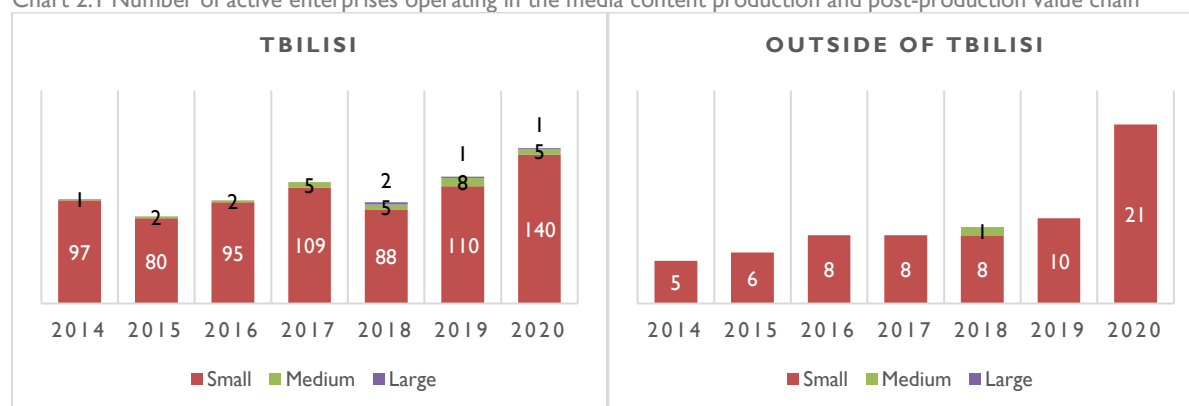
The two value chains highlighted here face different challenges. Specifically, the lack of a cash rebate program significantly diminishes the competitiveness of the media content production and post-production value chain and this amplifies the negative effects of the pandemic, while ineffective dialogue between private and public sectors is leading to uncertainties in this value chain as well. Meanwhile, the artisan value chain suffers from the high costs of exporting products and the high costs of importing materials of sufficient quality.

MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

Media content production and post-production is one of the fastest growing value chains in Georgia. According to the Value Chain Prioritization and Gaps Assessment study (2019), the potential for growth in this value chain is substantial in employment, revenues, and investments. Due to its job creation potential, including for women and youth, and its alignment with GoG priorities, the value chain received a relatively high score in the Competitiveness Appraisal Matrix (CAM). Furthermore, the media content production and post-production value chain has been marked as a priority for both Enterprise Georgia and GITA.

With the recent proliferation of the Georgian movie industry, the media content production and post-production value chain has enjoyed rapid growth in the past seven years. In fact, the total number of enterprises in this value chain has been relatively steady, varying from 88 to 192. In 2020, the number of medium-sized enterprises in this value chain decreased from eight to five, whereas the number of small enterprises proliferated: due to the pandemic many professionals in this field have resorted to working from home and some have established small-sized enterprises. The number of such enterprises increased by 46 in a single year, with 11 of them outside of Tbilisi, thereby more than doubling the number of post-production and movie enterprises outside the capital city.

Chart 2.1 Number of active enterprises operating in the media content production and post-production value chain



Source: National Statistics Office of Georgia

The total turnover of the value chain increased sixfold from 2014 to 2019, amounting to cumulative growth of over 516.6%. Interestingly, the growth of the value chain has significantly exceeded that of

its aggregated sector (information and communication), the turnover of which increased from GEL 1.4 billion to GEL 1.9 billion, which is equal to 31.8% growth.

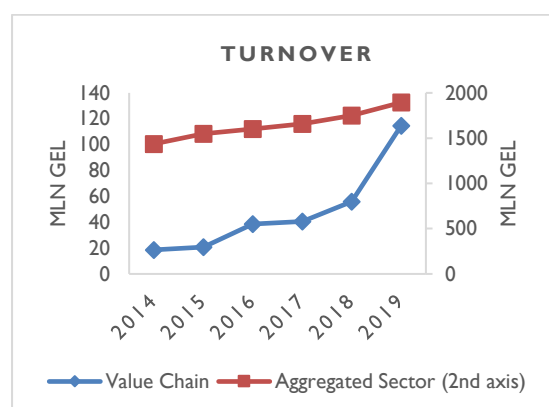


Chart 2.2 Turnover of the media content and post-production value chain and the corresponding aggregated sector

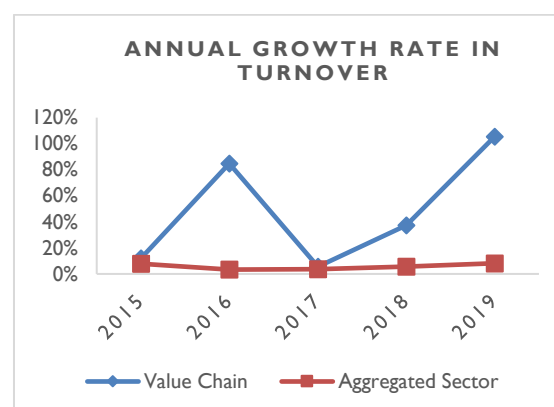


Chart 2.3 Changes in turnover for the media content production and post-production and the corresponding aggregated sector

Source: National Statistics Office of Georgia

Compared to the rapid growth of turnover, the value-added of the media content production and post-production value chain only increased by 269.2%, decreasing in 2015 and 2017, while increasing in every other year since 2014. While the total value-added of the aggregated sector of information and communication steadily grew year on year, increasing by 58.2% from 2014 to 2019. Essentially, the value-added of this value chain relative to its size has actually decreased. Indeed, the share of the value-added in output for this value chain fell from 62% in 2014 to only 26% in 2019, while the same indicator for the aggregated sector has been relatively stable, increasing by 1% (from 62% to 63%) over the same period.

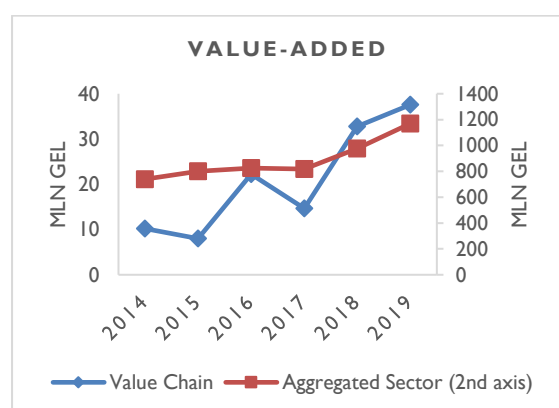


Chart 2.4 Value-added of the media content production and post-production value chain and the corresponding aggregated sector

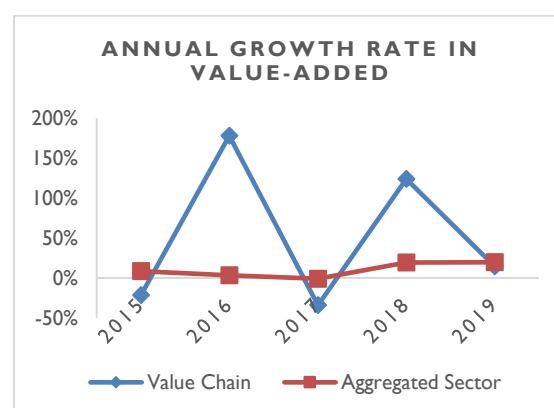


Chart 2.5 Annual growth rate of value-added for the media content production and post-production value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

Unlike the relatively stable growth with regard to turnover and value-added, investment peaked in 2017. It experienced a huge increase in 2017, compared to 2016, surging from GEL 446,000 to GEL 8.9 million, which represents as almost twenty-fold increase in a single year. Such an amount of investments could not have been sustained and in the following years, the investments in the value chain stabilized, reaching an average of GEL 3.5 million across 2018 and 2019.

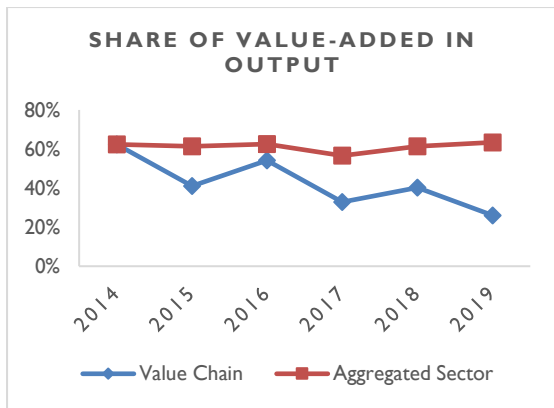


Chart 2.6 Share of value-added in output for the media content production and post-production value chain
Source: National Statistics Office of Georgia

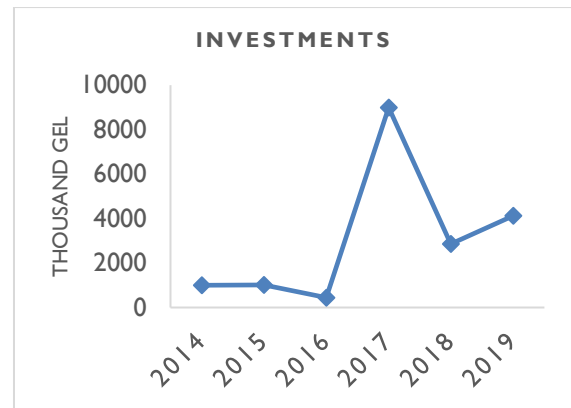


Chart 2.7 Investments in media content production and post-production value chain

With the expanding size of the value chain, the number of people employed also increased over the covered period. Initially, from 2014 to 2016, the total number of employees in the value chain decreased at a steady rate. In this three-year period, the value chain lost approximately 300 employees, or 37.9 % of the initial 2014 workforce. With the subsequent surge of investments, the trend of decreasing employment was reversed, with the number of employees in the value chain doubling in 2017, increasing by more than 112.8% to 1044 employees on average. The value chain managed to sustain this positive trend and increased the number of employees by 720 in the following two years. At the same time, the share of women among employees rose and even surpassed men in 2016. After the investment surge and the recovery from the low turnover growth in 2016, the share of women employed in the value chain then decreased rapidly however. It is important to note that the number of women employed in the value chain from 2014 to 2016, when the workforce shrank by more than one-third, was stable and that almost all of the subsequent drop in the percentage of females in the workforce was due to more men then being employed, rather than women losing their jobs. The number of women employed in this value chain seems to be more rigid, compared to men. Since 2017, this expanding value chain has hired three times more men than women.

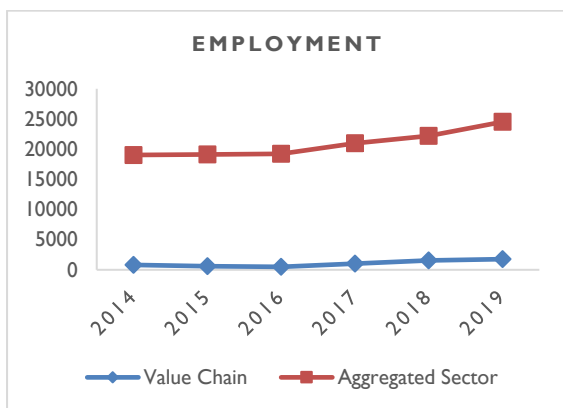


Chart 2.8 Employment in the media content production and post-production value chain and the corresponding aggregated sector

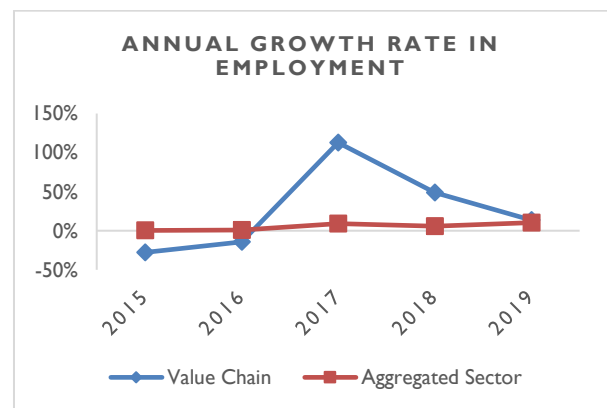


Chart 2.9 Growth rate of employment in the media content production and post-production value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

The average salary of employees increased steadily and reached GEL 1323.5 in 2019, compared to GEL 559 in 2014. Regardless of its steady growth, this value chain has not been able to match the average salary of the aggregated sector. The only year in the covered period when the average salary actually decreased was in 2017 (by 8.5%), probably due to the rising number of employees.

Productivity, meanwhile, has been mainly shaped by the number of employees and reached its peak in 2016 when the number of employees was at its lowest. More importantly, the value chain surpassed the aggregated sector productivity in 2019, due to the rise in output.

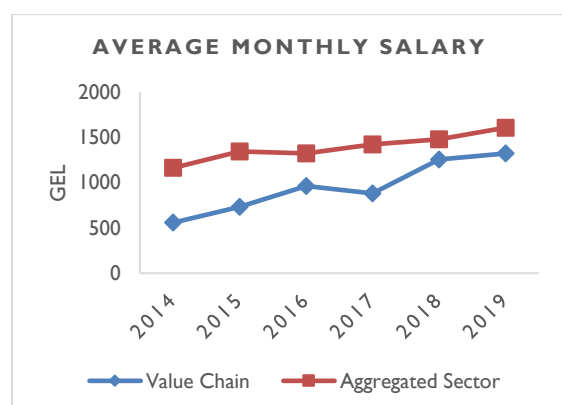


Chart 2.10 Average monthly salary in the media content production and post-production value chain and the corresponding aggregated sector

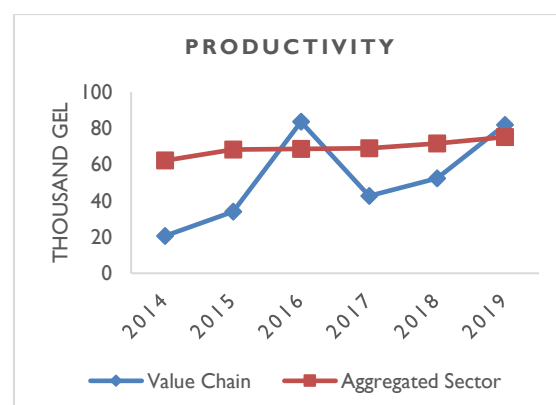


Chart 2.11 Productivity in the media content and post-production value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

The value chain in general experienced low volatility from 2014 until 2018. However, in the third quarter of 2019 the total turnover surged by 144.1% compared to the previous quarter, and compared to the corresponding quarter of 2018 the growth amounted to 285.9%. Due to the pandemic, all of these gains evaporated in the second quarter of 2020. The turnover fell from its 2019 fourth quarter peak by 85% in a single quarter, returning to the average levels for 2015. The same trend can be seen in employment, productivity, and output. However, there is one exception to this apparent rule: average salary. Not only did the average monthly salary experience only a relatively minor fall of 34.8%, but in the third quarter of 2020, the average salary in the value chain surpassed both the aggregated sector's highest salary and the pre-pandemic average salary, reaching GEL 2604.7.

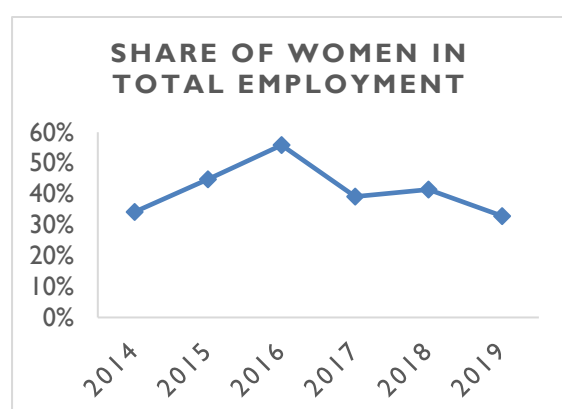


Chart 2.12 Share of women employed in the media content production and post-production value chain

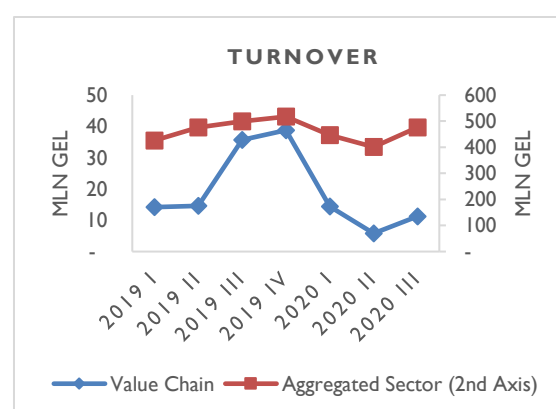


Chart 2.13 Quarterly turnover for media content production and post-production value chain and the corresponding aggregated sector

Source: National Statistics Office of Georgia

Overview of the existing challenges and opportunities

The USAID Economic Security Program studied challenges in film production and post-production based on consultations with public and private sector stakeholders in February and March 2020. The key challenges identified were: (1) suspension of the cash rebate program; (2) online piracy; (3) skills

gap and shortage in film production and post-production; (4) low access to financing; (5) low technical capacity/infrastructure; (6) lack (or non-existence) of a streamlined filming permit process; (7) limited access to EU-funded programs; and (8) potential 'double taxation' related to VAT on the export of services¹⁷.

According to the stakeholders consulted during this research, these problems remained unchanged throughout the last year, and some of them have been further aggravated by an increase in pandemic-induced uncertainty. The following issues were identified by the respondents as critical:

Uncertainties related to the cash incentive program: The cash rebate program administered by the Film in Georgia program under Enterprise Georgia, was temporarily terminated in late 2019 with the aim of redesigning the program. However, according to the stakeholders, no further progress has been made in redesigning the program. Cash rebates, one of the most popular incentives across the globe¹, are offered by most countries to attract audiovisual content production. Therefore, cash incentives *per se* do not ensure the competitiveness of the country unless these are combined with a business-enabling environment overall. According to the majority of respondents, the cash incentives provided as part of the Film in Georgia program were sufficient and, when coupled with the Georgian tax system, the terms were competitive (20% + 5% of qualified expenses) when it came to attracting investment even compared to jurisdictions offering higher returns on qualified expenses. However, industry stakeholders claim that the termination of the program, even temporarily, would have 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. Therefore, timing is critical when it comes to maintaining investors' attention. As mentioned by the respondents, the suspension of the cash rebate program will not only pause the industry but will take it back several years and leave it struggling to regain the country's attractiveness to foreign investors in this field.

Insufficient formal communication with the public sector: The need for effective dialogue between the private and public sectors was particularly evident in the context of redesigning the cash rebate program. At the initial stage, several consultations were held with leading Georgian producers, wherein they discussed the concept of redesign and the producers shared their views on the new features of the program. However, the representatives of the companies said that during later stages they were not informed about the program's redesign process or about future plans. In general, respondents pointed out that communication with the public sector had been mainly based on personal connections, and that there was no clear mechanism or practice for formal dialogue with the public sector in the film industry.

COVID-19's impact: Film production has been nearly halted during the pandemic, with only a few local projects being implemented. Some production companies engage only in the production of advertising, which also decreased as an activity during the pandemic. In consultation with the private sector, instructions were developed for the filming process, which included rules for social distancing and other rules for preventing the spread of the virus, as well as, if necessary, issuing permits for filming during curfew hours. Therefore, the private sector representatives believed that the pandemic would have only a marginal effect on the scale of film production and post-production if the rebate program was still in place. According to respondents, the pandemic increased film production costs (such as those incurred for quarantine of incoming film crews, testing, and additional costs related to social distancing), however production companies were willing to cover additional costs and added that this would not have stopped filmmaking if the cash rebate program was still in effect. It should be noted here that post-production does not require group work and the restrictions have thus not

¹⁷ Policy Brief on Creative Industries. USAID Economic Security Program, 2020

placed an additional burden; however, such activity was still reduced (although less so than film production) because the demand for post-production is directly related to film production.

The impact of the COVID-19 pandemic was felt particularly severely by bigger production companies. Due to the dramatic decline in production in 2020, large production companies that rented office spaces and had permanent full-time staff faced significant problems, while small companies that worked from home before the pandemic were less affected by the pandemic.

Expectations for the future: Stakeholders did not foresee significant changes in the situation in the next six months given the uncertain nature of the COVID-19 pandemic and the ambiguity of the cash rebate program. Consequently, stakeholders suggested that this will have a severe impact on the film industry in Georgia and that it will take a long time to restart the industry and regain the country's attractiveness.

Georgian Film Cluster: 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. Mr. Vashadze argued that there is a critical need to train above-the-line¹ production professionals. In Georgia, there are only a handful of such professionals who are highly skilled and have extensive practical experience, which is not sufficient for large-scale international production. The cluster has held initial negotiations with a prominent production company with the aim of organizing a training course for Georgian professionals, however, due to a lack of necessary financial resources, the project has not yet been executed.

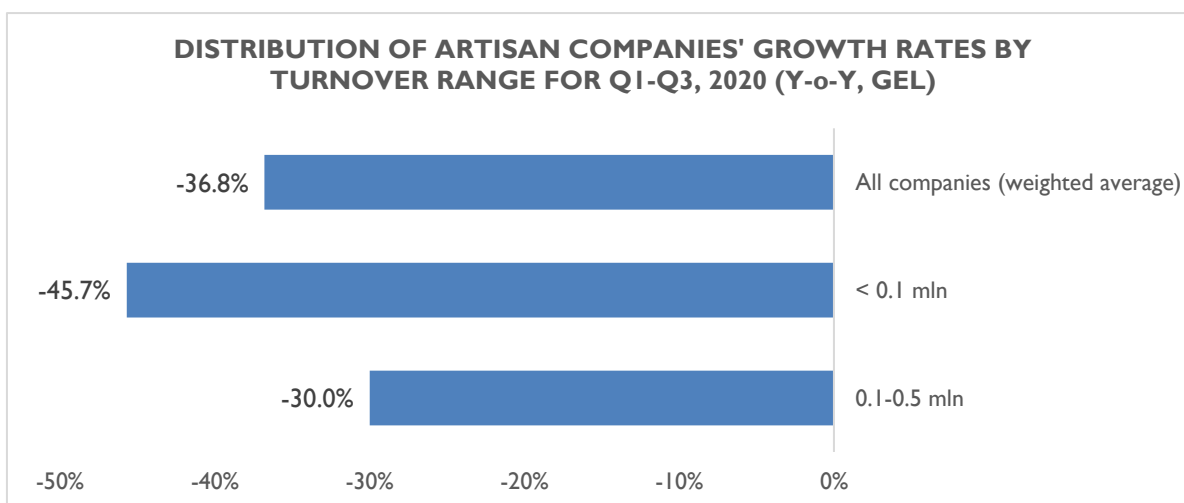
ARTISAN

The artisan value chain consists of various activities, such as ceramics, wood carving, painting, jewelry, and fashion. Due to its close ties and integration with Georgian culture and history, the artisan value chain focuses on both domestic and foreign high-end consumers.

The companies within the artisan value chain were drawn from the stakeholders' lists. The surveyed businesses were predominantly small-scale solo entrepreneurs based in Tbilisi.

Artisan producers were particularly heavily hit by the COVID-19 pandemic, compared to other value chains included in the quantitative survey. Almost all of the interviewed artisan companies declared a decline in turnover for the first nine months of 2020. The sudden halt of tourism had a significant negative impact on these companies, while relatively high advertising and product transportation costs precluded them from promoting the delivery of their products abroad. Going beyond the reporting period of Q1-Q3 of 2020, a small number of companies in this value chain stated that they had achieved positive year-on-year growth thanks to a short period of relaxed lockdown measures around the New Year holidays.

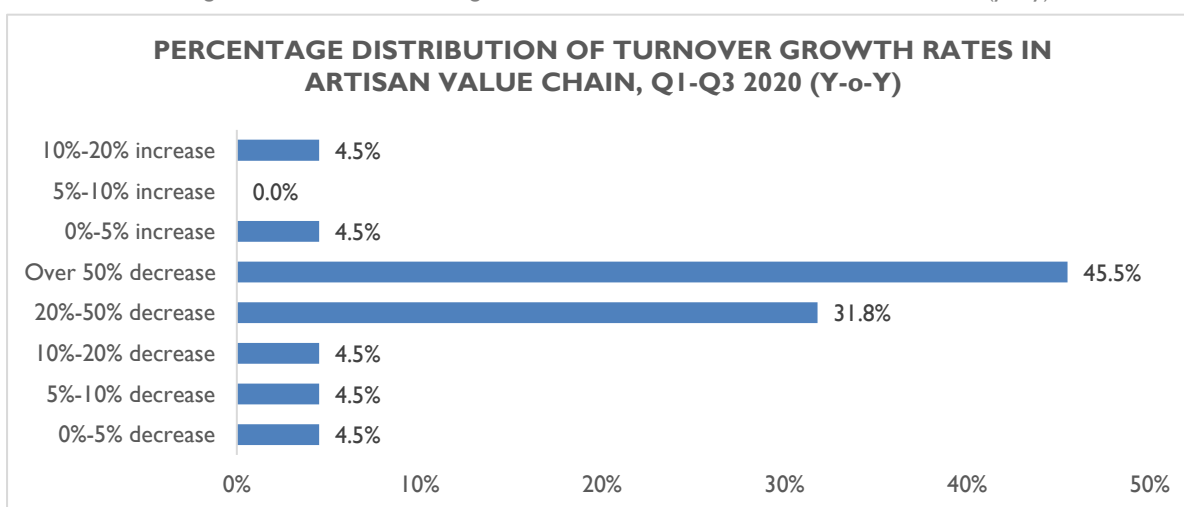
Chart 2.14 Distribution of artisan companies' growth rates by turnover range for Q1-Q3, 2020 (y-o-y, GEL)



Source: Author's calculations

In terms of key indicators, 90% of artisan producers reported turnover under GEL 100,000. During Q1-Q3 of 2020, almost 90% of artisan producers also experienced turnover declines, as a result of which the weighted average of decline in turnover equaled 36.8%. In particular, more than half of artisan respondents indicated that their turnover fell by at least 20%, and one-third of companies shrank by more than 50%.

Chart 2.15 Percentage distribution of turnover growth rates in the artisan value chain, Q1-Q3 2020 (y-o-y)



Source: Authors calculations

The median number of employed personnel was two persons for artisan producers with the average gross monthly salary equal to GEL 635 in the artisan value chain.

The majority of artisan producers indicated no change in the number of employed personnel, while approximately one-third of companies reporting having had to reduce their number of staff. Approximately one out of every seven companies mentioned that in the first nine months of 2020 they had actually increased their number of staff.

Overview of the 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. 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 has been particularly active during the pandemic in 2020, particularly by organizing a fair during the New Year to boost sales among its members.

The USAID Economic Security Program, which assessed the artisan value chain in 2019, identified the following gaps:

- **Lack of scale:** None of the business activities within the value chain are large enough on their own to move beyond one-off sales at local shops, exhibitions, or showrooms. There is not enough visibility or scale to establish a niche that could lead to greater competitiveness.
- **Lack of sales platforms:** There is no e-commerce platform in Georgia that provides artisans in different fields with the chance to market their goods to global customers.
- **Lack of a logistics/distribution network:** A shipping network is needed, linked to an e-commerce platform, which can provide artisans with both sales and shipping opportunities to reach their target customers.
- **Lack of visibility:** Most Georgian artisans lack global visibility and are left with the option of selling one-off pieces at exhibitions and fairs throughout the region.

The following challenges were reported by stakeholders and the Georgian Heritage Crafts Association during interviews:

Low threshold for VAT (100,000 GEL): According to the Georgian Heritage Crafts Association, its members try to stay within the VAT threshold, which hinders the development of the overall value chain.

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. 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. During those periods, companies had to cover taxi expenses for their employees to continue their operations. According to respondents, the increased cost of transportation often exceeded the given employee's monthly salary. To respond to the challenges imposed by the pandemic and the corresponding lockdown, companies, first of all, started to adjust their products to appeal to local consumers and foreigners living in Georgia, which in itself entailed additional product modification and marketing costs. Many companies also started selling their products online. Meanwhile, stakeholders mentioned the problem of delivering products to consumers, especially in the regions, with transportation companies often unable to deliver products on time. Moreover, the rather high price of transportation represented a burden for the manufacturer. Such transportation problems were exacerbated in the run-up to the New Year when demand for both manufacturers' products and courier services increased. 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.

3. LIGHT MANUFACTURING

SECTOR SUMMARY

Four value chains categorized under the light manufacturing sector, as well as one specific business activity under one of these value chains, were selected for the given analysis. The value chains covered here are: furniture; packaging; construction materials; and personal and protective equipment (PPE). In addition, the report closely observes the wooden toys business activity under the furniture value chain.

The light manufacturing sector in Georgia has been enjoying growing attention until recently. The value chains therein benefit frequently from the interest of donor organizations (e.g., USAID, SIDA, UNDP, and the EU). Moreover, almost all of these value chains are listed as priority areas of Enterprise Georgia's business development, export promotion, and investment attraction efforts, meaning that the enterprises operating within these value chains can take advantage of the diverse financial and business development services offered.

Significantly, there are some vivid differences between the internal characteristics of the selected value chains. While some of them are nascent (e.g. packaging), others represent relatively well-established economic activities in Georgia (e.g. furniture manufacturing). The value chains also differ in their exhibited potential for investments, growth, and job creation. According to a recent evaluation under the USAID Economic Security Program, of the value chains under the light manufacturing sector, only "furniture" and "packaging" have demonstrated potential for expansion on a global scale.

It is worth mentioning that due to data availability constraints, a thorough quantitative analysis was only possible for certain directions, while economic tendencies within the wooden toys business activity and the PPE value chain have been observed through a short quantitative survey conducted by remote phone interviews with relevant representatives of the given business activity or value chain. Moreover, in-depth interviews and focus group discussions provided insights from representatives of the relevant value chains and specific business activity of the light manufacturing sector.

As our quantitative analysis suggests, the chosen economic indicators reveal somewhat similar trends across the observed value chains and the reviewed business activity. For 2020, the majority of active enterprises in the value chains were small and were located outside Tbilisi. For 2014-2019, turnover showed upward dynamics in the case of virtually all analyzed value chains, while output tendencies by and large closely followed turnover trends.

Of the observed value chains for which official statistical data were available from Geostat, the furniture value chain hired the lowest number of people in 2019 (2,563 hired employees), while the construction materials value chain employed the highest number of people (8,854 hired employees).

As of 2019, average monthly salaries in the observed value chains ranged between GEL 800-1250, with the highest average monthly salary observed in the packaging value chain (GEL 1246). Investments in fixed assets and inventories experienced volatile trends over time in all value chains.

Noticeably, COVID-19 took a drastic toll on Georgian production under all of the selected value chains. Nevertheless, the PPE value chain represents the only one of these that benefited to some extent from the pandemic, considering the skyrocketing demand for PPE products.

The selected value chains under the light manufacturing sector face the following similar challenges, which have remained consistent over time:

- **Obstacles related to a lack of access to finance.** Although most of the representatives of the value chains usually benefit from the financial support of Enterprise Georgia, as revealed during the focus group discussions, the financial resources offered were claimed to provide only short-term benefits, and were insufficient for making investments in expensive technologies.
- **Shortage of skilled labor.** The poor quality of vocational education and training available at Georgian VET institutions was mentioned as a main reason for a shortage of skilled labor. Recently, there have been some significant steps taken in this direction though, mostly in the packaging and furniture value chains. In the cases of other value chains, such attempts have been of a sporadic nature.
- **High dependence on imported raw materials and limited access to good-quality local inputs.** Usually, this increases production costs, hinders export orientation of firms, and constrains value creation.

Below, we provide more in-depth analysis of identified challenges and prospects along with recent economic tendencies in each of the selected value chains, and one specific business activity, of the light manufacturing sector.

FURNITURE

The furniture value chain is characterized by high attractiveness for investors and high value creation potential for Georgia as a whole¹⁸. Wood processing, which is an integral part of the furniture value chain, is one of the priority business activities under Enterprise Georgia's Industrial Component. Therefore, actors within the furniture value chain to benefit from its financial and technical assistance. The furniture value chain also enjoys Enterprise Georgia's support in export promotion, management, and development, allowing furniture manufacturers to participate in international exhibitions and establish networks with foreign partners¹⁹. In recent years, the focus of international donors, such as USAID, GIZ, and SIDA, has also increased on the furniture industry. The Value Chain Prioritization and Gaps Assessment study conducted by USAID (2019) identified furniture as a competitive value chain with high potential for growth on a global scale²⁰.

In order to analyze the economic tendencies in this value chain, certain economic indicators (described below) have been examined for furniture products as well as their inputs for Georgia and the regional countries (Armenia, Azerbaijan, Ukraine, and Turkey)²¹. Products made of wood, cork, straw, and plaiting materials, as well as products made from business activities such as the sawmilling and planing of wood, are treated as inputs of the furniture value chain. Trade data of furniture inputs additionally include the products of “tanning and dressing of leather; dressing and dyeing of fur.”²²

According to Geostat's Business Register data, as of 2020, there were a total of 1,579 active enterprises operating in furniture manufacturing. Overall, 42% of these companies (671) are registered in Tbilisi, and the remaining 58% of enterprises (908) are located across the regions of Georgia. The majority of these companies are small in size. Currently, there are only two large- and medium-sized companies operating in Tbilisi and only two medium-sized enterprises registered outside Tbilisi. It is noteworthy to mention that the number of active enterprises registered in the Georgian regions has been increasing since 2014 at an annual average rate of 19%. Notably, in 2020, the year-on-year increase was considerably higher (42%). On the other hand, the number of furniture manufacturers remained at a relatively similar level in Tbilisi during 2014-2020. As for the manufacturing of furniture inputs, there were 155 active enterprises registered in Tbilisi as of 2020. Of this number, only two are medium-sized companies and the rest are small. In total, 330 furniture input manufacturers, mainly small in size, operate outside Tbilisi. In the last three years, there has been a slight decrease in the number of furniture input manufacturers throughout Georgia, however in 2020 their number increased considerably (57% growth was depicted in the regions, and 25% in Tbilisi).

The turnover in the furniture value chain has been increasing in recent years and reached GEL 201 million in 2019 (Chart 3.1). During the same period, the turnover dynamics in the corresponding aggregated sector (manufacturing) was also characterized by an increasing trend. The compound annual growth rate (CAGR) for the furniture value chain was 7% for the period of 2014-2019, while the manufacturing sector increased by an annual average of 9%. As Chart 3.2 shows, the annual growth rate of the furniture value chain's turnover dropped to 1% in 2019 following sharp increases in the previous years. The total turnover for the manufacturing sector increased by 13% in 2019. Based on the latest data available, the continuing upward trend in turnover was maintained in 2020. In the first

¹⁸ Research study conducted by the International Financial Corporation (IFC), referenced in Investment Promotion Strategy and Action Plan 2020-2021 of the Enterprise Georgia.

¹⁹ Policy Brief. Light Manufacturing Sector. USAID (2020)

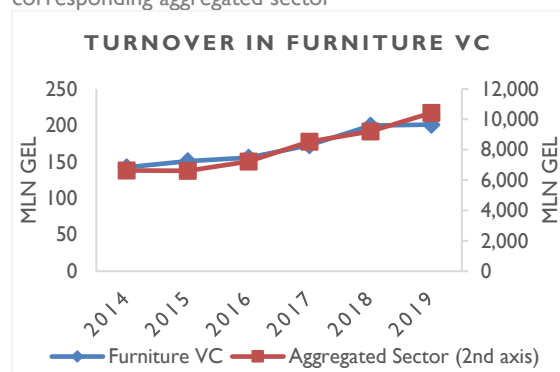
²⁰ Value Chain Prioritization and Gaps Assessment. USAID (2019)

²¹ Where furniture products and their inputs are not distinguished, the indicators apply only to the manufacture of furniture.

²² Please refer to the methodology to find respective NACE codes used in each type of economic indicators constructed for the furniture value chain.

three quarters of the last year (2020), turnover increased by 12% compared to the same period of 2019 and amounted to GEL 144 million.

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



Source: National Statistics Office of Georgia

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

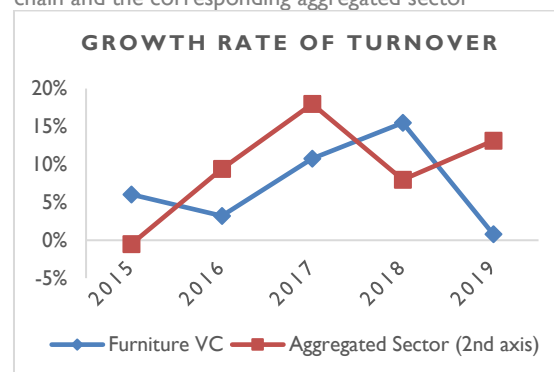
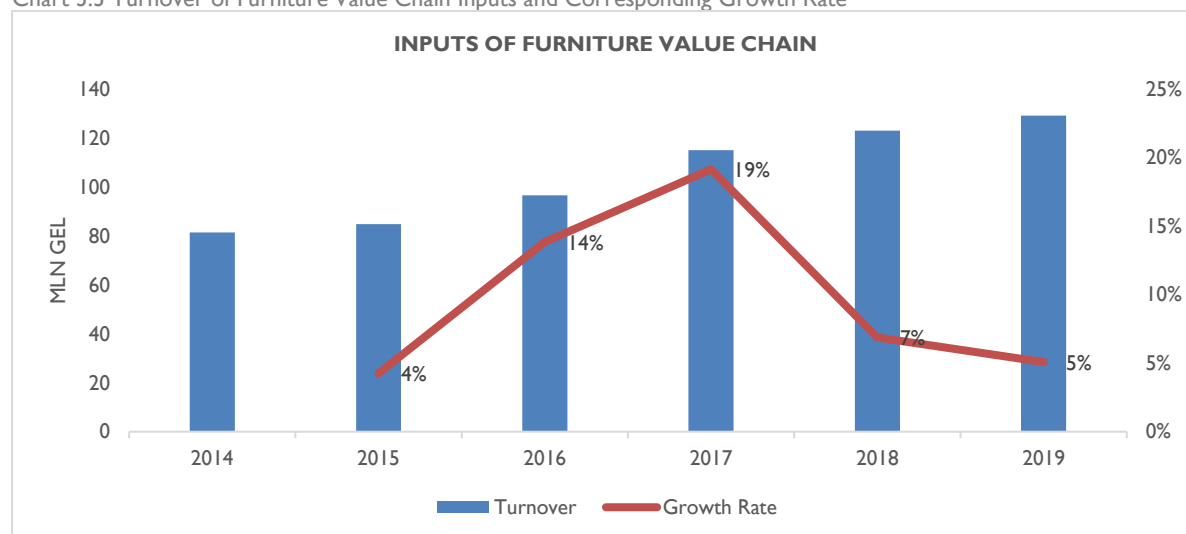


Chart 3.3 below shows the turnover dynamics in the manufacturing of inputs for the furniture value chain, which also depicts an increasing trend in 2014-2019. Turnover of furniture inputs increased on average by 10% annually and amounted to GEL 129 million in 2019. As expected, the trend did not continue in 2020, and the turnover for the first three quarters of 2020 (GEL 71 million) dropped by 18% compared to the same period of 2019 (GEL 86 million).

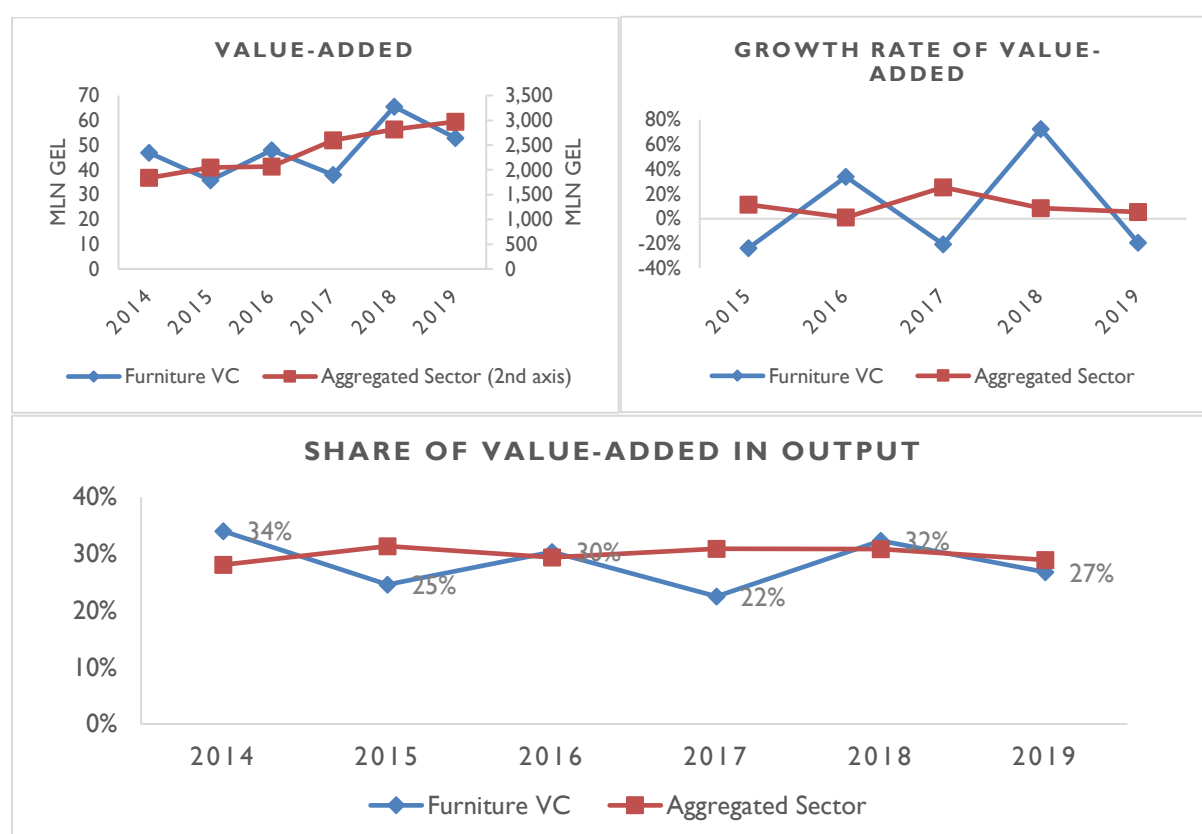
Chart 3.3 Turnover of Furniture Value Chain Inputs and Corresponding Growth Rate



Source: National Statistics Office of Georgia

Value-added generated by the furniture value chain in recent years has been quite unstable, compared to the value-added generated by the manufacturing sector in total (Chart 3.4). As statistics show, the CAGR (2014-2019) of value-added for furniture manufacturing is 2%, while the value-added in the aggregated manufacturing sector increased on average by 10% annually over that period. The share of value-added in furniture output also fluctuates over time with substantial ups and downs. In 2019, it equated to 29%, matching the level of the aggregated manufacturing sector.

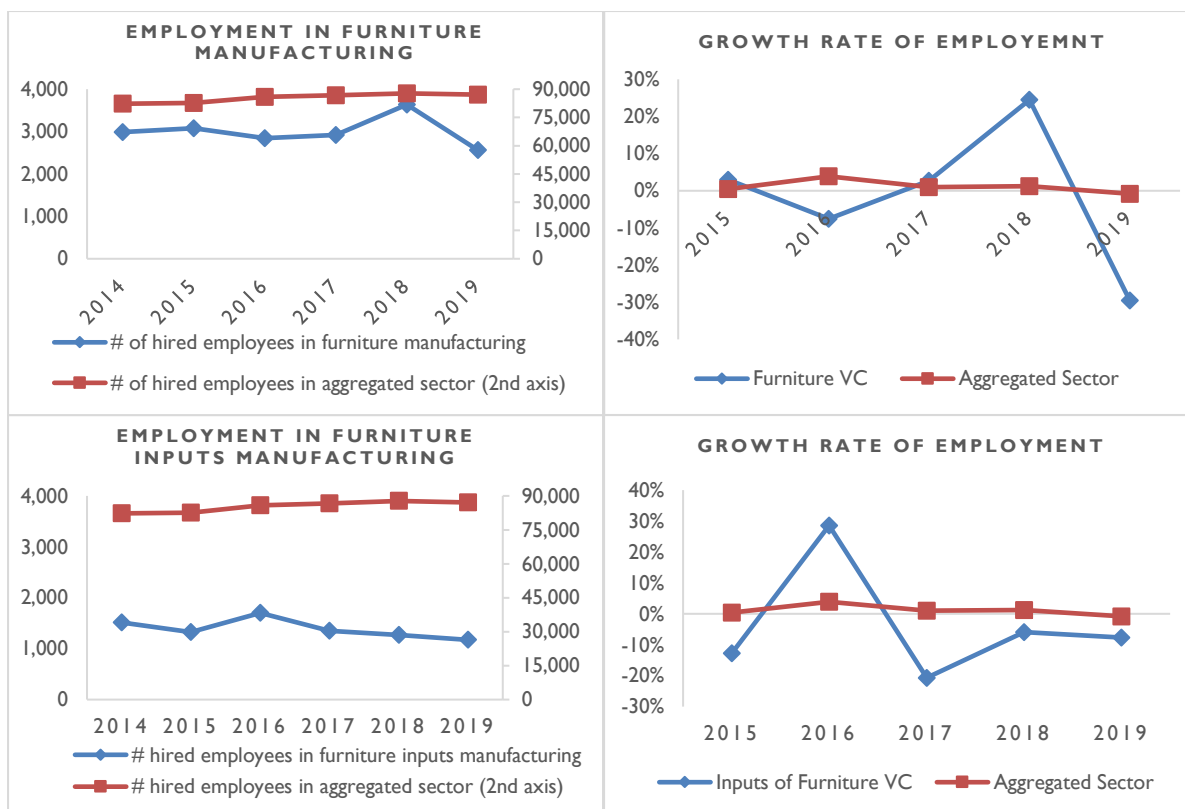
Chart 3.4 Value Added, its Growth Rate and Share of Value-Added in Output of Furniture Value Chain and Corresponding Aggregated Sector



Source: National Statistics Office of Georgia

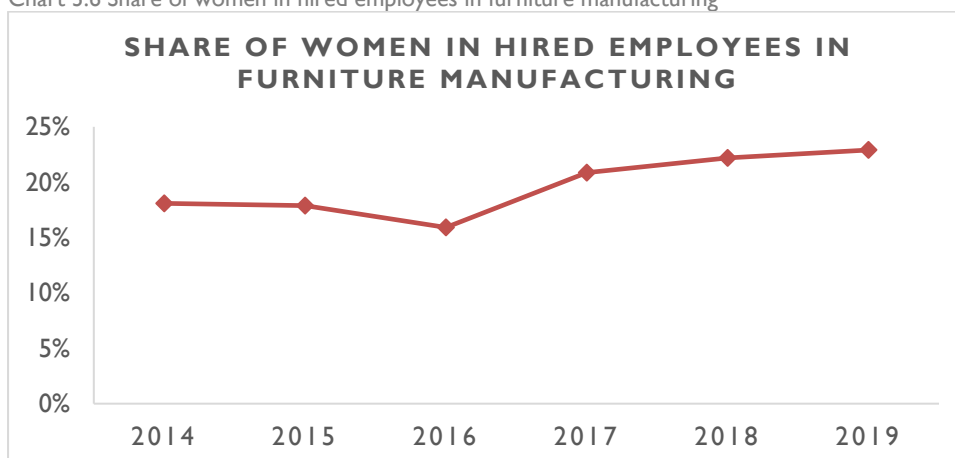
Compared to 2018, employment in the furniture value chain decreased by 30% in 2019, and amounted to 2,563 hired employees (Chart 3.5). Of this number, 23% were female employees. As depicted in Chart 3.6, the share of women in hired employees of the furniture value chain has been increasing since 2016. Employment in the furniture value chain inputs have experienced a decreasing trend, starting from 2016. This downward shift in employment continued during the first three quarters of 2020. As the latest available quarterly data show, the number of hired employees in the furniture value chain decreased by 10% during Q1-Q3 of 2020, compared to the corresponding period of 2019. The number of hired employees engaged in furniture input production had been mostly decreasing since 2014 (with 2016 being the only exception) and equated to 1,172 in 2019. In Q1-Q3 of 2020, it dropped by a further 13% compared to the same period of 2019. The manufacturing sector, in turn, showed slow growth for 2014-2019 and employed a total of 87,054 people as of 2019.

Chart 3.5 Employment dynamics in the furniture value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

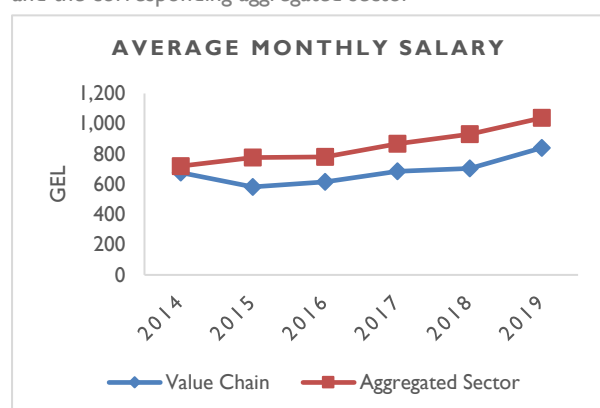
Chart 3.6 Share of women in hired employees in furniture manufacturing



Source: National Statistics Office of Georgia

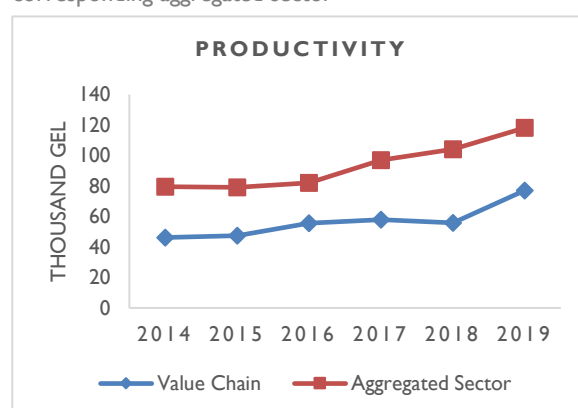
The average monthly salary in the furniture value chain increased during 2015-2019 and amounted to GEL 840 in 2019. However, it slightly decreased in the first three quarters of 2020. On an aggregate level, the manufacturing sector overall was also characterized by an increasing trend in average monthly salary (Chart 3.7). The average monthly salary has been increasing annually on average twice as much (8%) as it has been increasing in the furniture value chain (4%). Higher salaries were accompanied by increased productivity (Chart 3.8) in both cases, measured as the value of output per each hired employee. For the analyzed period of 2014-2019, a compound annual growth rate of labor productivity in the furniture value chain was slightly higher (11%) compared to that of the aggregated manufacturing sector in total (8%).

Chart 3.8 Average monthly salary in the furniture value chain and the corresponding aggregated sector



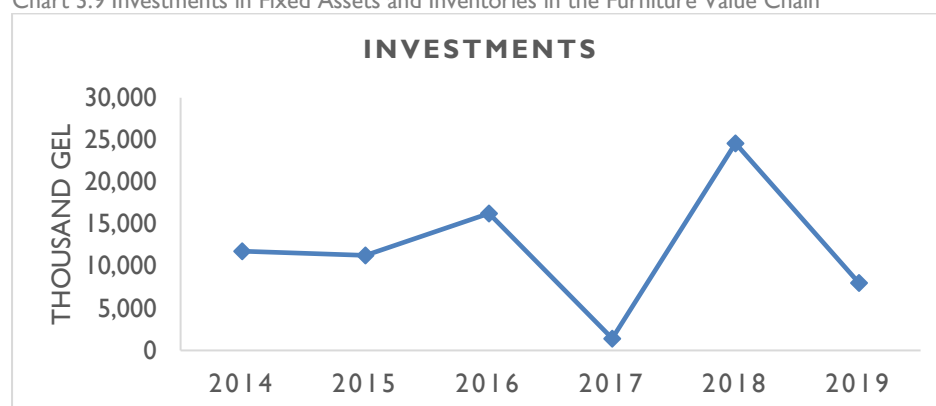
Source: National Statistics Office of Georgia

Chart 3.7 Productivity in the furniture value chain and the corresponding aggregated sector



Investments in fixed assets and inventories in the furniture value chain have been quite volatile in recent years. As shown in Chart 3.9, after the sharp increase in 2018, there was a significant drop (67%) in investments in 2019 compared to the previous year and total investments amounted to GEL 8 million.

Chart 3.9 Investments in Fixed Assets and Inventories in the Furniture Value Chain

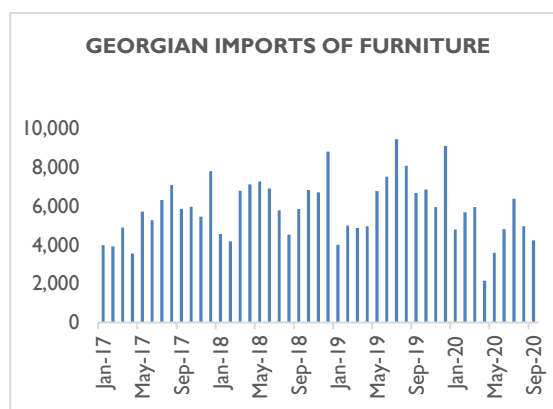
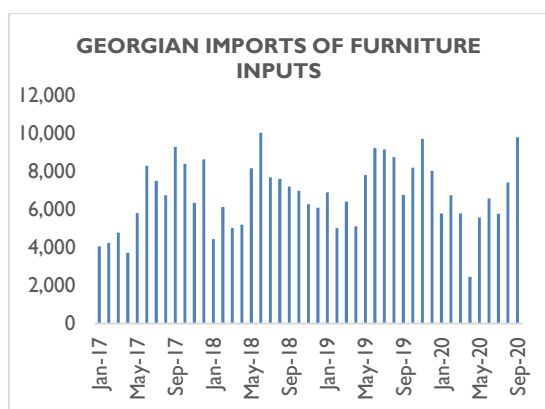


Source: National Statistics Office of Georgia

According to the focus group discussion held with private sector representatives, further development of the furniture value chain was said to be highly dependent on attracting more investments in this field. Reducing taxes or introducing a cash rebate mechanism in this sector were suggested as potentially good incentives to increase investments.

Observing trade tendencies in the furniture value chain for the past three years (Chart 3.10), despite highly oscillating monthly data on Georgian import of furniture and its inputs, both have exhibited increasing trends during 2017-2019. In the wake of the COVID-19-led lockdown, the importing of furniture and its inputs declined abruptly in Georgia, but recovered shortly after April 2020, and then largely recorded increases in the following months as well.

Chart 3.10 Georgian imports of furniture and its inputs



Source: National Statistics Office of Georgia

Chart 3.11 and Chart 3.12 below show the top importing countries for 2020 in the furniture value chain. In the case of furniture products, the major trade partners for Georgia were Turkey (37%) and China (20%). Inputs of furniture were also mainly imported from these two countries (Turkey taking 41% of total imports, and China 17%) and from Russia (12%).

Chart 3.11 Georgian Imports of Furniture by Trade Partners (2020)

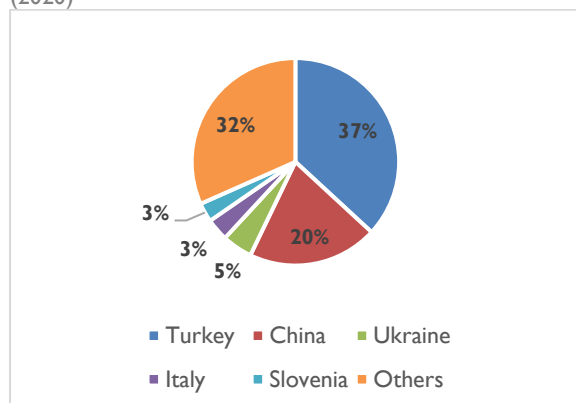
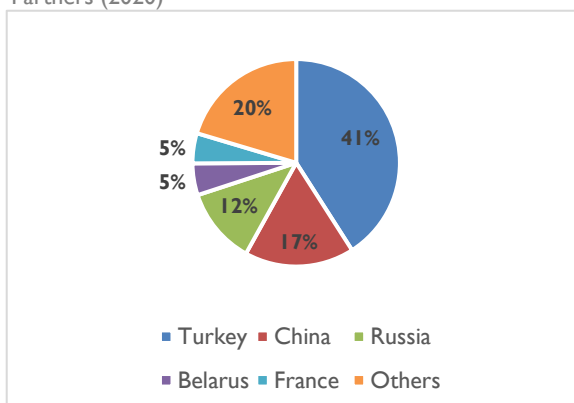


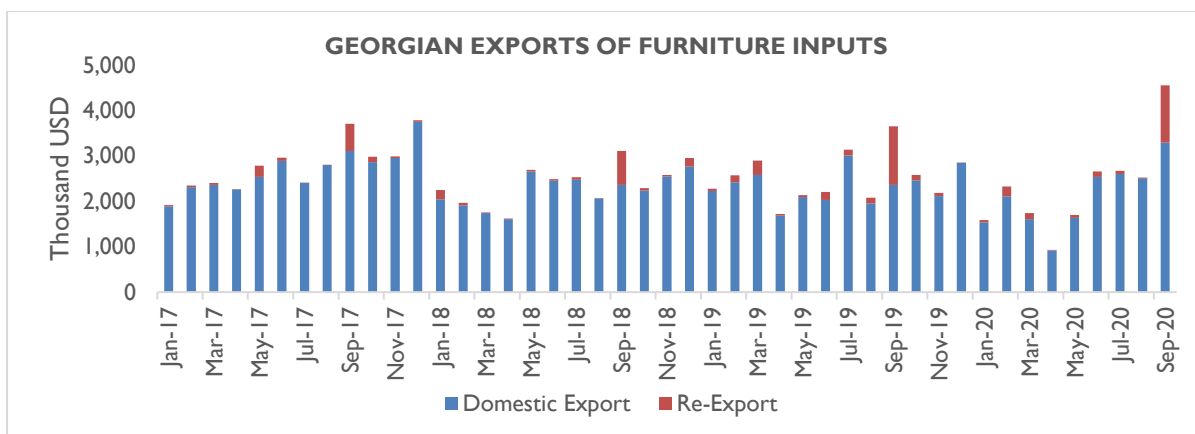
Chart 3.12 Georgian Imports of Furniture Inputs by Trade Partners (2020)



Source: National Statistics Office of Georgia

Georgian exports of furniture inputs (Chart 3.13) have exhibited some volatility. The total exports started to increase in the first half of 2017, but started to diminish in the first half of 2018. A slightly increasing trend was then depicted in 2019, which was followed by a notable decline in exports in the first half of 2020 that coincided with economic lockdown periods caused by the COVID-19 pandemic. Since April 2020, the export trends improved, showing the largest growth in September 2020.

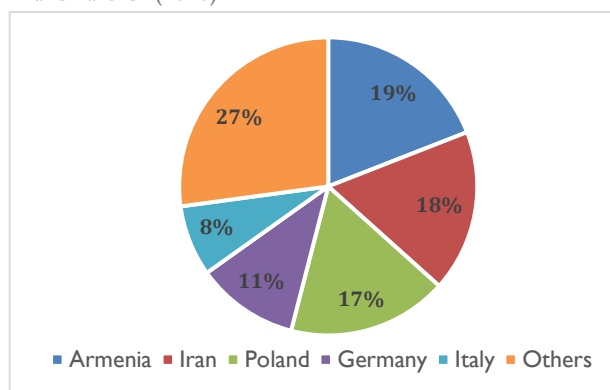
Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs



Source: National Statistics Office of Georgia

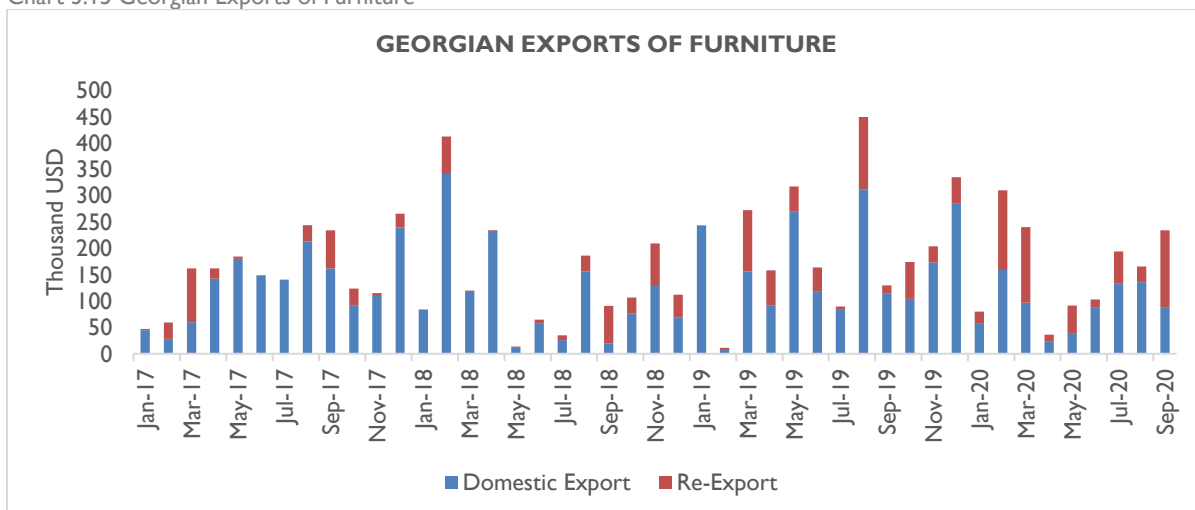
Chart 3.14 shows the top exporting markets of Georgian furniture inputs for 2020. Armenia (19%) and Iran (18%) appear to be two major export destinations, followed by three EU member states – Poland (17%), Germany (11%), and Italy (8%).

Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (2020)



Similar to inputs, Georgian exports of furniture exhibited a growing pattern in the first half of 2017, followed by a decline in 2018. Furniture exports started to grow again after the second half of 2018, reaching a peak in August 2019. Until the onset of the pandemic, some upward trends persisted. Thereafter, a sharp drop during the spread of the virus was followed by the gradual increase in exports in the second half of 2020. Compared to inputs, the re-export of furniture products makes up a relatively significant proportion of total exports.

Chart 3.15 Georgian Exports of Furniture



Source: National Statistics Office of Georgia

Chart 3.16 shows the top trading partner countries in 2020 for Georgia's domestic exports²³ of furniture. The major export destination countries were Belarus (19%) and Poland (16%), followed by Azerbaijan (13%), Ukraine (10%) and Armenia (8%).

Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (2020)



Source: National Statistics Office of Georgia

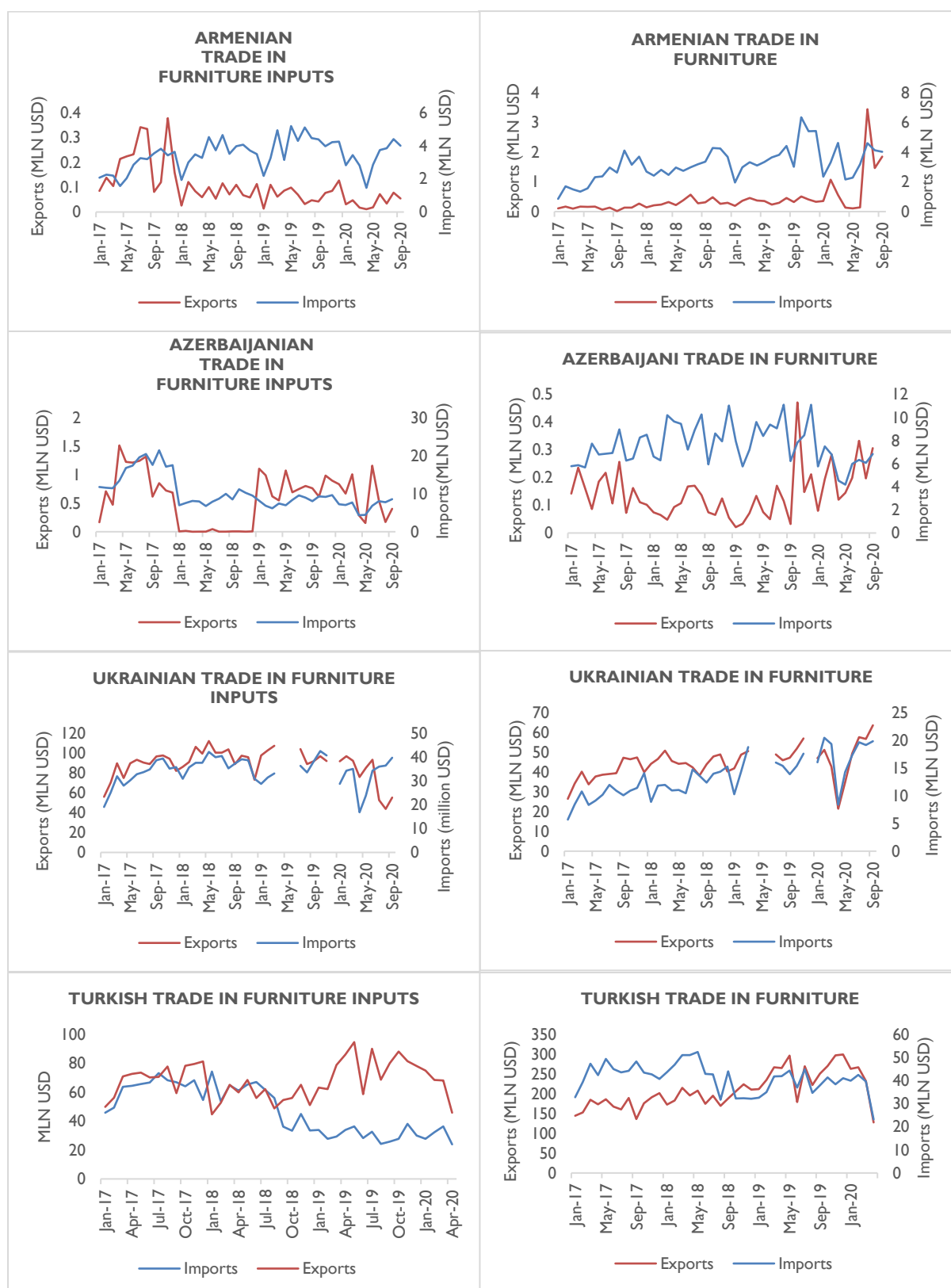
Regional trade in the furniture value chain has been rather volatile over the course of 2017-2020 (Chart 3.17). To analyze regional trade flows, the following countries are considered here: Armenia, Azerbaijan, Turkey, and Ukraine.

Exports of furniture depicted a moderate upward trend in this regard for Azerbaijan, Turkey, and Ukraine during 2017-2020. Armenia's export demonstrated a somewhat different path, remaining stable from 2017 until April 2020. Since May 2020, after the loosening of lockdown restrictions, there was a sharp increase in country's exports and, despite a subsequent decline, it remained at a higher level compared to previous years. Import of furniture was mostly increasing in Armenia, Ukraine and Azerbaijan up until the beginning of 2020. After a short-lived decline, it started to grow again after the second half of 2020, and almost returned to the pre-pandemic levels of imports in some countries, such as Ukraine and Armenia.

Export and import flows of furniture inputs followed similar patterns in Turkey, until diverging in late 2018. After that point, exports started to rise significantly, while imports declined gradually. As for furniture products, both exports and imports of furniture experienced a sharp decrease in late 2020. It is worth noting that Turkey, together with Ukraine, are the only countries in the region with a mainly positive trade balance in both furniture and its inputs.

²³ 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.

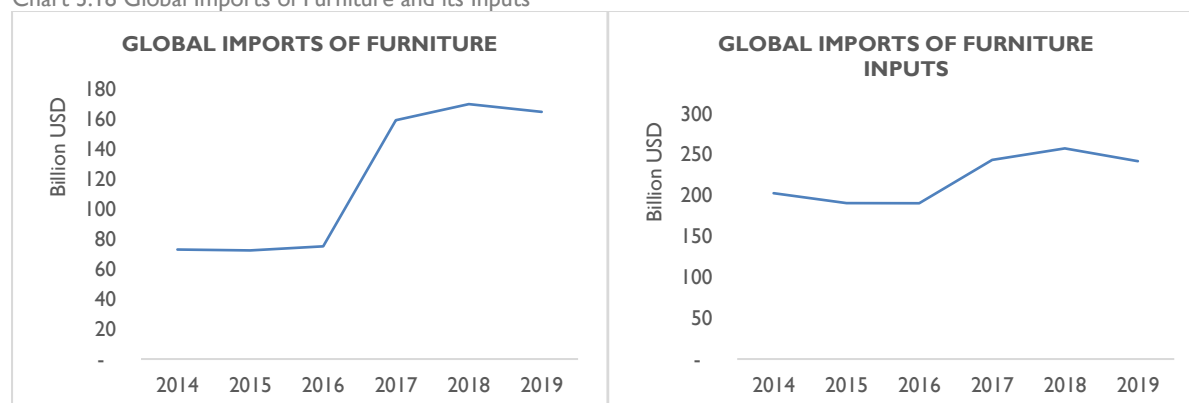
Chart 3.17 Regional trade patterns in the furniture value chain



Source: UN Comtrade

Observing global tendencies in furniture trade, as Chart 3.18 shows, global imports²⁴ of furniture and its inputs increased during 2016-2018. In 2019, both trade flows declined slightly.

Chart 3.18 Global Imports of Furniture and its Inputs



Source: UN Comtrade

Overview of existing challenges and opportunities

The insights from focus group discussions and individual interviews with relevant stakeholders suggest that the furniture value chain has good 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. Elsewhere, along with access to finance, the unavailability of a qualified workforce and the insufficient level of managerial skills in this field were found to be the top constraints among furniture manufacturers in a recent policy brief prepared for the light manufacturing sector under the USAID Economic Security Program²⁵. The policy brief highlighted the importance of state policy in developing relevant certification and vocational training programs that would meet employers' demand for skilled labor. Recent developments in this direction are noteworthy however. Currently, a representative of the Georgian Furniture Cluster is engaged in designing the curricula of such programs, in collaboration with the National Center for Educational Quality Enhancement. 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.

According to our interviewees, the problem concerning low access to high-quality wood materials 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. To this end, the furniture value chain's operations were, according to respondents, further constrained by the intermediary

²⁴ Global export is not presented due to the recent methodological update of UNcomtrade for export recording. The latter now includes re-export (usually extracted from global export to avoid double counting). Since it cannot be identified whether all reporter countries switched to the new methodology in reporting export data at the same time, for consistency reasons we only present global import that usually coincides with global export.

²⁵ Policy Brief. Light Manufacturing Sector. USAID (2020)

service providers (e.g. sawmills) that delay wood processing, causing subsequent delays to its placement in the business yards for further use.

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. Until 2020, the demand for Georgian furniture had been increasing from small hotels and real estate developers (for example, m^2 development) while large hotels were still favoring imported products.

With respect to input materials, such as laminates, medium-density fiberboard (MDF), veneer, textile, and other components, these are mainly imported. 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 already started to use locally produced options. 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 recent study by GIZ²⁶. 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. However, its sales slightly decreased recently due to the COVID-19 pandemic. Nevertheless, the company plans to upgrade its equipment and launch a workbench knife-sharpening service in Western Georgia. The existence of such equipment and services is of particular importance in wood processing. There are also some new initiatives being undertaken by other companies, such as introducing adaptive furniture for people with disabilities, which is planned to be manufactured mainly using local input materials. 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. Currently, 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 Etsy²⁷ to European countries and the US.

In general, the interviewed respondents from the private sector claimed that they constantly focus on developing innovative products and integrating international practices into their production. While Georgia does not have the capacity for large-scale production, it was highlighted by some relevant stakeholders that in order 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. In this regard, private sector efforts are supported by the Association Design Georgia, which has been operating in the field since 2019. The association consists of 13 companies as well as some individual members. Along with

²⁶ Value Chain Analysis and Action Plan. Furniture and other wood products. EU. GIZ (2019)

²⁷ <https://www.etsy.com/>

other activities, all of them work on furniture design as this constitutes an obligatory criterion for membership. The association works to create a Georgian identity and niche directions in furniture design, and promotes coordination between designers and furniture manufacturers. 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 main 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 closely cooperates with the Georgian Furniture Cluster (established in 2017), which currently unites 32 member companies. 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. 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. The Georgian Woodworkers and Furniture Manufacturers Association, which has been operating in the field since 2014, aims to help local manufacturers to make higher quality and more competitive products. The cooperation between this association and the Georgian furniture cluster is basically non-existent however, due to the limited scope of the former's operations. Finding an avenue for cooperation between these two institutions could represent a turning point for the furniture value chain's development in the future.

PACKAGING

Similar to the furniture value chain, the packaging value chain was highlighted among priority economic directions under the USAID Economic Security Program. In the Value Chain Prioritization and Gaps Assessment study (2019), packaging was awarded a high score in the Competitiveness Appraisal Matrix (CAM) due to its relatively high potential for growth, investment attraction, and job creation. Moreover, packaging was listed among the priority sectors of Enterprise Georgia and this value chain's representatives have benefited from its support programs, such as financial, technical and export promotion assistance, accordingly.

The analysis here unifies quantitative and qualitative assessments regarding the packaging value chain and closely observes the growth tendencies within it.

As of 2020, the number of active enterprises in the packaging value chain in Georgia was 549, out of which 52% were located in Tbilisi. Of the active enterprises in the country, 532 (97%) were small in size, whereas the number of medium and large packaging enterprises amounted to 15 and two, respectively. During the analyzed period, the average yearly growth rate (CAGR) of enterprises in the packaging value chain was 12.6%. Almost the entirety of this growth was driven by change in the number of active small enterprises, whereas the number of medium and large enterprises remained mostly stable over time.

Turnover in the packaging value chain and in its corresponding aggregated sector²⁸ demonstrated an increasing trend during the analyzed period. In 2019, compared to 2014, the value chain's turnover had more than doubled and exceeded GEL 500 million, while turnover in the aggregated sector increased by 56%, reaching GEL 10.4 billion (Chart 3.19).

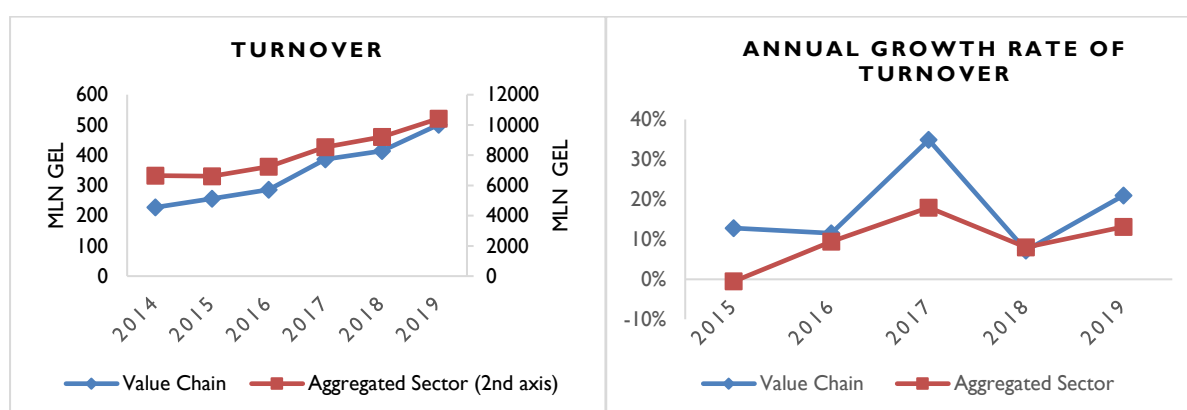
Noticeably, turnover in the value chain grew faster than it did in the corresponding aggregated sector. During the analyzed period, the average yearly growth rate (CAGR) for turnover equaled 17% for the packaging value chain, which is 6 percentage points higher than that of the aggregated sector. The highest growth rates were recorded in 2017, when the value chain and aggregated sector turnovers grew by 35% and 18%, respectively, compared to their levels for 2016²⁹.

As latest available quarterly data show, during the first three quarters of 2020, compared to the corresponding period of 2019, turnover in the packaging value chain dropped by 6% and amounted to GEL 300 million. However, such negative dynamics are mainly driven by a steep decline of the indicator in Q2 of 2020, when the value of turnover decreased by 22% compared to Q2 of 2019.

²⁸ Throughout this document, the manufacturing industry will be considered as the corresponding aggregated sector for the packaging value chain.

²⁹ Dynamics of output in the value chain closely followed above-described tendencies of turnover in the analyzed period, thus, this part of the given report does not provide additional explanations for output dynamics in the packaging value chain and in its corresponding aggregated sector.

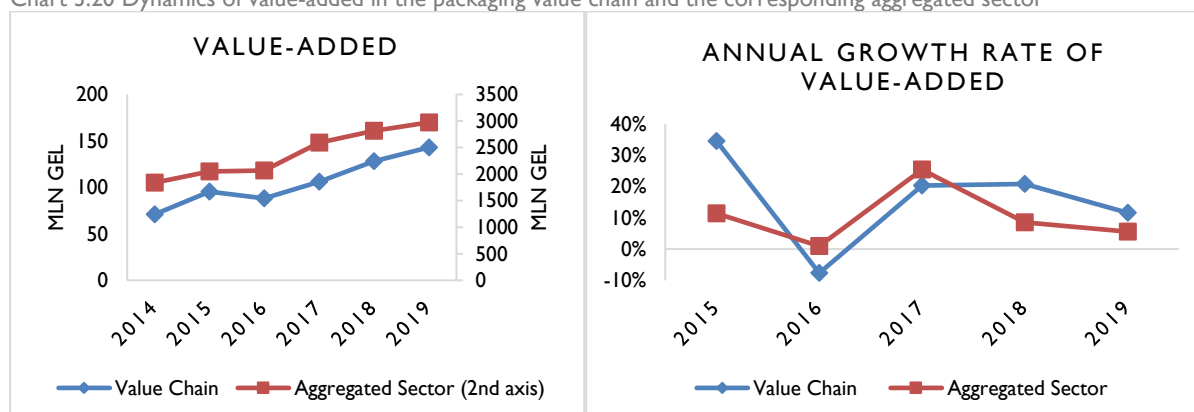
Chart 3.19 Dynamics of turnover in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Value-added created in the value chain kept rising throughout the analyzed period and its dynamics were largely similar to that of the aggregated sector. In 2019, the value-added of the packaging value chain amounted to GEL 143 million, registering a twofold increase since 2014. The only exception to this otherwise increasing trend was in 2016 when the indicator markedly declined by 8% in comparison to the previous year. Meanwhile, in 2014-2019, the average yearly growth rate (CAGR) of value-added in the value chain stood at 15%, which is 5 percentage points higher than the equivalent for the aggregated sector (Chart 3.20).

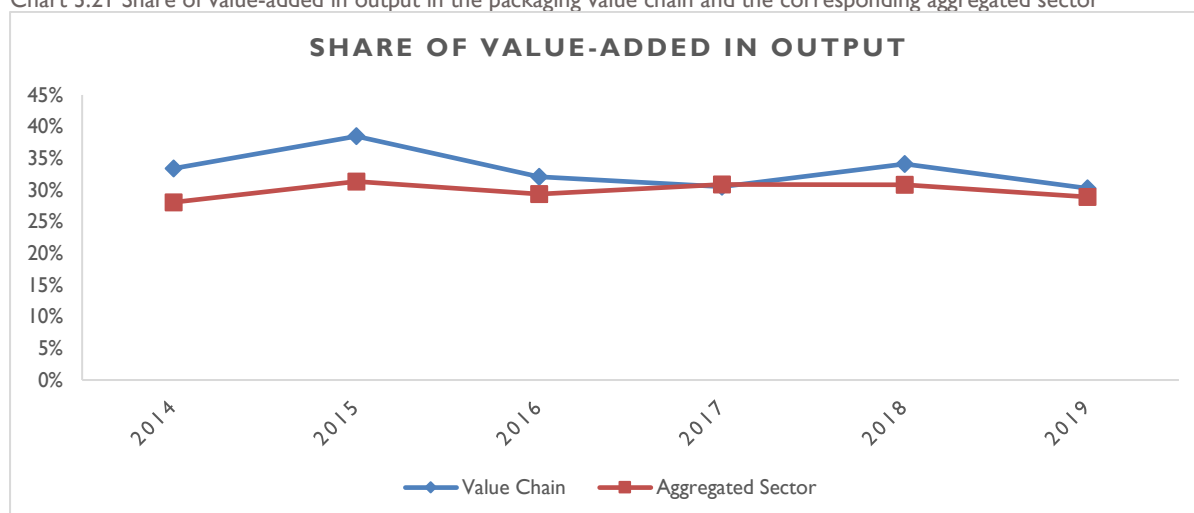
Chart 3.20 Dynamics of value-added in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The share of value-added in output showed mostly a stable trend both in the packaging value chain and in its corresponding aggregated sector. In the value chain, compared to 2014, the indicator decreased by 3 percentage points in 2019, reaching 30%, while the corresponding aggregated sector saw a 1 percentage point increase of the indicator over the covered period. Overall, the dynamics of the share of value-added in output in the value chain closely followed the respective tendencies observed in the corresponding aggregated sector (Chart 3.21).

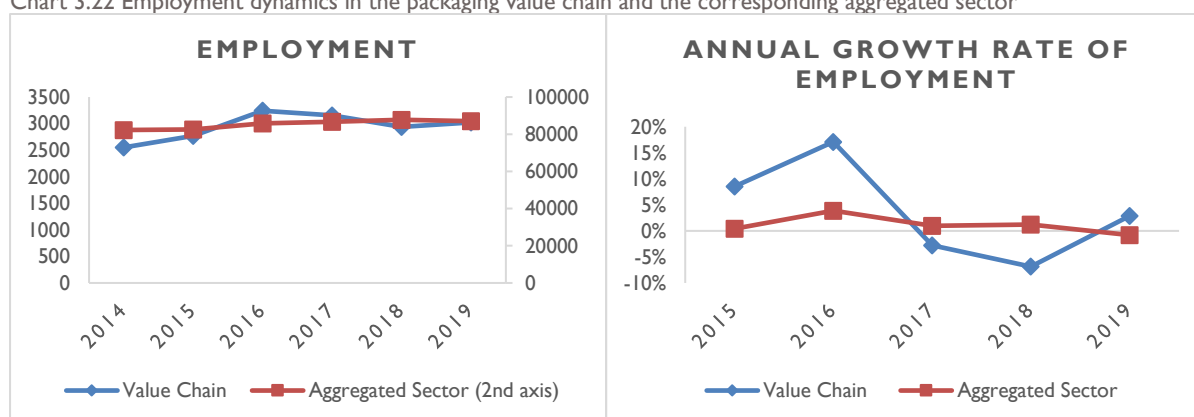
Chart 3.21 Share of value-added in output in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

In 2014, the value chain employed 2551 people. The number of hired employees grew markedly in 2015 and 2016 by 9% and 17%, respectively, reaching its peak of 3242 in 2016. Thereafter, the number of people employed in the packaging value chain decreased by 305 people for two consecutive years (2017-2018). In 2019, the value chain's employment dynamics showed some signs of revival when the number of hired employees grew by 3% compared to 2018, amounting to 3020 people. Overall, the average yearly growth rate (CAGR) of employment in the value chain stood at 3.4%, which is 2.3 percentage points higher than the yearly growth registered in the corresponding aggregated sector (Chart 3.22). According to quarterly data, in Q1-Q3 of 2020, in comparison with the analogous period of 2019, the number of hired people in the value chain grew by 6%, amounting to 2823 people.

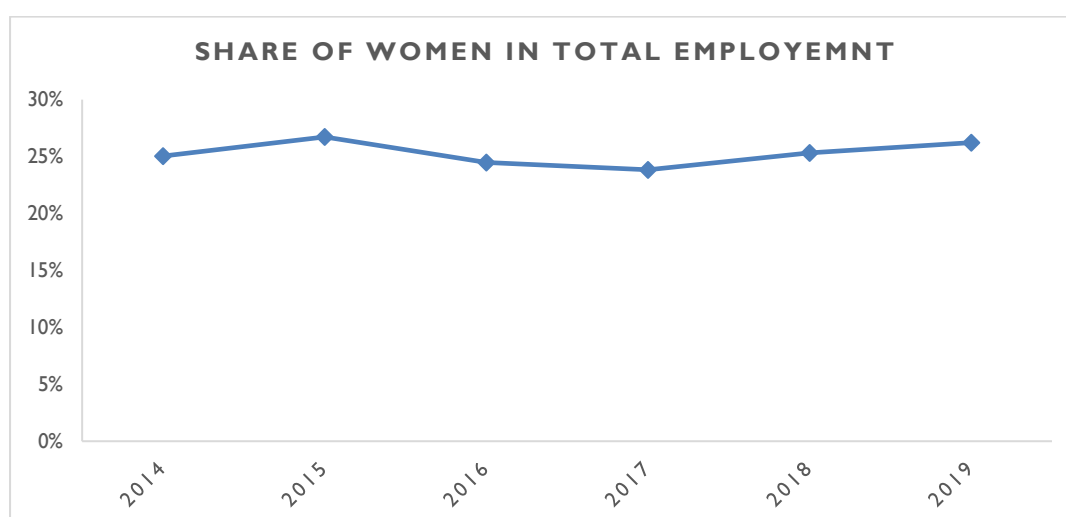
Chart 3.22 Employment dynamics in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The share of women in total employment in the packaging value chain was generally consistent, with slight fluctuations over the analyzed period. Out of the total number of employed persons, the share of hired women in the value chain was 25% in 2014. While the share grew by 2 percentage points in 2015, it showed downward dynamics in the following two years, reaching its lowest point of 23.8% in 2017. However, for the last two years of the analyzed period, the indicator grew, reaching 26% in 2019 (Chart 3.23).

Chart 3.23 Share of women in total employment in the packaging value chain

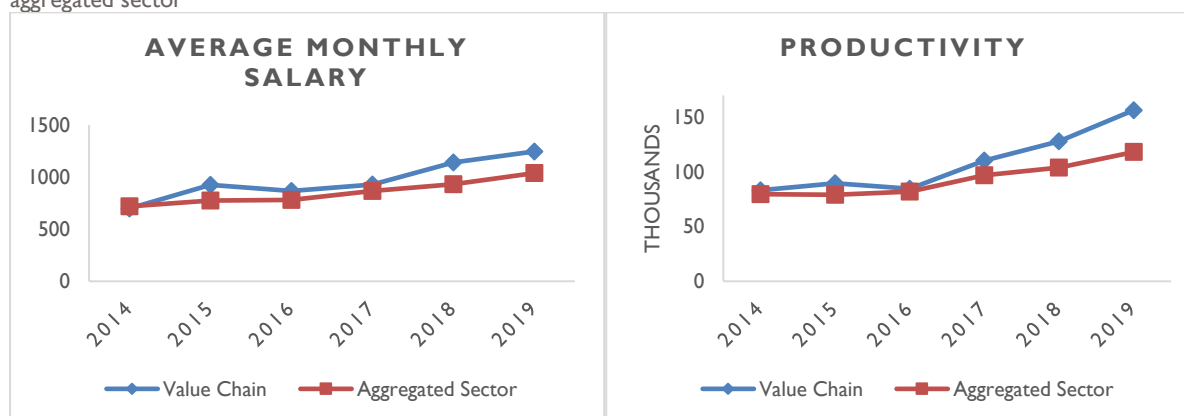


Source: National Statistics Office of Georgia

The average monthly salary in the packaging value chain and its corresponding aggregated sector increased over the course of 2014-2019, with an average yearly growth rate of 12% and 8%, respectively. Compared to 2014, the value chain's average monthly salary grew by 78%, reaching GEL 1246 in 2019, which is GEL 208 higher than the average monthly salary registered in the corresponding aggregated sector. Significantly, the average monthly salary registered in the value chain remained above the equivalent in the corresponding aggregated sector for all years in the analyzed period, except 2014 (Chart 3.24). As for Q1-Q3 of 2020, the average monthly salary in the value chain increased compared to the corresponding period of 2019, amounting to GEL 1258.

Similar to the dynamics of average monthly salary, the productivity of the value chain exceeded that of the corresponding aggregated sector over the given period. The average yearly growth rate of productivity was 13.5% in the case of the value chain, 5.3 percentage points higher than the equivalent in the corresponding aggregated sector. As a result, the value of productivity in 2019 (annual output per hired employee) in the packaging value chain reached 156 000, showing an 88% rise against the 2014 level. Simultaneously, for the corresponding aggregated sector, the indicator increased by 48% over the analyzed period, reaching 118,000 in 2019 (Chart 3.24). During the first three quarters of 2020, in comparison with the corresponding period of 2019, productivity in the value chain dropped by 5% and amounted to 143,000.

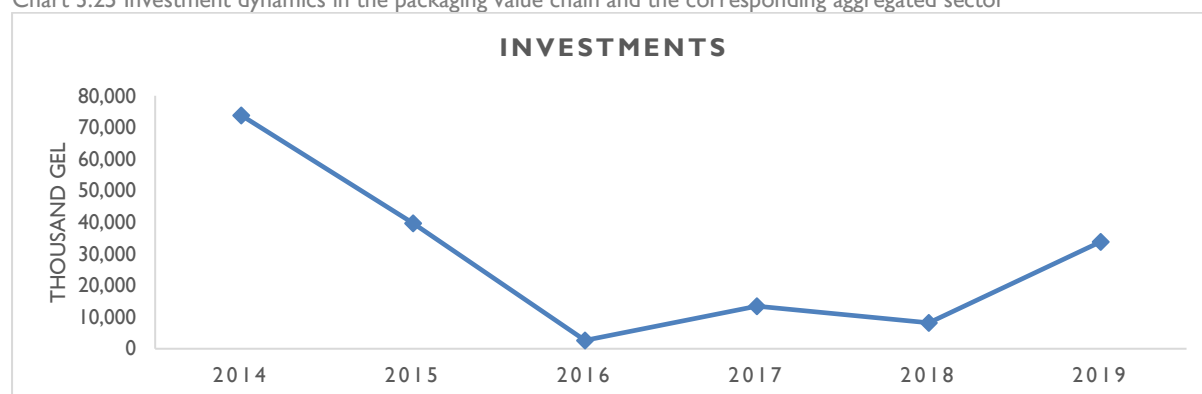
Chart 3.24 Dynamics of the average monthly salary and productivity in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Investments in the value chain revealed inconsistent dynamics for the analyzed period. After its peak value of GEL 74 million registered in 2014, the indicator decreased by 96% in the following two years, reaching its lowest point of GEL 2.7 million in 2016. Such a dramatic drop was followed by the quintupling of the investments volume in 2017, when the indicator reached GEL 13.5 million. Compared to the previous year, however, the indicator again fell by 40% in 2018. By the end of the analyzed period, in 2019, investments in the value chain rose to GEL 33.8 million, equating to a fourfold increase compared to 2018. In fact, the average yearly growth rate of investments in the value chain was -14% over the analyzed period mostly due to significant drops in 2015 and 2016 (Chart 3.25).

Chart 3.25 Investment dynamics in the packaging value chain and the corresponding aggregated sector



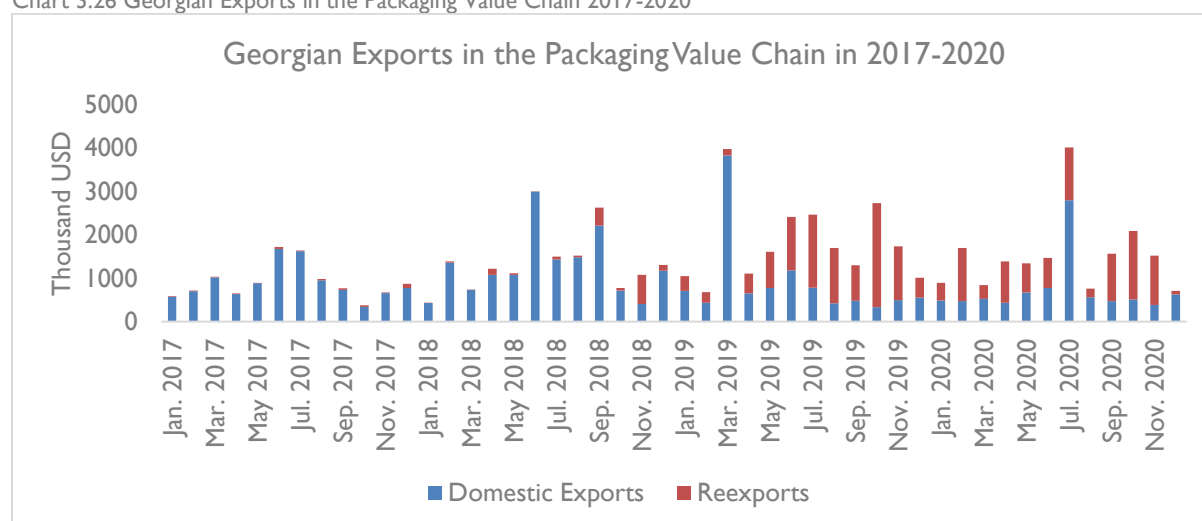
Source: National Statistics Office of Georgia

Below we provide an overview of the trade dynamics in the packaging value chain in Georgia and in the following four countries in the nearby region: Turkey, Azerbaijan, Armenia, and Ukraine.

Throughout the analyzed period, Georgian exports in the packaging value chain increased. During 2017-2020, the average annual growth rate of Georgian packaging exports stood at 19% and reached USD 18.3 million in 2020. As seen in Chart 3.26, since the second half of 2018, the share of re-exports has grown, amounting to 52% (USD 9.6 million) of total exports in 2020.

Despite an overall increase in the average yearly volume of exports in the analyzed period, in 2020, as a result of the pandemic, the indicator dropped by 16% compared to the previous year (Chart 3.26).

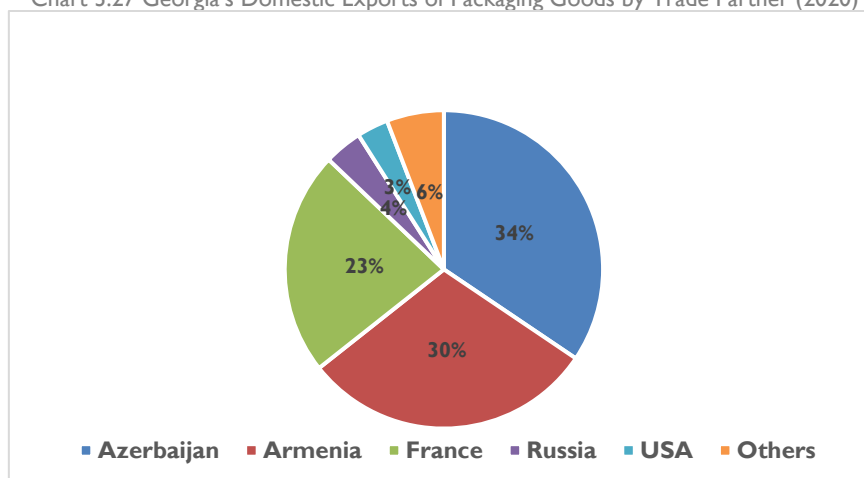
Chart 3.26 Georgian Exports in the Packaging Value Chain 2017-2020



Source: National Statistics Office of Georgia

Of the total exported volume, 64% of Georgian packaging goods were shipped to Azerbaijan (34%) and Armenia (30%), while 23% of total exports were shipped to France (Chart 3.27). These top three trade partners in exports were followed by “other” countries (6%), Russia (4%), and the US (3%).

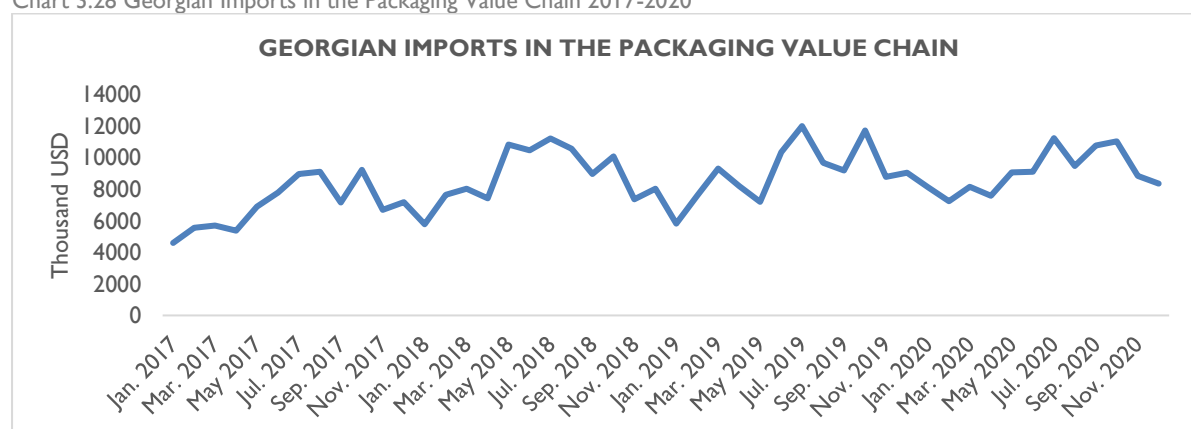
Chart 3.27 Georgia's Domestic Exports of Packaging Goods by Trade Partner (2020)



Source: National Statistics Office of Georgia

Georgian imports in the packaging value chain captured a growing trend over the analyzed period, with the average yearly growth rate of 9% in 2017-2020. However, there has been a decreasing tendency in the annual growth rate of Georgian packaging imports. Precisely, in 2018, compared to the previous year, the indicator increased by 26.3% and amounted to USD 106 million. Noticeably, in 2019, in comparison with 2018, the annual growth rate of packaging imports decreased by 23.9 percentage points, and reached USD 109 million. For 2020, the import volume remained stagnant, which might be explained by the growing competitive advantage of local producers over foreign manufacturers in supplying the Georgian market with domestic packaging products (Chart 3.28).

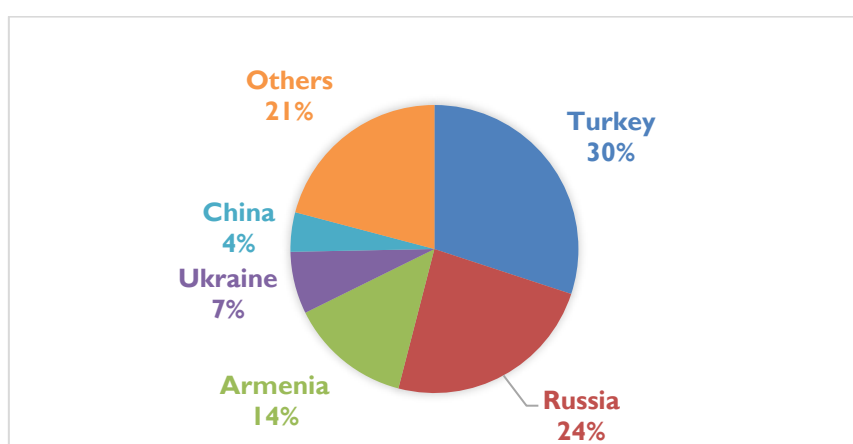
Chart 3.28 Georgian Imports in the Packaging Value Chain 2017-2020



Source: National Statistics Office of Georgia

The profile of trade partners in Georgian packaging imports in 2020 was more diversified than for packaging exports. Almost 68% of Georgian packaging imports in the previous year were produced in Turkey, Russia, and Armenia, while 11% of imports were shipped to Georgia either from Ukraine or China, and 21% of imported products originated in “other” countries (Chart 3.29).

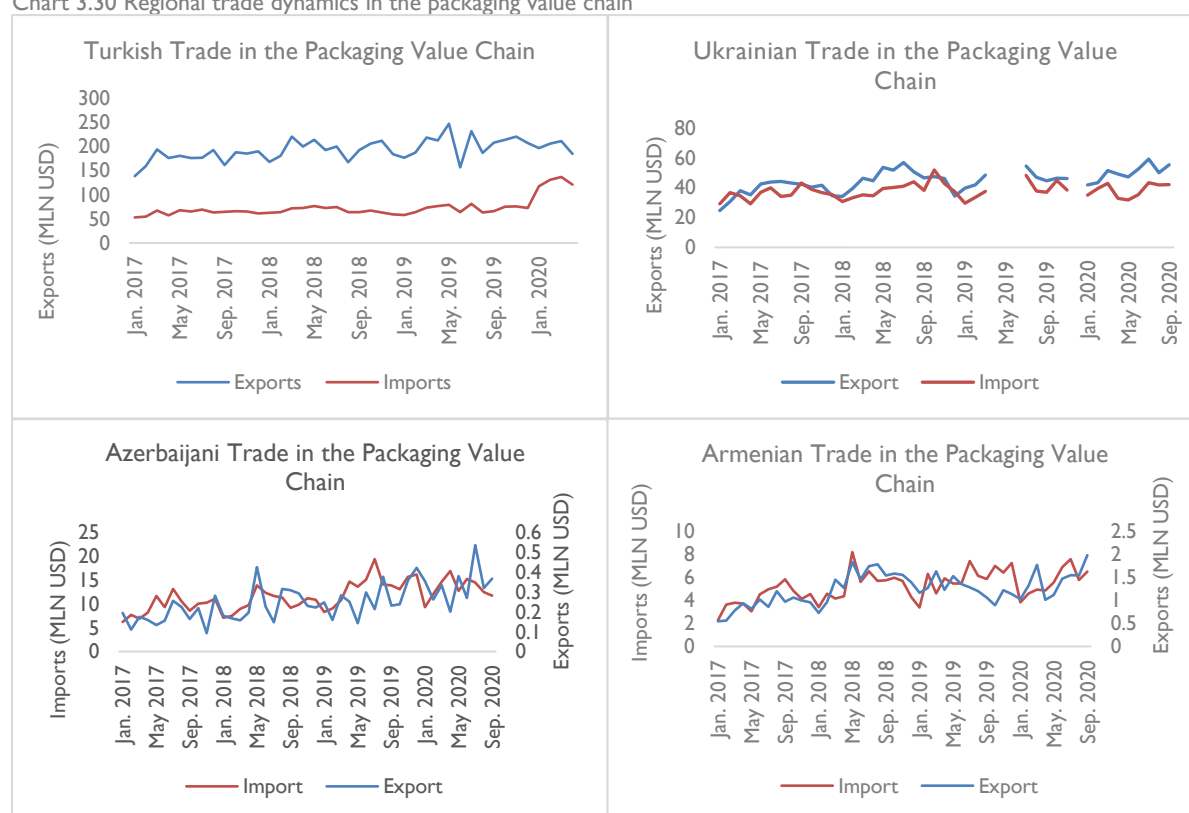
Chart 3.29 Georgian Imports of Packaging Goods by Trade Partner (2020)



Source: National Statistics Office of Georgia

Trade in the packaging value chain featured some inconsistent tendencies in the four nearby countries analyzed in this section. However, on average, exports and imports in the packaging value chain in Turkey, Ukraine, Azerbaijan, and Armenia demonstrated upward dynamics over the course of 2017-2019. While the beginning of the pandemic was mostly associated with a considerable decline in packaging trade, the second half of 2020 showed signs of revival in the export and import of packaging products for virtually all of these four countries (Chart 3.30). Significantly, out of these selected states, Turkey has the largest trade volume in packaging products. Moreover, together with Ukraine, it managed to retain a surplus in packaging trade during recent years.

Chart 3.30 Regional trade dynamics in the packaging value chain



Source: UN Comtrade

Global trade in packaging goods showed a significant increase in import dynamics since 2016, before slowing down later in 2019, reaching USD 151.5 billion (Chart 3.31).

Chart 3.31 Global Imports of Packaging Goods



Source: UN Comtrade

Overview of existing challenges and opportunities

Based on the conducted qualitative analysis, private sector leadership within the packaging value chain has been evaluated highly. The value chain clearly benefits from the PMAG Packaging Cluster, which was 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 2021, the cluster unifies 25 manufacturers, including upstream and downstream companies of the supply chain. The cluster aims to scale up and promote the competitiveness of the value chain through various service offerings, including 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.

Some of the leading players in the field, such as LTD Fabrica 1900 (producing corrugated cardboard packaging), LTD Georgian Packaging (food grade paper packaging), and LTD Caucas Pack (disposable plastic packaging), have considerably contributed to the development of the packaging value chain, including through their efforts as the founding members of the Packaging Cluster. However, the overall development of the value chain is conditional on the growth of other economic areas that demand packaging products, such as the food and beverage industry, fast food services, restaurants, and supermarket chains.

Within the value chain there is some experience of partnership with the public sector. Packaging is listed among priority economic directions of Enterprise Georgia, meaning that the value chain can benefit from its support programs. Moreover, recently, the Packaging Cluster has collaborated with some public entities. An example of such a partnership is the one with the Rural Development Agency (RDA), which intends to establish a cluster of greenhouse producers and is in the process of idea- and experience-sharing with the PMAG.

Georgian packaging manufacturers face stiff competition from imports, while the level of competition between local firms is insignificant. 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. Moreover, the poor implementation of Georgian legislation banning plastic bags remains a challenge. Following the ban, some manufacturers began producing biodegradable bags, however plastic bags are still available on the local market. 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 manufacturing 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.

Representatives of the value chain also have good potential to enter international markets. According to the Value Chain Prioritization and Gaps Assessment study conducted by USAID (2019), taking into account their flexible access to supply routes and the possibility to obtain raw materials at a low cost, Georgian packaging manufacturers have a significant competitive advantage when it comes to entering the markets of Armenia and Azerbaijan³⁰. Logistics is also considered a competitive advantage in exporting Georgian packaging products beyond the nearby region as well.

Leading players in the packaging value chain export their products mostly to the neighboring markets of Armenia and Azerbaijan. LTD Caucas Pack stably exports to the US and Canada, and has experience of shipping its products to Panama, Ukraine, and Turkey as well. As of January 2021, LTD Georgian Packaging was considering entering into procurement relationships with some international food and beverage brands, while LTD Fabrica 1900 plans to penetrate the Greek, Bulgarian, and Romanian markets (shipping thin cardboard packaging products that are easy and cheap to transport). Elsewhere, LTD Greenpack is considering entering foreign markets of Belgium, the USA, and Turkey.

Significantly, both paper- and plastic-based packaging manufacturers utilize imported raw materials in their production processes. High dependency on the imported raw materials and their unstable price is considered as a hindrance to exports for some packaging manufacturers. There are many responsible firms with a culture of recycling in the value chain. Indeed, the majority of manufacturers are close to having zero waste. In this direction 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. In the case of packaging, the establishment of EPR might also reduce dependency on imported inputs.

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 sector³¹. 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. In this regard, the PMAG Packaging Cluster in partnership with the Georgian

³⁰ Value Chain Prioritization and Gaps Assessment DAI. USAID (2019)

³¹ Policy Brief. Light Manufacturing Sector. USAID (2020)

Technical Training Center (GTTC) is in the process of creating short-term training and retraining programs. Moreover, the PMAG Packaging Cluster and Akaki Tsereteli State University (ATSU) signed a memorandum to provide joint training programs focused on youth and support their employability in the value chain.

The lack of access to finance is considered as another significant hindrance. The value chain representatives have access to commercial bank loans and also benefit from the Enterprise Georgia support programs, however the prices for new equipment and for upgrading production lines exceed the available financial resources. Furthermore, poor implementation of new legislation banning plastic bags puts certain packaging manufacturers in a disadvantageous position. Following the ban, they have switched to producing biodegradable materials, albeit plastic bags are still actively circulated on the Georgian market

CONSTRUCTION MATERIALS

The construction materials value chain under the light manufacturing sector is one of the priority economic directions under the USAID Economic Security Program. According to the Value Chain Prioritization and Gaps Assessment study (2019), the value chain received a lower score in the Competitiveness Appraisal Matrix³². However, the value chain exhibits specific characteristics such as its long-term dynamics, high number of employed persons, and its diversity of business activities, and thus has been subjected to a quarterly assessment to further analyze the challenges it faces and the prospects it has for future development.

Below we provide the economic indicators³³ related to the construction materials value chain and the corresponding aggregated sector (manufacturing).

In 2020, 1,524 companies were active in Georgia under the construction materials value chain. The majority of the companies (65.8% or 1,003 companies) are registered outside Tbilisi.

The number of active companies registered in Tbilisi has been growing by an average (CAGR) of 4.9% annually since 2014. It should also be noted that most of the companies in this period were small. In 2020, the number of small companies in Tbilisi was 499 (95.8%), with 19 (3.6%) medium, and three (0.6%) large.

The number of companies outside Tbilisi increased by an average of 8.8% annually during 2014-2020, indicating relatively fast growth for the construction materials value chain. In 2020, the highest annual growth rate of this period (27.9%) was recorded. The majority of companies outside Tbilisi were small companies. In 2020, a total of 989 (98.6%) small, 13 (1.3%) medium, and one (0.3%) large company were active across the regions of Georgia.

According to Chart 3.32, the construction materials value chain turnover recorded an upward trend since 2014 and amounted to GEL 1.1 billion in 2019. The turnover of the aggregated sector was also characterized by an increasing trend from 2015 onwards, amounting to GEL 10.4 billion. The CAGR for construction materials was 13.4% for 2014-2019 and only 9.4% for the aggregated manufacturing sector. It is noteworthy that the turnover of construction materials value chain in the first three quarters of 2020, when COVID-19 struck, decreased by 4.9% compared to the first three quarters of 2019. This was largely caused by a 23% decrease in turnover in Q2 of 2020, compared to Q2 of 2019.

³² Value Chain Prioritization and Gaps Assessment. DAI. USAID (2019)

³³ Source of the data – Geostat Business Register and Enterprise Survey

Since 2015 the annual growth rate of the construction materials value chain turnover was relatively low until 2019 when it amounted to 18% (Chart 3.33).

Chart 3.33 Turnover in the construction materials value chain and the corresponding aggregated sector

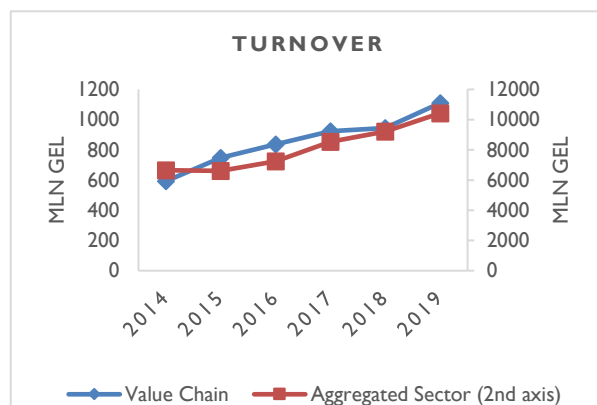
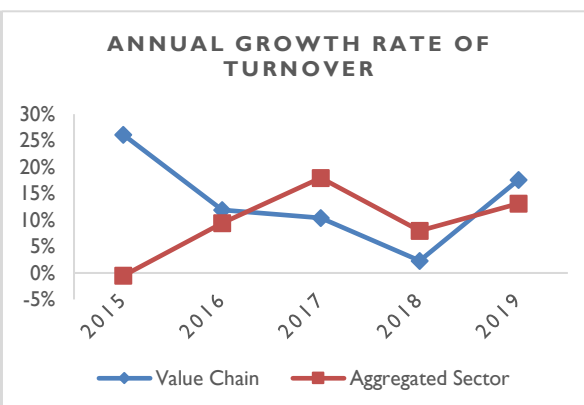


Chart 3.32 Annual growth rate for turnover in the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

According to Chart 3.34, after a sharp decrease in 2017, the value-added of the construction materials value chain grew over the covered period, reaching its highest value in 2019 (GEL 323.7 million). For the same time period, the aggregated manufacturing sector showed an uninterrupted upward trend and reached GEL 2.97 billion by 2019. The value-added of the construction materials value chain represented 10.9% of the corresponding aggregated sector's value-added in 2019. The CAGR of value-added for this value chain was 13.9% during 2014-2019, while the same indicator amounted to 10.1% for the aggregated sector.

Chart 3.34 Value-added of the construction materials value chain and the corresponding aggregated sector

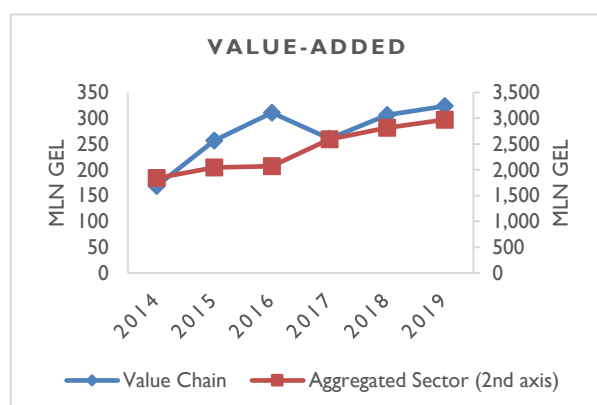
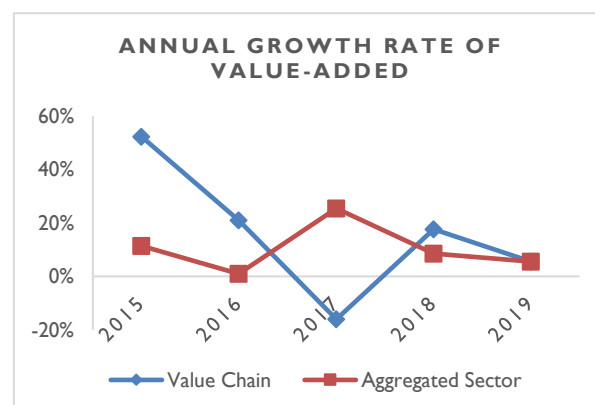


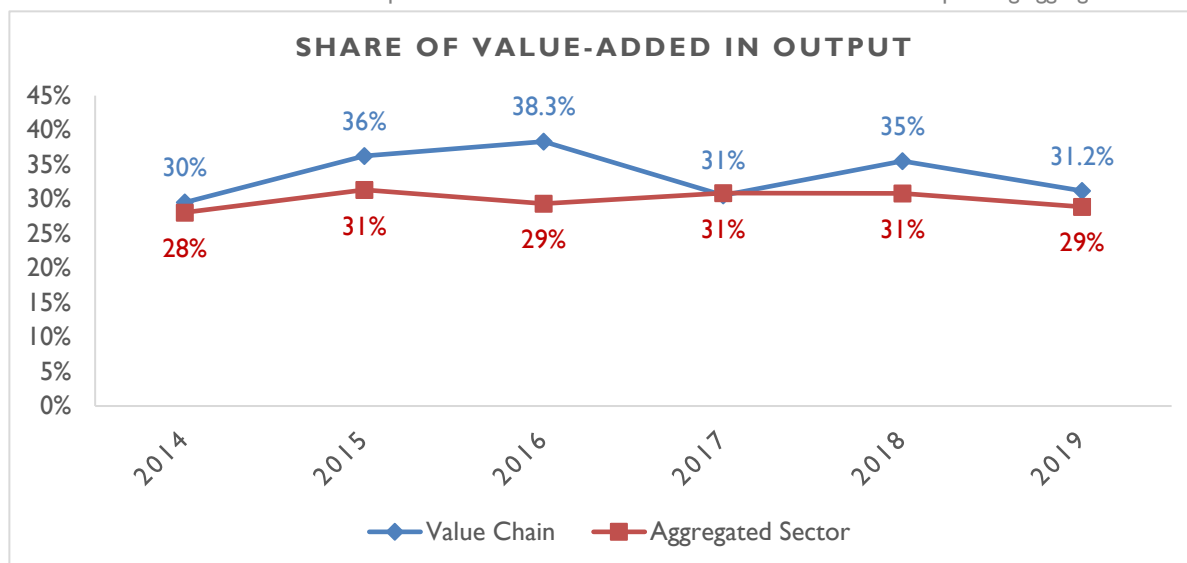
Chart 3.35 Annual growth rate of value-added for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.35 shows that the annual growth rate of value-added for the construction materials value chain recovered in 2018 after recording a negative value in 2017. However, the growth rate decreased again in 2019 and reached 5.5%, similar to the growth rate of the aggregated manufacturing sector in 2019. During 2014-2019, the share of value-added in the output fluctuated between 30% and 38% for the value chain and 28% to 31% for the aggregated sector (Chart 3.36).

Chart 3.36 Share of value-added in output for construction materials value chain and the corresponding aggregated sector

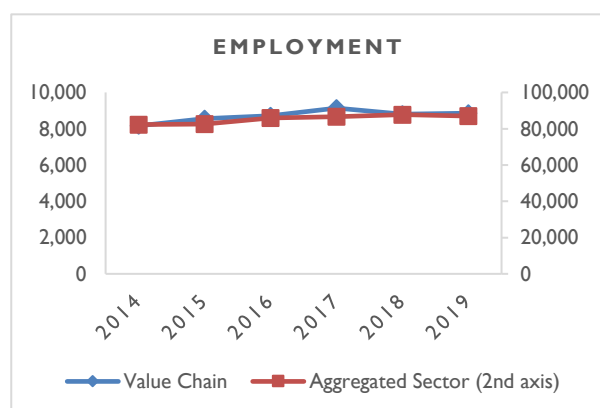


Source: National Statistics Office of Georgia

According to Chart 3.37, the number of hired employees in the aggregated manufacturing sector was characterized by an increasing trend until 2019, when it declined slightly by 0.8% and reached 87,054. The annual growth rate declined after 2016 (Chart 3.38). Meanwhile, number of hired employees in the construction materials value chain peaked in 2017 (9,137), then recorded a significant decrease of 3.6% in 2018, and settled at 8,854 in 2019. The number of hired employees in the value chain accounted for 10.2% of the aggregated sector in 2019. It should be noted that the decrease in hired employees in the value chain in 2018 was caused by a decline in male employment, as the number of hired female employees increased in this period.

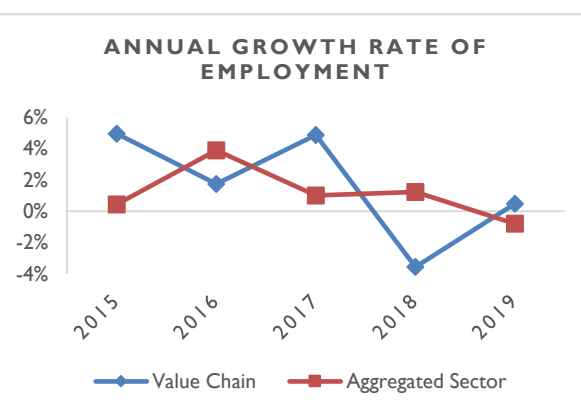
Observing the number of hired employees on a quarterly basis in 2020 for the construction materials value chain, the effects of the pandemic are evident. The number of hired employees decreased by 3.0% in the first quarter of 2020 compared to the first quarter of 2019, followed by a further decline (-6.2%) in Q2 of 2020, compared to Q2 of 2019.

Chart 3.38 Annual growth rate of employment for construction materials VC and corresponding aggregated sector



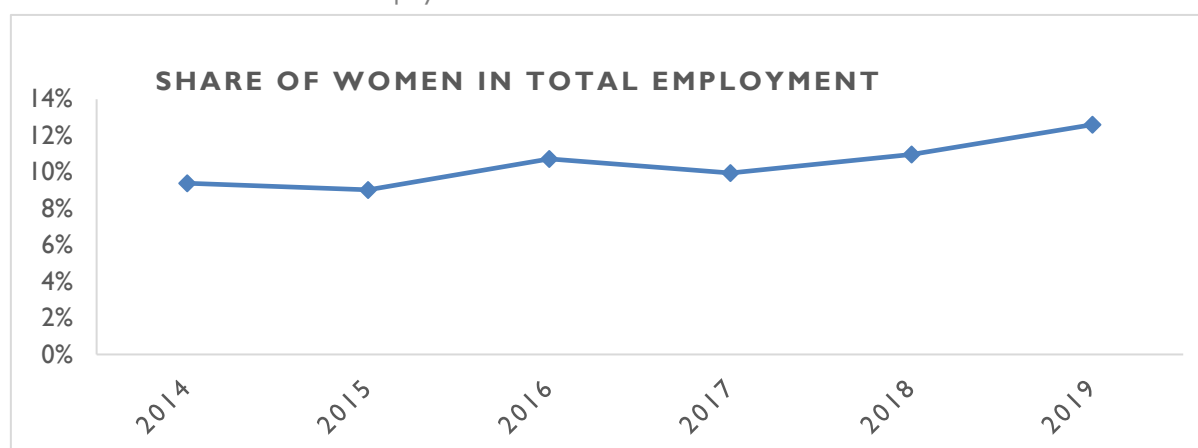
Source: National Statistics Office of Georgia

Chart 3.37 Employment of construction materials VC and corresponding aggregated sector



The share of female employees in the total hired employees for the construction materials value chain (Chart 3.39) recorded an increasing trend, peaking at 12.6% in 2019.

Chart 3.39 Share of women in total employment for the construction materials value chain

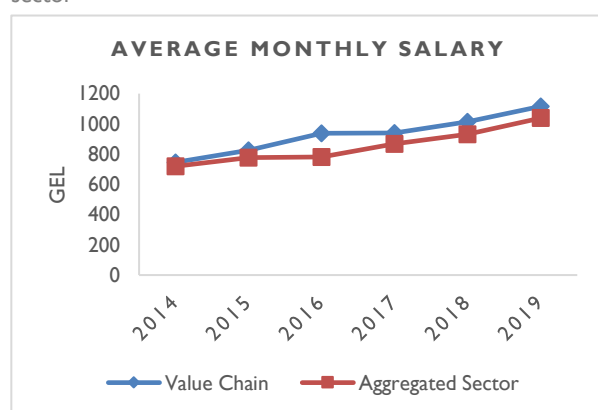


Source: National Statistics Office of Georgia

As shown in Chart 3.40, the average monthly salary for the value chain and the aggregated sector both increased. Moreover, the average monthly salary for construction materials was higher than the aggregated manufacturing sector average through 2014-2019 and amounted to GEL 1,116 for 2019, compared to GEL 1,038 in the aggregated sector. The first quarter of 2020 for the construction materials value chain started with an increase (14.0%) of average monthly salary compared to the first quarter of 2019; however, COVID-19 led to a decline in Q2 2020 salaries by 8.2%, compared to Q1 of 2019. It should be noted that the third quarter revealed a 4.7% improvement in average monthly salary compared to the same quarter of the previous year.

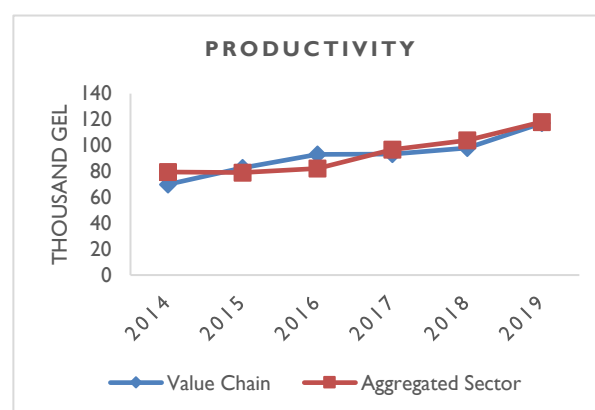
Productivity, calculated as an output per hired employee, was quite similar for the value chain and the aggregated sector. In both cases, an increasing trend was visible, reaching GEL 117,200 for the value chain and GEL 118,200 for the aggregated manufacturing sector in 2019 (Chart 3.50). It is interesting to note that productivity in the construction materials value chain increased on average faster than the monthly salary, by 10.9% and 8.4% (CAGR), respectively.

Chart 3.41 Average monthly salary for the construction materials value chain and the corresponding aggregated sector



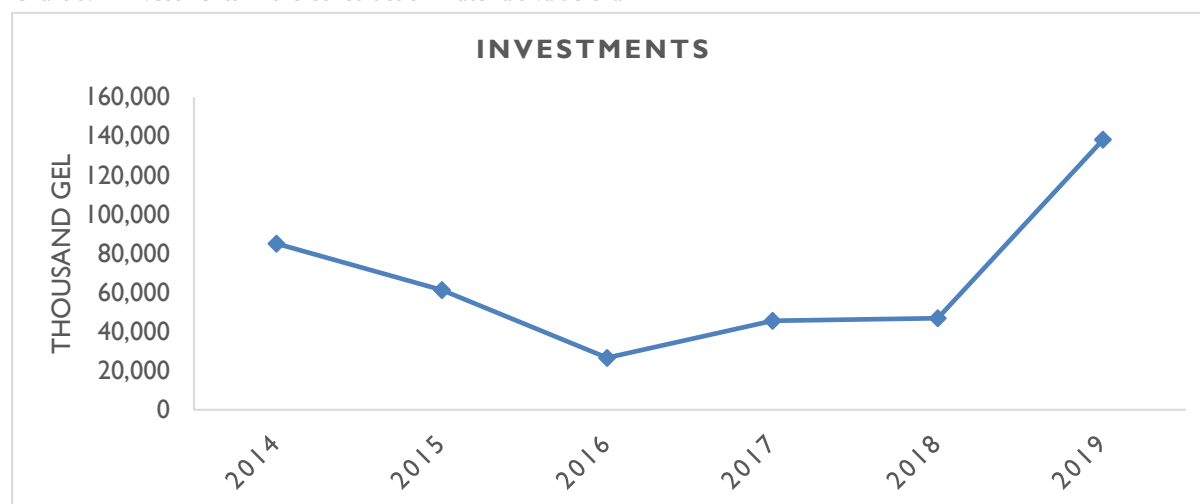
Source: National Statistics Office of Georgia

Chart 3.40 Productivity for the construction materials value chain and the corresponding aggregated sector



Total investments in fixed assets and inventories increased from 2016 onwards and peaked in 2019, at GEL 138.3 million. On average, annually, investments increased by 10.2%, with the highest annual growth of 194.7% recorded in 2019.

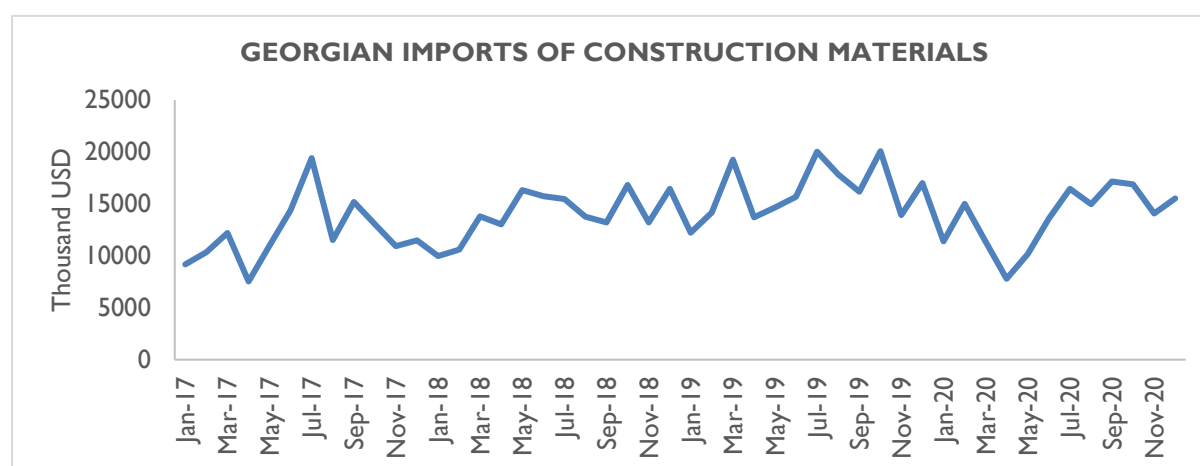
Chart 3.42 Investments in the construction materials value chain



Source: National Statistics Office of Georgia

Below, we observe trade tendencies in the construction materials value chain. Chart 3.43 depicts the increasing trend of Georgian imports of construction materials during 2017-2019. However, the tendency changes drastically when the COVID-19 lockdown was first imposed, before recovering from April 2020. A relative decline was observed from October 2020, related to the beginning of the second wave of pandemic-related constraints.

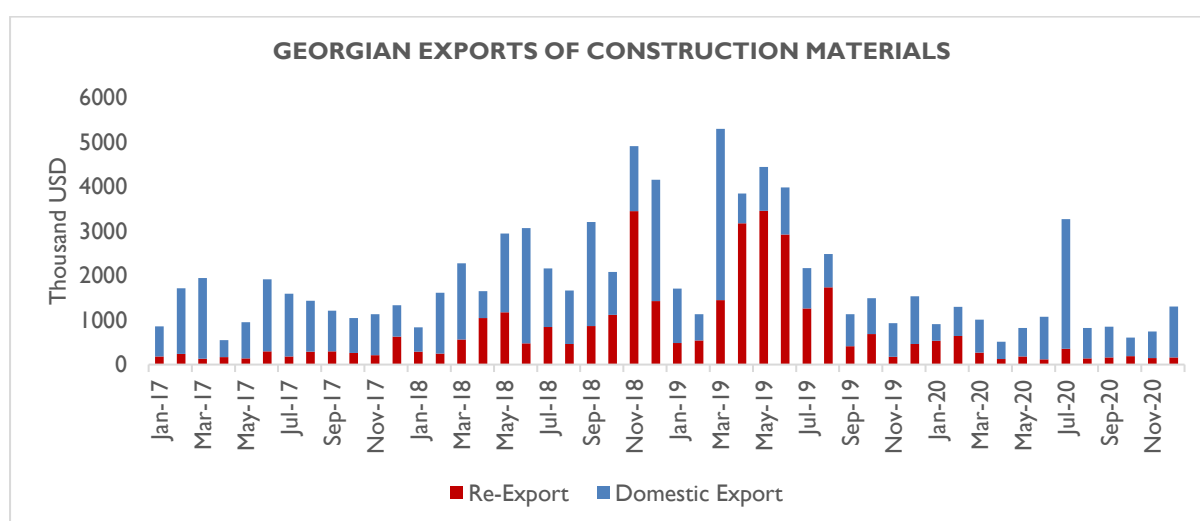
Chart 3.43 Georgian Imports of Construction Materials



Source: National Statistics Office of Georgia

Georgian exports of construction materials displayed a growing pattern from 2017 until the end of the first quarter of 2019, with the highest value recorded in March 2019 (Chart 3.44). After that, construction materials exports demonstrated a persistent downward trend until April 2020, when recovery after the first wave of COVID-19 lockdown measures started. In July 2020, exports grew significantly; however, this was followed by a sharp decrease at the beginning of the second wave of lockdown measures. The construction materials value chain showed an increasing trend in this regard in October and November 2020.

Chart 3.44 Georgian Exports of Construction Materials



Source: National Statistics Office of Georgia

Charts 3.45 and 3.46 below present Georgia's top trading partner countries for construction materials in 2020. Chart 3.45 shows that the major destinations for exports in 2020 were Armenia (65%), France (20%), Azerbaijan (8%), Russia (3%), and the US (1%). Meanwhile, the main trade partners for imports in 2020 were Turkey (42%), Russia (17%), China (8%), Armenia (7%), and Italy (4%) (Chart 3.46).

Chart 3.46 Georgian domestic exports of construction materials by trade partner (2020)

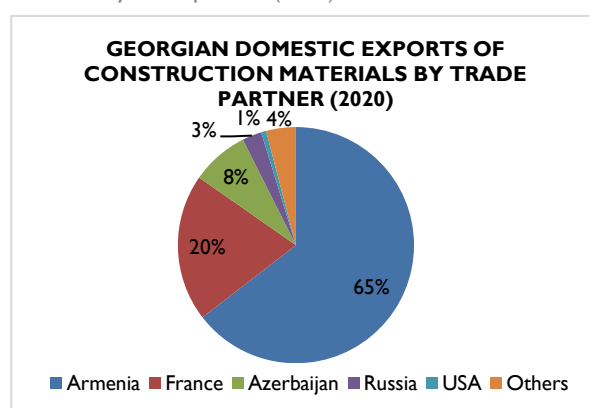
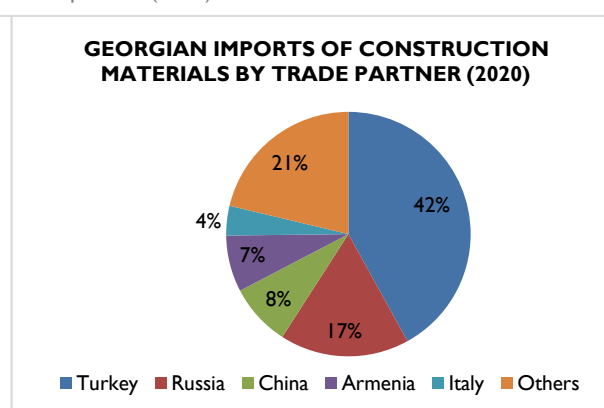


Chart 3.45 Georgian imports of construction materials by trade partner (2020)

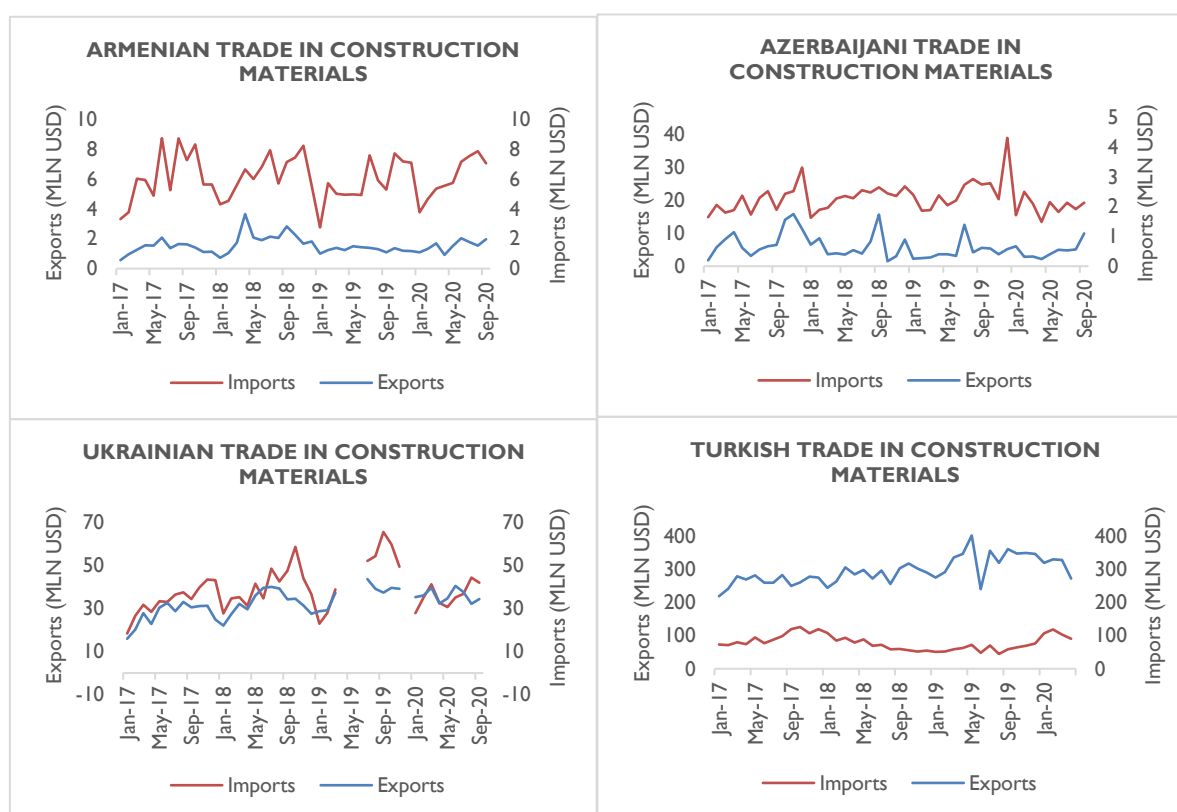


Source: National Statistics Office of Georgia

Below (Chart 3.47), we overview regional trade patterns within the construction materials value chain and observe Armenia, Azerbaijan, Turkey, and Ukraine through 2017-2020. Exports displayed a striking upward trend for Turkey and Ukraine, while Armenia and Azerbaijan showed a relatively stable trend over the same period. It should be noted that through the first wave of the COVID-19 pandemic, around February-March 2020, all four countries displayed a decrease in total exports.

As for imports, all four countries demonstrated an increasing trend, except for Turkey, which demonstrated a downward tendency in imports through 2017-2019. Here, a decline in imports is also observed in February-March 2020. However, it is evident that Ukraine, Azerbaijan, and Armenia recovered from the first wave of pandemic-related restrictions in the summer months of 2020.

Chart 3.47 Regional trade patterns in the construction materials value chain



Source: UN Comtrade

Chart 3.48 presents the global imports of construction materials during 2014-2019. As the data depict, the import dynamics remained almost unchanged until 2017. Since 2018, it started to decrease, before reaching USD 162.7 billion in 2019.

Chart 3.48 Global Imports of Construction Materials



Source: UN Comtrade

Overview of existing challenges and opportunities

Significantly, core insights for this qualitative analysis were taken from the following two participants representing the value chain: LTD Kamara and JSC Panex. LTD Kamara is engaged in mining, processing, importing, and the realization of natural stones (tuff, dacite, basalt, granite, marble, onyx,

and travertine) used for cladding. Meanwhile, JSC Panex, established with the JSC Partnership Fund's financial support, is the only producer of polyurethane sandwich panels in Georgia.

Considering the value chain's specificities, the lack of access to finances represents the central obstacle limiting further growth in this area. According to the interviewed private sector representatives, long-term investment projects are typical for this value chain. Hence, the sphere relies on financial assistance (through loans, subsidies, or investments) that will be extended in time and will not be conditional on quick returns. 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.

It should be noted that the value chain has not shown impressive dynamics and has lacked significant investments in recent years. Private sector representatives claimed that both domestic and foreign investors seek relatively quick gains and therefore do not usually engage in long-term projects.

Besides restricted access to finances, in the case of LTD Kamara, the lack of a qualified workforce was named as an additional hindrance. Georgia does not have any functional training programs in place that target the needs of this business activity. For example, in order to train local miners, the company hired Ukrainian consultants to elevate the qualification of the company's employees to a sufficient level.

High dependency on imported inputs is another important barrier that limits the upgrading of this value chain. LTD Kamara utilizes a diversity of imported raw materials in its production process, such as granite, marble, basalt, onyx, and travertine stones imported mostly from Italy, Spain, Turkey, Iran, and India. Meanwhile, JSC Panex imports rolls of metal (galvanized steel sheets) from Turkey and chemicals for polyurethane foam core from Germany and the US. At present, Georgia does not have the capacity to supply locally-produced inputs for these construction materials. Nevertheless, the local availability of raw materials is considered as a fundamental prerequisite for the future advancement of the value chain.

Final goods produced in the value chain face stiff competition from imported goods. In the case of construction materials, Georgian customers tend to opt for cheaper products which are easily provided by foreign manufacturers. Moreover, import companies fully supply the local market with travertine cladding materials. Turkish production has a significant competitive advantage here, driven mostly by its lower prices when it comes to sandwich panels. Georgian manufacturers sometimes attempt to keep up with market trends and thus lower the market price of their final goods. Nevertheless, in general, price is not regarded as a competitive advantage for Georgian construction materials producers.

In response to competition from imports, the interviewed companies position themselves on the local market by highlighting their higher quality, affordable payment schedules, flexible supply, and full-service offerings that cover everything from realization to installation of the product. Private sector representatives believe that, in the longer-term, local production has import replacement potential, but at this stage greater affordability of imported products remains a core hindrance. Concerning local competition, both of the interviewed producers here outlined that they are the only registered players in their respective business activities.

Demand for products created in the value chain mostly derives from the Georgian construction sector, which orders around 60% of final goods manufactured by LTD Kamara. In partnership with the mediator company, LTD Kamara has also acted as a sub-contractor in public procurements. Similarly, almost all of the local sales of JSC Panex go to Georgian construction companies, in particular to

industrial construction sites (e.g., factories, warehouses, and cold storages). Thus, the success of the value chain is tightly linked with the economic developments occurring in the construction industry.

In addition to local sales, both the value chain representatives also have exporting experience. In particular, LTD Kamara has entered foreign markets such as the US and Italy. The company plans to penetrate the Czech and Canadian markets in the near future and to further develop its export potential to the US. Germany is also considered another favorable market for Georgian-produced cladding materials. As revealed through the interviews, polyurethane sandwich panels have a considerable competitive advantage with regard to exports to the regional and post-Soviet markets. Nevertheless, such panels lose this competitive advantage in locations requiring long-distance shipping, which increases the price of the product and decreases its advantage over foreign alternatives. Meanwhile, JSC Panex recently began exporting to Kazakhstan (with relatively low-quality production in order to balance high transportation costs) and has also stably exported its products to the neighboring markets of Armenia and Azerbaijan. In Armenia sandwich panels are not produced domestically, and Georgian panels successfully compete with Iranian and Russian alternatives in this market. Unlike Armenia, Azerbaijan does have domestically-produced sandwich panels, but Georgian panels are still well-established there.

PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

Under this value chain, we consider the manufacture of workwear and protective safety clothing and equipment, mainly focusing on protective medical garments, face masks, surgical gowns, and work overalls (many such products have gained high importance during the COVID-19 pandemic). The focus group discussion held with the PPE value chain representatives included some local manufacturers that, along with medical equipment and clothing, also produce other service apparel, such as police and military uniforms. Therefore, our general analysis covers the manufacture of a wide range of workwear and service apparel, including medical clothing and supplies. Often it is hard to distinguish between these categories. This difficulty is particularly pertinent when analyzing statistical data of PPE value chain economic performance, mainly because of the broad statistical classification of economic activities available using the two-digit-level NACE codes.

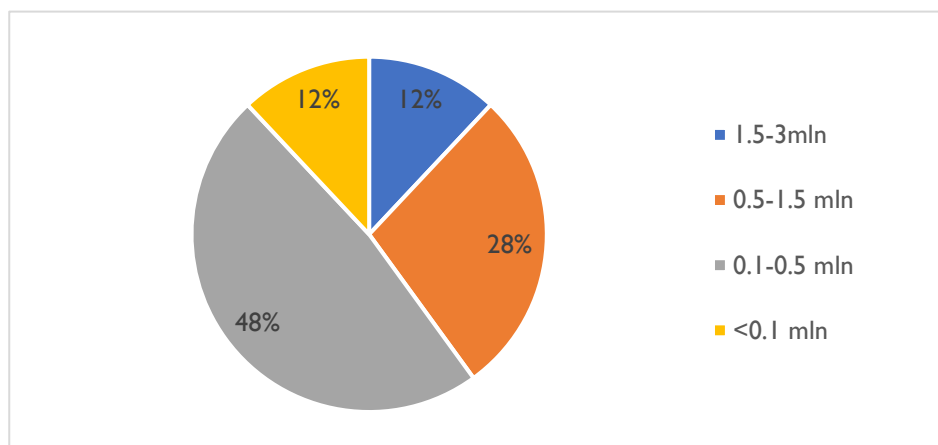
For the purpose of observing economic indicators, such as turnover, employment, and average salary in this value chain, we conducted a quantitative survey with industry representatives in light of the unavailability of Geostat data from a statistical survey of enterprises at the relevant four-digit subdivision level.

The absolute majority of surveyed businesses involved in the production of PPE were limited liability companies located in Tbilisi. These companies produce different types of work uniform (for industrial workers, hotels, law-enforcement agencies, etc.), protective masks, and other protective medical equipment.

Most interviewed companies were from the NACE 14.12 group (manufacture of workwear), as the majority of companies from the NACE 32.99 group (other manufacturing) were irrelevant for this value chain.

The declared turnover of surveyed PPE companies in 2019 ranged from less than GEL 100,000 to GEL 3 million (Chart 3.49).

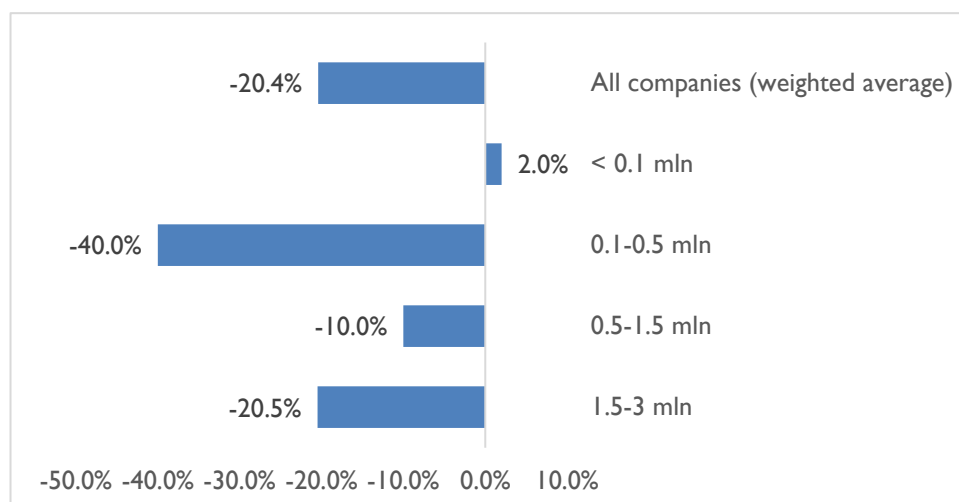
Chart 3.49 Distribution of PPE Companies by Turnover Range, Manufacture of Workwear (GEL)



Source: Authors' calculations

The total turnover of companies producing PPE products in 2019 was estimated to be GEL 45 million (mid-point). In annual terms the turnover is estimated to have fallen by ca. 20%, largely due to the losses of companies with a turnover of GEL 100,000-500,000, while the largest companies (GEL 1.5-3 million turnover) generally broke even (Chart 3.50).

Chart 3.50 Distribution of PPE companies' growth rates by turnover range for Q1-Q3, 2020 (y-o-y, GEL)



Source: Authors' calculations

The number of employed persons in the PPE value chain companies varied from two to 100, with the median number equaling 20 employed persons. Women accounted for more than 80% of employed persons, while the share of young people (under 29 years old) made up less than 20% of the total PPE value chain employees.

The weighted average salary of the PPE value chain employees equaled ca. GEL 650. Meanwhile, the majority of companies indicated no change in the number of employees in annual terms. Given the difficult business environment of 2020, it was not surprising that the number of companies reporting a decrease in personnel exceeded that of the companies to report having hired more staff due to the increased volume of work.

The rest of the data analysis describes Georgian, regional, and global trade patterns in PPE. The latter includes face and eye protection products, gloves, and other protective equipment. 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 Organization³⁴, which is also used by Canada Border Services Agency³⁵. Importantly, the same HS codes are used to govern the imports of such goods in Georgia as well.³⁶

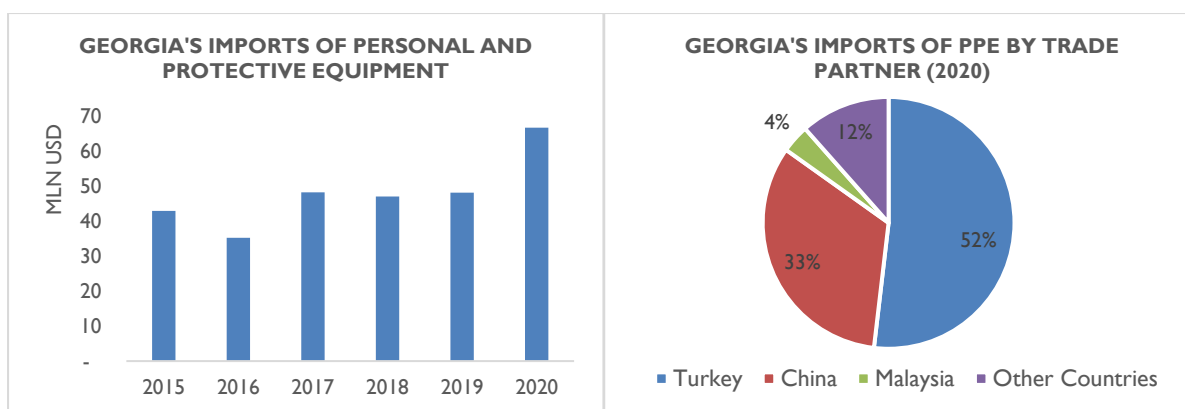
Chart 3.51 below presents Georgia's import value of PPE for the period of 2015-2020 along with the top countries from which PPE was imported in 2020. Georgia's imports of PPE rose by 38% in 2020 compared to 2019, and reached USD 66.6 million. This increase could be entirely attributed to the COVID-19 pandemic's impact. In terms of the equipment's origin, most PPE was imported from Turkey (52%), China (33%), and Malaysia (4%). The imports from other countries constituted 12% of total imports.

Chart 3.51 Georgia's Imports of Personal and Protective Equipment and the Top Countries Imported From

³⁴ HS classification reference for Covid-19 medical supplies 2nd Edition. WCO.WHO (2020)

³⁵ <https://www.cbsa-asfc.gc.ca/publications/cn-ad/cn20-12-eng.html>

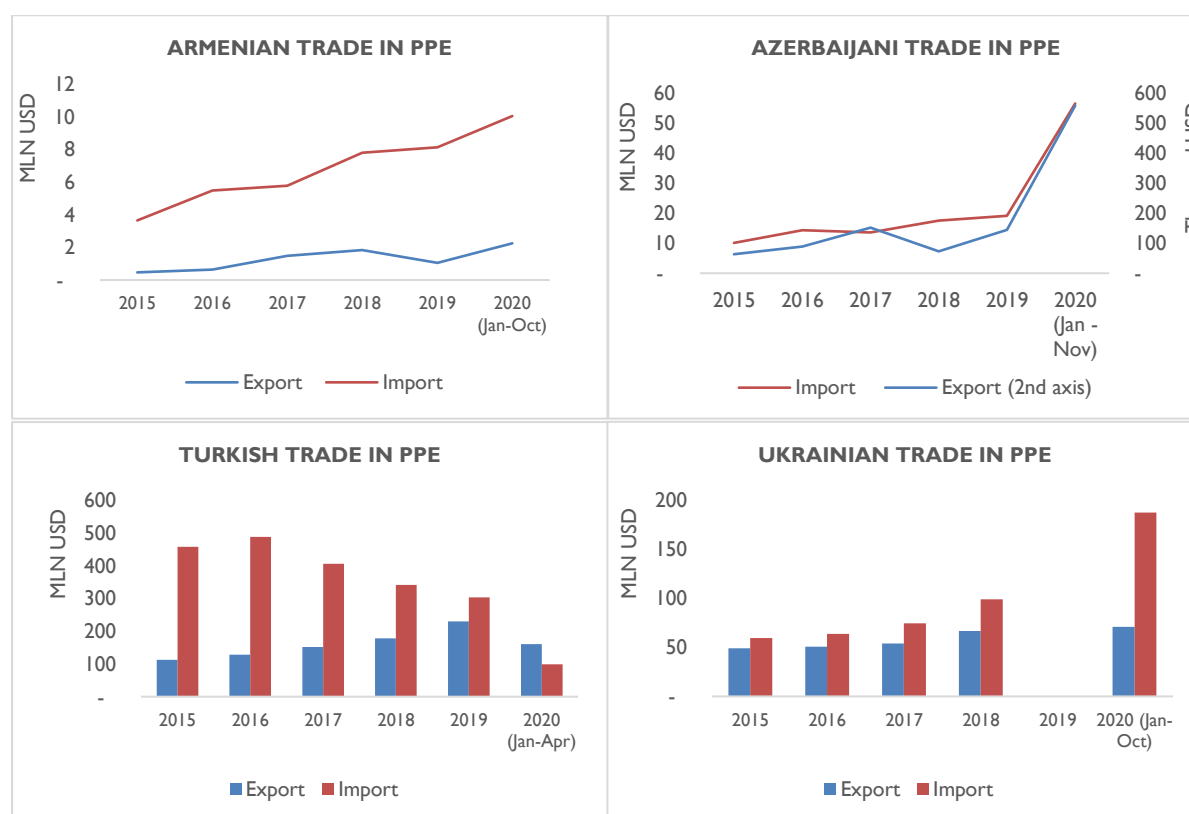
³⁶ <https://matsne.gov.ge/ka/document/view/4841418?publication=0>



Source: Geostat; UN Comtrade

Regional trade in PPE is presented in Chart 3.52. Along with annual data for 2015-2019, the latest monthly data available for each country in 2020 are also shown. It is evident that all four selected countries in the nearby region (Armenia, Azerbaijan, Turkey, and Ukraine) are net importers of PPE. Trade data for the last year depict a positive trade surplus only for Turkey for the period of January-April 2020. In general, Turkish export flows of PPE have been increasing gradually since 2015. In Armenia and Azerbaijan, the value of imports and exports in January-October 2020 and January-November 2020, respectively, already exceeded their annual trade values of 2019. Compared to the previous years, Ukrainian imports of PPE also peaked in 2020, reaching USD 187 million.

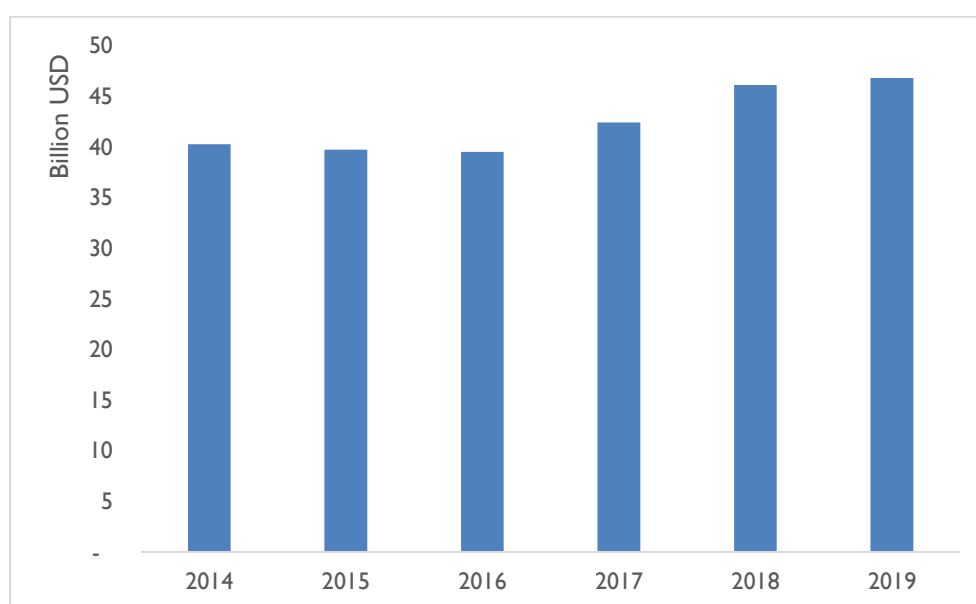
Chart 3.52 Regional Trade in PPE



Source: UN Comtrade

*2019 data for Ukraine is missing since the country did not report to UN Comtrade for that particular year. Just before the COVID-19 pandemic hit, there was already an observable increase in the global trade of PPE, starting from 2017 (Chart 3.53).

Chart 3.53 Global Imports of PPE



Source: UN Comtrade

Overview of existing challenges and opportunities

The focus group discussion with private sector representatives and an in-depth individual interview with a representative of a newly-established leading company in this field, Doctor Goods, revealed 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, the following are among the value chain's restricting factors:

- **Shortage of skilled labor and lack of core competences in the field.** The competence level of vocational school graduates is said to be insufficient and manufacturers usually have to 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 persons. In 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.
- **Lack of locally produced raw materials.** 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, if local manufacturers opt for Chinese input materials, delivery takes longer and thus delays the domestic production process, resulting in a failure to meet clients' urgent needs. Locally producing medical non-woven fabric (the sanitary textile used as one of the major raw materials in medical clothing) is not considered profitable in Georgia yet due to its relatively small domestic market size.
- **Limited access to modern technology.** A problem that 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 government requirement, according to respondents). As was mentioned during

the focus group discussion, the market is relatively small and considering the currently low demand, it would be difficult for the sector to develop without substantial support.

- **Lack of cooperation among industry representatives.** 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 cluster named the Georgian Apparel and Fashion Association (GAFA), uniting around 20 members, composed of apparel companies, fashion designers, and ateliers. Medical textile producers and apparel manufacturers do not seem to share common interests in apparel cluster memberships. Based on our interviews, such companies would expect to benefit more from the creation of associations that would explicitly focus on medical clothing manufacturers.

Along with the aforementioned existing challenges, there are also some prospects in this field, arising from the COVID-19 pandemic. In response to the sudden and severe demand for PPE, many apparel manufacturers also switched to making face masks, for example. Georgia is now producing this product locally, replacing imports to a large extent. Several companies adjusted their production lines to meet the high demand for other varieties of PPE. One distinguishable case of such development is that of Caucas Pack LTD, a local packaging manufacturer producing plastic cups and food containers, which recently also started making protective face shields from recycled plastic bottles.

The industry leader in the local PPE market is Doctor Goods, which has been operating in Georgia since September 2019. It is the only enterprise that produces sterile medical textiles in Georgia, medical coveralls, and gowns for surgery and post-operative care. The company was established through Startup Georgia and the Partnership Fund’s support, and it also benefited from EU support under the Clusters4Development project. Since its establishment in Georgia, Doctor Goods has considerably expanded its production, investing GEL 60,000 in sewing machines with the help of Enterprise Georgia and TBC Bank. Currently, there are around 70 people employed by the enterprise³⁷ which is currently managing to meet demand from local hospitals and has almost replaced imported surgical kits. The enterprise was also granted permission to import ethylene oxide to Georgia, and uses this in the production process, which is claimed to be the most effective means of sterilizing medical textiles. The founder of Doctor Goods is planning to launch a new ISO-certified company soon that would be mostly focused on exporting products to Europe.

³⁷ <http://www.economy.ge/?page=news&nw=1465&lang=en>

WOODEN TOYS

Manufacturing wooden toys is a relatively new business activity, which falls under the furniture value chain. There are 4-5 key business players in this market in Georgia established few years ago. The toy makers in total account for around 30 small enterprises, mainly concentrated in Tbilisi³⁸.

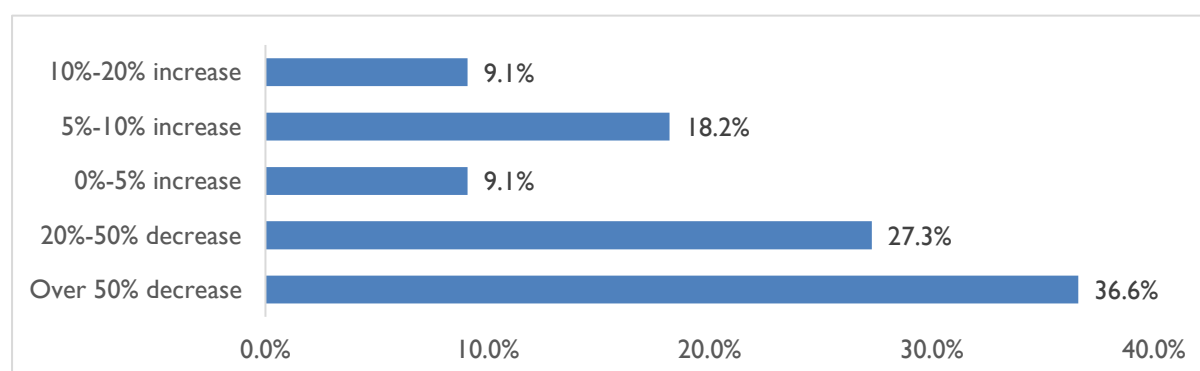
Toy manufacturing is one of the economic activities prioritized by Enterprise Georgia. Since 2018, the toy market in Georgia has also enjoyed the Government of Sweden's support within the framework of the GEclose2EU project. A study conducted under the latter project identified the manufacturing of toys as having high potential for employment, development, and internationalization³⁹. The USAID Georgia Economic Security Program is also actively involved in developing this business activity, in particular manufacturing of wooden toys. The USAID's engagement broadly follows the Value Chain Selection Criteria - Competitiveness Appraisal Matrix (CAM) developed under the program⁴⁰. Although the toys value chain received a lower competitiveness score due to some structural factors⁴¹, wooden toys was selected for further assessment and is now subject to quarterly value chain analytics in the course of the program.

Due to data limitations, the key business indicators describing the development in this business activity were obtained through a quantitative survey. The surveyed businesses represented predominantly small-scale individual entrepreneurs based in Tbilisi.

From the five value chains included in the quantitative survey, wooden toy manufacturers along with artisan producers had been particularly hard hit by the COVID-19 pandemic. Going beyond the reporting period of Q1-Q3 2020, a number of companies stated that they achieved positive year-on-year growth courtesy of a short period of relaxed lockdown measures and/or before the New Year holidays.

In terms of key indicators, 90 percent of wooden toy producers reported turnover under GEL 100,000. During Q1-Q3 2020 almost 65% of wooden toy producers experienced turnover declines (Chart 3.54). Meanwhile, approximately one-third of respondents (mainly smaller companies) recorded positive turnover growth rates.

Chart 3.54 Percentage distribution of turnover growth rates, Q1-Q3 2020 (y-o-y)



Source: Authors' calculations

³⁸ Needs Assessment of Toy and Child Apparel Manufacturing. EPRC (2020)

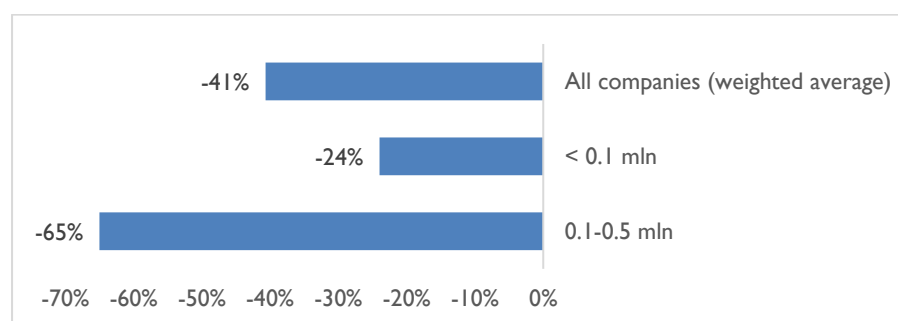
³⁹ Ibid. Please also see: <http://geclose2eu.info/index.php?m=4>

⁴⁰ Value Chain Prioritization and Gaps Assessment. USAID (2019)

⁴¹ Such as a lack of long-term competitive advantages for Georgian firms, less potential for impact outside Tbilisi, and future growth.

The weighted average decline of turnover equaled ca. 41% (Chart 3.55). Large turnover declines were more pronounced for wooden toy producers with relatively high turnover (GEL 100,000-500,000).

Chart 3.55 Distribution of Wooden Toys Manufacturers' Growth Rates by Turnover Range for Q1-Q3, 2020 (Y-O-Y, GEL)



Source: Authors' calculations

The median number of employed persons equaled five persons and the average gross salary amounted to GEL 840 in the wooden toys business activity.

The majority of wooden toy producers indicated no change in the number of employed persons, while approximately one-third of them had to reduce their number of staff. Approximately one out of seven companies mentioned that in the first nine months of 2020 they actually increased their number of staff.

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. In short, these challenges relate to access to finance, the lack of relevant technologies and equipment, an unqualified workforce, limited availability of adequate local raw materials, product certification problems, 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. According to a recent study (2020) by the Economic Policy Research Center (EPRC), many toy manufacturers in Georgia, considering that they are mainly located in Tbilisi, could not benefit from the Micro and Small Business Support Program run by Enterprise Georgia since the program prioritizes businesses that started up or expanded in Georgian villages and mountainous regions⁴². It should be mentioned however that Tbilisi was added as one of target locations of this program in 2020.

The manufacturing process for wooden toys is also constrained by the unavailability of high-quality local wood materials. Several interviewees claimed that they mostly relied on imported wooden inputs from Russia since adequately processed and dried wood materials intended for toy manufacturing are rare in Georgia. In addition, in most cases, when purchasing Georgian wood materials, manufacturers

⁴² Needs Assessment of Toy and Child Apparel Manufacturing. EPRC (2020).

cannot obtain a certificate for the wood's origin, possibly due to illegal logging. This further constrains product realization and particularly exports, at the same time incentivizing the purchase of more expensive imported wood materials from Russia.

The product certification process is another problematic area. Many interviewees highlighted the need for local product testing capacity. Currently, 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.

Considering the above-mentioned factors, it is difficult for Georgian wooden toy manufacturers to compete with the lower prices on a market that is saturated with low-quality imported toys from China and second-hand toys from the US. In its recent study, the EPRC analyzed the import of toys⁴³ to Georgia based on Geostat data and found its dynamics to be relatively stable during the past five years, taking in approximately USD 20 million annually. In 2019, Georgian imports of toys were mostly from China (64%), followed by Hong Kong (10%), Germany (4%), and Estonia (4%).

Evidently, Georgian wooden toy manufacturers have already started to comply with safety standards. They mainly use high-quality wood and ISO-certified German painting materials that are safe for children to use. For this reason, the interviewed manufacturers expected their products to compete successfully with imported toys in the near future. In January 2020, the Government of Georgia adopted a Decree on the Approval of Technical Regulation on Toy Safety based on the EU's toy safety directive⁴⁴. The businesses were given a year to adhere to the regulations. The new law was supposed to become effective on 1 January 2021 for both locally-manufactured as well as imported toys, though according to the interviewed stakeholders, the law will now not enter into force until July 2021.

The challenges mentioned above were also identified in the study commissioned by the EPRC for toy manufacturers in general⁴⁵. In addition to these challenges, the authors also highlighted issues related to a lack of business management knowledge and competences in the field, the absence of sectoral marketing research, and logistical difficulties (mostly relating to the lack of logistics centers on the territory of the EU) as factors constraining exports. As was mentioned in the study, only small quantities of Georgia-manufactured products are sold online on a retail market in the EU with the help of local residents' networks. The same study analyzed the domestic export dynamics for Georgian toys⁴⁶ for 2015-2019 and found these to be somewhat unstable. Over the course of 2015-2019, the top exporting markets were Armenia (39%), Azerbaijan (32%), Hong Kong (7%), Iran (4%), Ukraine (3%), and Bulgaria (3%). During 2017-2019, the export of toys to Armenia increased. However, as of 2019, of the total export of toys (USD 103,300), the largest share (USD 37,800) went to Hong Kong. With respect to the export of wooden toys in particular, based on our interviewees' insights, it was revealed that Germany and France could be profitable export destination countries for Georgia due to the high demand for such toys and limited local production in these countries. It is also worth mentioning here the successful case of Mtsvervali, a Georgian manufacturer of wooden toys, that exports its products to the aforementioned countries as well as to the US, the UK, and the United Arab Emirates. The company is registered on Etsy.com and successfully uses e-commerce in its sales, albeit not on a large scale.

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

⁴³ Child toys except video and gambling games and sports inventory.

⁴⁴ Resolution No.47 of January 20, 2020 on "Approving the Technical Regulation on Toy Safety".

⁴⁵ Majority of interviewed toy manufacturers were manufacturers of wooden toys.

⁴⁶ Child toys except video and gambling games and sports inventory.

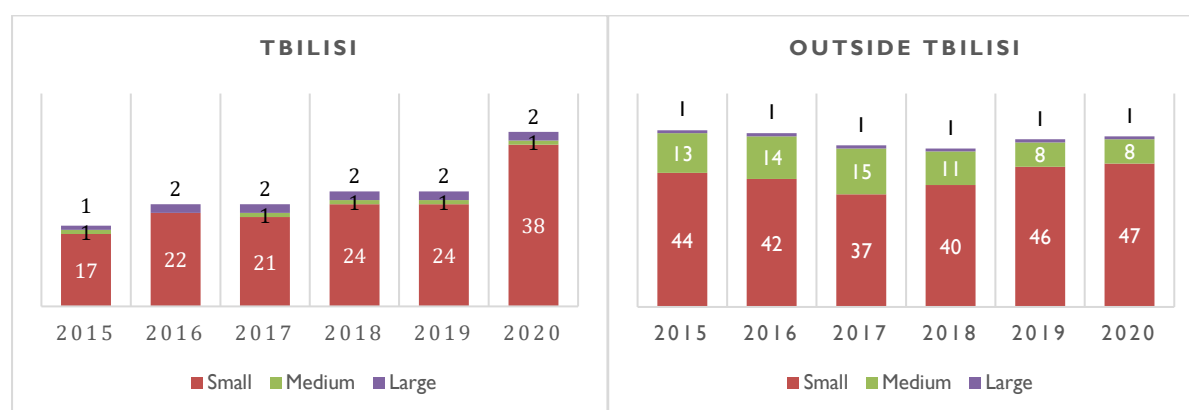
Association of Toy Manufacturers. There was an attempt made by local producers to establish an association of wooden toy manufacturers, but this was unsuccessful. One of the interviewed stakeholders revealed future plans to join the Entrepreneurs Association that offers a good networking platform and provides support in different directions, including the process of grant applications. Elsewhere, the adoption of cluster approaches and deepening cooperation within the existing association of toy manufacturers were also recommended by the EPRC (2020).

4. SOLID WASTE MANAGEMENT AND RECYCLING

Solid waste management and recycling is a relatively new economic activity for Georgia but some recycling practices have been established in the country for years already for some types of waste. At present, the Georgian solid waste management and recycling sector unifies a range of business activities related to the reprocessing of different waste, including plastic, paper/cardboard, wood, metal, glass, used oils, end-of-life tires, vehicles, electrical and electronic equipment, batteries and accumulators, and hazardous waste.

According to Geostat's Business Register data, as of 2020, there were a total of 97 active enterprises operating in this sector (Chart 4.1). Less than half of these companies (41) operate in Tbilisi and the rest (56) are registered in different regions of Georgia. The number of enterprises operating outside Tbilisi has remained relatively stable in recent years as opposed to Tbilisi, where the number of companies increased considerably by 51% in 2020 compared to 2019. Notably, the majority of active enterprises in this sector are small in size.

Chart 4.1 Number of active enterprises operating in the solid waste management and recycling value chain

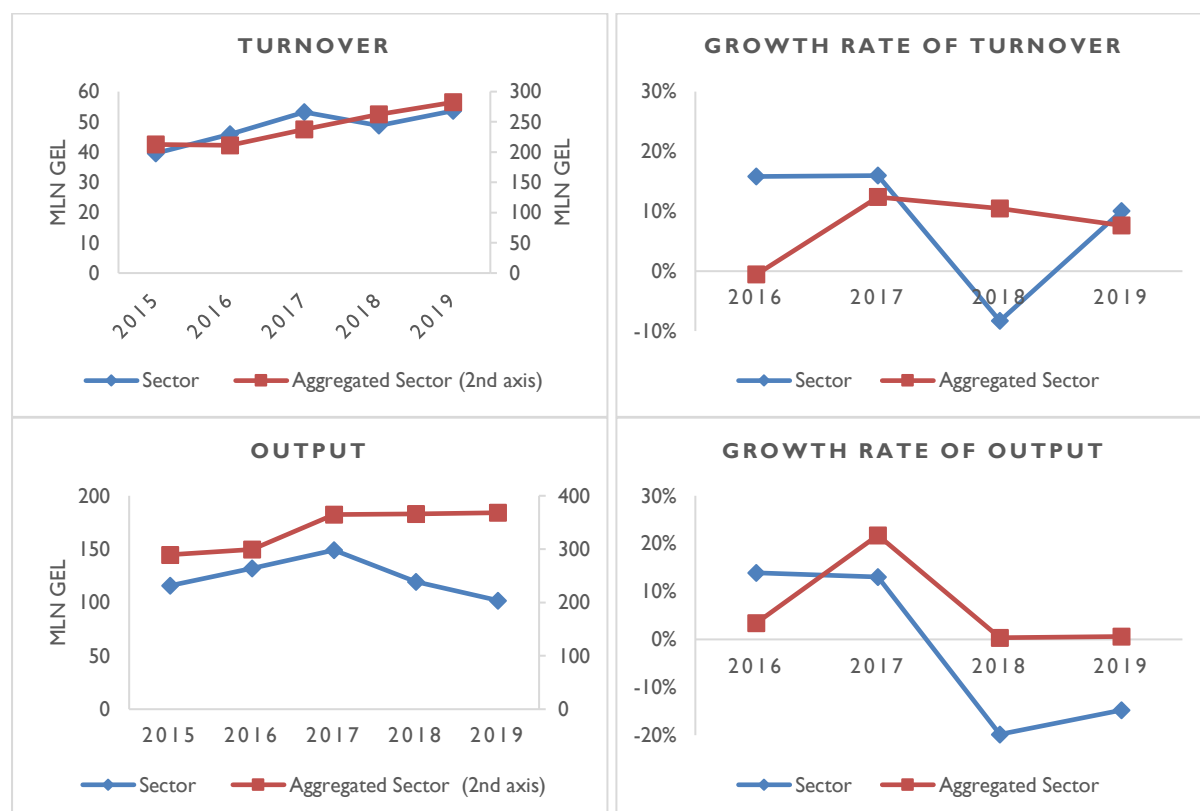


Source: National Statistics Office of Georgia

The turnover in the solid waste management and recycling sector fluctuated somewhat during the last two years of the covered period even though it depicted an increasing pattern overall for 2015-2019, reaching GEL 54 million in 2019 (Chart 4.2). The annual growth rate of turnover decreased significantly in the past few years, though the CAGR of turnover for the whole period amounted to 8%. During the same period, the turnover dynamics in the respective aggregated sector (water supply, sewerage, waste management, and remediation activities) was characterized by a steady increasing trend. Meanwhile, the CAGR of turnover for this sector was 7%.

The output dynamics in the solid waste management and recycling sector showed a somewhat different pattern. After an increase in 2015-2017, it dropped from GEL 149 million in 2017 to GEL 101 million in 2019. In the first three quarters of 2020, both turnover and output decreased slightly compared to the corresponding period of 2019.

Chart 4.2 Turnover⁴⁷ and output⁴⁸ dynamics in the solid waste management and recycling sector and in the corresponding aggregated sector



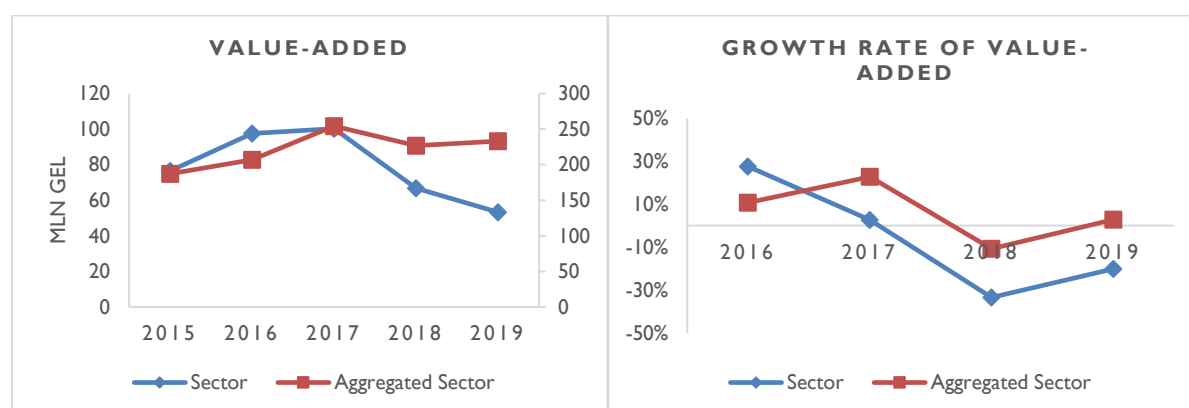
Source: National Statistics Office of Georgia

Chart 4.3 presents value-added and its growth rate during the period of 2015-2019. A significant reduction in value-added dynamics is evident from 2017 onwards in the solid waste management and recycling sector, mainly due to the fact that in recent years most of the inputs for production were exported from Georgia, according to the interviewed stakeholders. As for the corresponding aggregated sector, value-added in water supply, sewerage, waste management, and remediation activities in total experienced a slight slowdown in 2017-2019.

⁴⁷ As defined by Geostat, turnover corresponds to the volume of sales of goods or services reported by the entity. It includes all taxes or duties on goods and services (except VAT, and also other taxes, being in direct connection with turnover). It includes all expenses (transportation, packaging, etc). Reductions, discounts or concessions of prices and also costs of returned packages can be deducted from turnover. Turnover does not include sales of fixed capital and subsidies on production received from state bodies.

⁴⁸ As defined by Geostat, production value determines the quantity of production by an economic entity, and volume of realized output includes goods or services bought for resale and changes in stocks of finished goods. Please see more details here: https://www.geostat.ge/media/32250/BS_Methodology_ENG.pdf

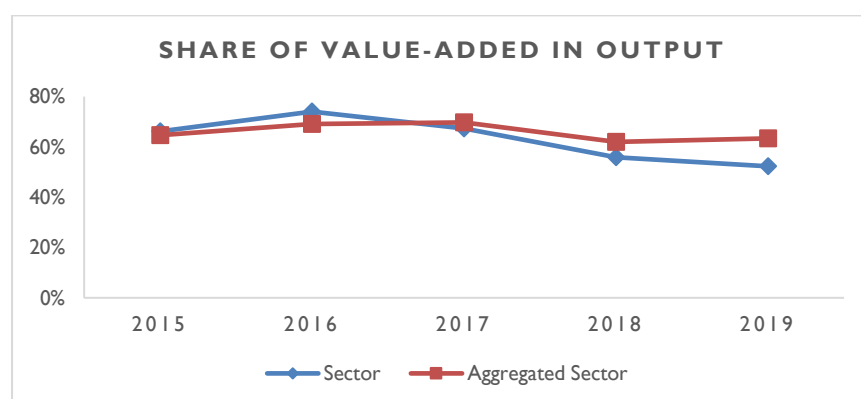
Chart 4.3 Value-added and its growth rate in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 4.4 below presents the share of value-added in output for the solid waste management and recycling sector under analysis and its corresponding aggregated sector. In both cases, the share of value-added in output shows a slightly downward trend starting from 2016, amounting to 52% and 63% in 2019, respectively.

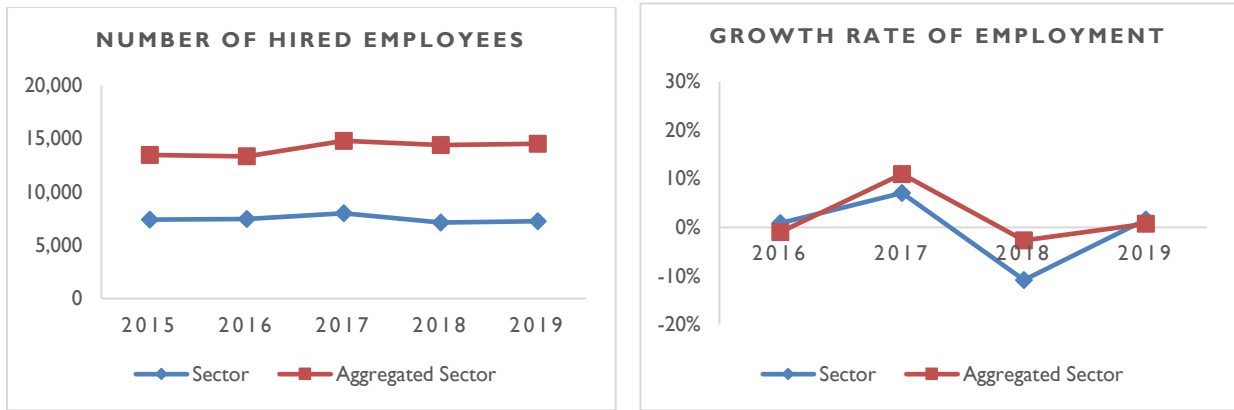
Chart 4.4 Share of value-added in output in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

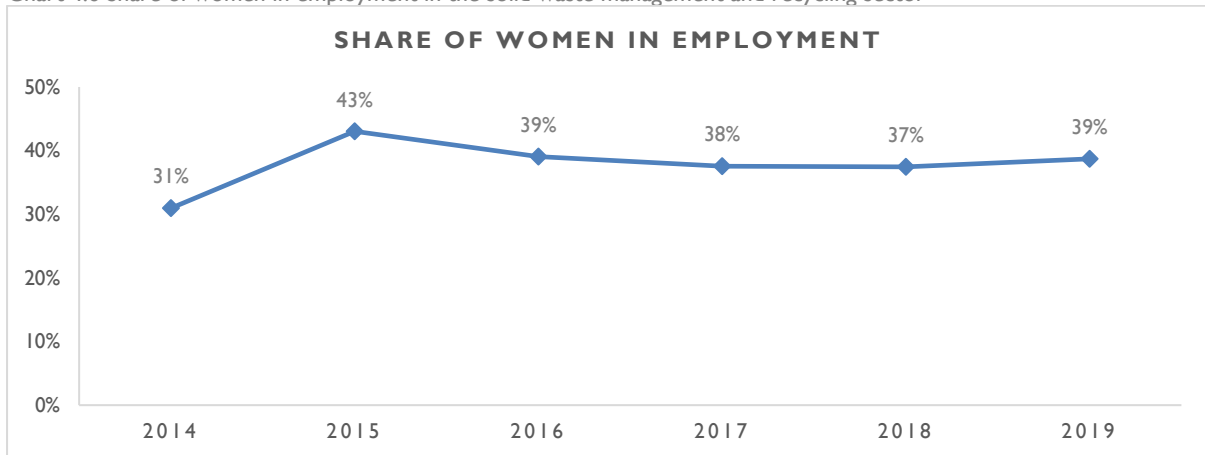
Chart 4.5 presents the employment dynamics. As the data show, the number of hired employees in the solid waste management and recycling sector has remained mostly unchanged in recent years, amounting to 7,239 employees in 2019. Of this number, 39% were female employees (Chart 4.6). The share of women in employment in this sector slightly decreased in the covered period. The latest employment data for this value chain illustrates a slight increase (2%) in the number of hired employees for the first three quarters of 2020 compared to the same period of 2019. A similar employment dynamics pattern was depicted in the corresponding aggregated sector, where the number of hired employees equated to 14,499 in 2019.

Chart 4.5 Employment and its growth rate in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

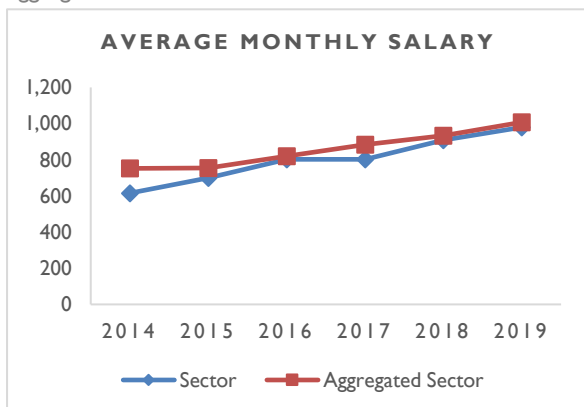
Chart 4.6 Share of women in employment in the solid waste management and recycling sector



Source: National Statistics Office of Georgia

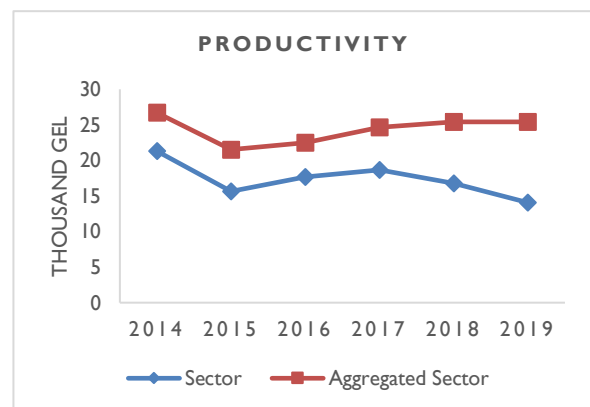
Chart 4.8 and Chart 4.7 show that the average monthly salary in the solid waste management and recycling sector steadily increased over time (with a CAGR of 9%) and almost converged with the average monthly salary of the aggregated sector. The latter increased on by 8% annually on average over the covered period. Productivity per hired employee, in turn, decreased with a CAGR of -3% in the value chain, while it increased in the aggregated sector with a CAGR of 4%.

Chart 4.7 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector



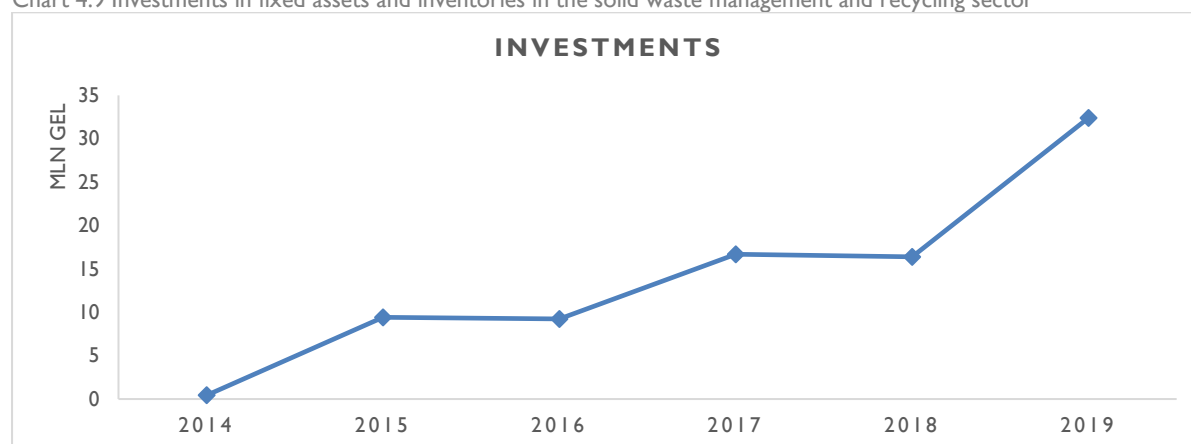
Source: National Statistics Office of Georgia

Chart 4.8 Productivity in the solid waste management and recycling sector and the corresponding aggregated sector.



Investments in fixed assets and inventories recorded an upward trend during the covering period, equating to GEL 32.4 million in 2019, marking a 244% increase compared to 2015.

Chart 4.9 Investments in fixed assets and inventories in the solid waste management and recycling sector



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, 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. Businesses operating in different waste streams have been competing over available waste resources nationwide. Additionally, some companies cannot access municipal waste at landfills in order to obtain the necessary waste used as inputs in their production.

Together with state institutions, the private sector is also responsible for waste management. However, frequently, the only representatives of the private sector engaged in separated waste collection are international manufacturers with zero waste obligations. 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. According to the sector representatives, growth in all sectoral parameters is conditional on a robust regulatory environment in the country and adequate implementation of the two above-mentioned legislative obligations, namely separated collection of municipal waste and EPR.

Some interviewees suggested 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 to economic activities in this sector. Future investment flows across the sector are expected to be dependent on the establishment of organized and cross-sectoral waste collection in the country.

Only a small share of the inputs utilized in the sector is imported. As highlighted by interviewees, production largely depends on locally generated waste. Meanwhile, there has been a precedent set of waste being imported in small amounts into Georgia. However, as revealed throughout the interviews, Georgia is moving towards restricting the import of unprocessed plastic waste into its territory. From an efficiency point of view, this initiative is well-reasoned, considering the environmental consequences of unprocessed waste imports and the amount of unutilized municipal waste in the country.

Packaged goods produced in the sector cannot properly compete with imported products. The majority of final manufactured goods in the sector are of moderate quality due to the outdated machines used in the production process. Upgraded production lines would however increase the value-added of final products. Restricted access to finances was named as a core hindrance to updating the technological base of the companies engaged in waste recycling. So far, the only source of available financing in the sector has been donor support. However, recently Enterprise Georgia amended its programs to cover the solid waste management and recycling. To properly exploit this development, businesses in the sector need to undertake functional training on how to apply for such financing schemes.

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 PET⁴⁹ bottle flakes, glass, paper packaging materials, tire rubber granules, biodiesel, and electrical and electronic equipment. In this regard, a PET bottle recycling factory managed by LTD “Polivimi” is currently under construction in the country. The factory is supposed to produce synthetic fiber as a final product, which is used in different production processes (for instance, textiles) and has considerable export potential.

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. 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.

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. The WMA projects that it will soon take on another 7-10 member companies. The association has different service offerings for the sector representatives, including networking, advocacy, technical assistance, and information sharing. 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 recent 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. Considering its sporadic nature, public-private partnership and the level of cross-sectoral dialogue has

⁴⁹ Polyethylene Terephthalate

been assessed as low by representatives of this sector. However, a better understanding of the capacities of the parties participating in the waste management cycle has significant potential to yield lasting positive impacts when it comes to the solid waste management and recycling sector.

5. SHARED INTELLECTUAL SERVICES

SECTOR SUMMARY

The shared intellectual services (SIS) sector encompasses a number of value chains. Among these is business process outsourcing (BPO), which incorporates the following USAID Economic Security Program priority business activities:

- Finance and Accounting (F&A);
- Architecture, Design and Engineering (ADE);
- Customer Relationship Management (CRM); and
- Human Resource Management (HRM).

In general, BPO entails contracting a certain part of a work process to a third-party service provider. Outsourced services are usually supplementary to core business functions. Some international companies may also take a strategic decision to offshore these kinds of services to more cost-effective countries. According to Enterprise Georgia's recent report⁵⁰, Georgia can develop a competitive advantage in BPO by exploiting the following strengths:

- Location – Its preferable time zone (GMT +4) allows Georgia to serve European and Central Asian markets conveniently.
- Language – Around 40-60% of the population speak fluent Russian and English.
- Labor – There is the potential to utilize a quite significant pool of unemployed youth. Indeed, in 2019, the unemployment rate was 27.8% for those aged between 15-24, and 21.3% for those aged between 25-34.⁵¹
- Affordability - Salaries and utility costs in the BPO value chain in Georgia are among the lowest worldwide.
- State Support – The Government incentivizes the IT industry by adopting Information Technology zones (virtual zones) and providing financing and infrastructure for specialized vocational courses.
- Tax – In Georgia, the tax environment is simple and favorable for businesses.
- International Recognition - Georgia ranks high in various international business indicators, including the Ease of Doing Business ranking⁵², the Index of Economic Freedom⁵³, the Corruption Perceptions Index⁵⁴, the Safety Index⁵⁵, and the Crime Index⁵⁶.

Major BPO companies operating in Georgia include Majorel, Evolution Gaming, CMX Solutions, Base 4, SellTech, FSP Global, and Sweeft. A key market for Georgia's BPO companies who provide offshore services is considered to be Western Europe, followed by Eastern Europe, North America, and Turkey. Secondary markets are growing such as the Baltic States and Romania, which are already nearing their capacities.

⁵⁰ Business Process Outsourcing (BPO) sector in Georgia, 2019

https://investingeorgia.org/en/ajax/downloadFile/1016/Investment_Opportunities_in_BPO_Sector_in_Georgia.pdf

⁵¹ National Statistics Office of Georgia

⁵² <http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

⁵³ https://www.heritage.org/index/pdf/2020/book/index_2020.pdf

⁵⁴ https://images.transparencycdn.org/images/CPI2020_Report_EN_0802-WEB-I_2021-02-08-103053.pdf

⁵⁵ https://www.numbeo.com/crime/rankings_by_country.jsp?title=2020&displayColumn=1

⁵⁶ https://www.numbeo.com/crime/rankings_by_country.jsp?title=2020&displayColumn=0

The SIS sector in Georgia is considered to still be in the early stages of development. Nevertheless, by utilizing the above-mentioned strengths and with the help of government institutions, the sector has been growing in recent years. According to Deloitte's Business Process Outsourcing & Shared Service Centers investment potential research (Deloitte, 2018),⁵⁷ in 2018 there were 131 BPO centers in Georgia with a total turnover of USD 25 million. Large companies in the BPO value chain export their services, however many domestic companies are limited to the domestic market. Low labor costs represent one of the most significant strengths of the Georgian SIS sector.

Besides the multiple advantages of the Georgian market, the SIS sector's development is actively supported by Enterprise Georgia, specifically the Investment Department of Enterprise Georgia that concentrates on attracting FDI and incentivizing BPO value chain business activities.

Despite all of the apparent advantages and government support the Georgian SIS sector enjoys, companies are still facing important challenges in this sector. The USAID Economic Security Program Policy Brief about SIS in Georgia⁵⁸ highlighted several key challenges for the sector and specifically the BPO value chain, such as:

Lack of skilled labor – Despite a high number of Georgia's higher education institutions (HEIs) and VET institutions providing professional courses related to the BPO value chain, the skills level in the workforce is still a challenge for the SIS sector. Graduates usually need additional training before they can start working in the field since universities mostly teach only theoretical knowledge.

Quality of internet in the regions and electricity supply – Private sector representatives highlighted low quality of internet and non-reliable electricity supply in the regions as further constraints hindering the regional development of BPO services.

Shortage of adequate office spaces – Lack of access to adequate office spaces has been highlighted by government representatives as a challenge for BPO companies. Office spaces are usually not adjusted to the needs of BPO companies and are overpriced given the low quality.

Insufficient visibility and branding of Georgia among multinational companies as a BPO service provider country – The Government has also highlighted the need for Georgian companies to increase their visibility and credibility among international BPO companies.

The following sections review the business activities within the BPO value chain in which Georgia is currently participating, both at local and international levels.

⁵⁷ Business Process Outsourcing & Shared Service Centers investment potential research https://www.investingorgia.org/en/ajax/downloadFile/1066/Business_Process_Outourcing_and_Shared_Service_Centers_in_Georgia.pdf

⁵⁸ Policy Brief (Draft). Shared Intellectual Services Sector in Georgia. USAID (2020)

CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management (CRM) refers to a firm's activities designed to manage relationships and interactions with its clients (including existing, potential, and sometimes past clients). In the modern reality, CRM is often offshored and undertaken by another company, located in another country.

Offshore CRM companies deliver various client-support services. In most cases, and according to the traditional understanding of this business activity, CRM consists of call centers, where operators answer clients' questions. However, as recent tendencies have shown, CRM sometimes goes beyond a call center service and might also involve a higher level of communication with the client, established through SMS, email, live-chat, or Twitter. Recently, global demand for these higher value CRM services has been vividly growing.

According to the Value Chain Prioritization and Gaps Assessment study conducted by USAID (2019), for Georgia, CRM accounts for 90% of employment under the offshore services value chain. Call centers are the most widespread CRM service offered across the country, while some companies also deliver more advanced CRM activities using live-chat and email⁵⁹. Large CRM companies in Georgia including Majorel (previously Arvato), Evolution Gaming, Bertelsmann, and CMX Solutions and others, serve western markets.

As the findings of both Enterprise Georgia and Deloitte suggest, CRM has the highest Full-time equivalent (FTE) headcount in comparison with other service areas in the country. As of 2018, Georgian CRM providers served their clients in 10 different languages and the business activity employed 35,000 people. Furthermore, there were 40 CRM providers operating in Georgia, with 60% of the companies reporting an annual turnover of less than USD 200,000^{60,61}.

In the case of Georgia, CRM has been named as the main driver of growth in the offshore services value chain. Specifically, the delivery of higher value CRM services has been regarded as possessing considerable growth potential. Globally, higher value CRM services are often nearshored (not offshored) due to different requirements that the buyer has of the service provider. Such requirements include possessing proficiency in the language of the clients, having access to high-speed internet connectivity, and A-class office spaces. Georgia has a competitive advantage when it comes to delivering higher quality CRM, bearing in mind its favorable time-zone, proficiency in foreign languages (especially English and Russian) and lower costs to provide higher value CRM services⁶². Nonetheless, there have been some hindrances to the upgrading of this business activity. These obstacles are:

- **Lack of human resources** – as demand for Georgian CRM services grows, the country will suffer from a lack of potential employees with strong language skills to work in this business activity.
- **Lack of A-class office spaces** – there is a shortage of A-class office spaces in Georgia and the availability of high-quality offices is one of the core requirements for foreign companies planning to offshore their CRM.
- **Lack of access to new markets** – Georgian CRM providers mostly serve countries in the nearby region and Europe. Despite the relatively strong adoption of English in Georgia, which

⁵⁹ USAID 2019, p. 26.

⁶⁰ Enterprise Georgia, Deloitte, Business Processes Outsourcing & Shared Service Centers Investment Potential Research, 2018, p.71.

⁶¹ Enterprise Georgia 2019, p. 12.

⁶² USAID 2019, p. 28.

makes US companies suitable targets, most of the Georgian CRM firms have not yet entered the US market⁶³.

Priority business activities to address and curb these challenges include: (i) working on the development of short- and long-term relevant skills of the workforce (for example, soft and language skills); (ii) supporting the expansion of this business activity outside Tbilisi (for instance, by utilizing the potential of Telavi), including increasing office space availability outside the capital; and (iii) assisting small CRM operators to better coordinate with each other and thus reach international markets and associations.⁶⁴

Below, we summarize the main trends in the CRM business activity, observed through quantitative surveys that were conducted with the representatives of this business activity.

An important characteristic of the CRM is that the majority of companies providing a large volume of customer services have their own customer service departments (such as large businesses in trading, communications, and construction). Consequently, CRM activities performed by these companies are considered to be of an auxiliary nature and are not recorded separately.

As a result, the CRM business activity in Georgia is relatively small. The surveyed businesses operating in the CRM provide specific customer relations services such as call center activities, IT, telephoning, and digital customer support. The companies are largely limited companies, with some solo entrepreneurs reporting turnovers ranging from under GEL 100,000 to GEL 500,000.

A notable outlier operating in the sector is a subsidiary of a foreign company providing a wide range of customer-related services. As the turnover and other economic indicators of this company by far exceeded the corresponding indicators of all other surveyed companies, the company's performance is analyzed separately.

The CRM companies (excluding the outlier company) experienced relatively low turnover decline over the covered period. The estimated weighted average of turnover's negative growth was in the range of 10%-15%. The outlier company in turn indicated a high annual growth rate in 2020, largely due to the recent expansion of its activities in Georgia.

Women and young staff (under 29 years of age) constitute the majority of CRM business activity employees in all companies, including the outlier company.

The trends in CRM salaries correlate with those of turnover – a number of companies (including the outlier company) indicated increased salaries in 2020 compared to 2019, but the overall estimates contain excessive variability. The need for remote customer management during the pandemic in 2020 is likely to have attributed to a number of companies indicating an increase in employed staff in 2020 compared to 2019.

⁶³ Ibid, p. 32.

⁶⁴ Ibid, p. 34.

ARCHITECTURE, DESIGN, AND ENGINEERING

The architecture, design, and engineering (ADE) business activity is one of the most-developed and largest in Georgia in terms of revenue. ADE services unite both local and international companies, who provide services to local and international markets, however most of the revenue is accumulated by services offered on the local market. Architectural services, including 3D modeling, rendering, and design services are being exported to international markets (with major clients coming from Europe and the USA⁶⁵), taking advantage of the relatively low salaries of the Georgian workforce, compared to Western Europe.

According to Deloitte, by 2018, the number of outsourcing companies in ADE in Georgia amounted to 15. Around 67% of these companies hire fewer than 10 FTE employees, while 26% hire up to 500 FTE employees, and 7% employ more than 50. In ADE, companies usually prefer to hire more experienced workers; even then, the average training time for them is around one month. One of the international ADE companies mentioned that on average GEL 5,000 is spent on staff training annually and that, besides a lack of technical knowledge among the workforce, a language barrier also reduces the number of viable potential employees⁶⁶.

Relevant skills in ADE can be acquired in 6 HEIs located in Tbilisi and Batumi, however the education materials there are outdated. Therefore, graduates are usually in need of specialized trainings to upgrade their skills. Apart from the HEIs, there are 7 VET and certification institutions offering ADE courses.

Currently, Georgian firms who export architectural services usually provide program-specific rendering services. However, some international companies are looking to outsource almost all architectural services, including design, modeling, and development. In such cases, the service provider needs to become integrated with the given company's working process by using the same software for drawing and rendering. Georgia still lacks knowledge of such kinds of modern software (e.g. REVIT and ArchiCAD), with only a small share of ADE companies capable of providing fully-integrated services. Since the above-mentioned programs are highly demanded by international clients, Georgia has potential to develop by offering training to existing workers in most current programs.⁶⁷ Developing modern courses in Georgian HEIs and VET institutions, along with training opportunities within the private sector, would be an important step toward upgrading the ADE potential of Georgian companies internationally.

Besides insufficient knowledge of modern skills, the USAID Value Chain Prioritization and Gaps Assessment study highlighted the following gaps in strategic partnership and marketing for the ADE business activity:

- As building regulations are governed by local authorities, the process of exporting architectural services is complicated, since completed models sent to partner companies still need to be adjusted to meet local regulations. To simplify this process and to ensure compliance with local regulations, Georgian ADE companies need local architecture firms as partners on priority markets.
- At present, ADE companies have very limited experience in planning long-term marketing strategies and lack understanding of local markets in order to build linkages with companies in Europe and North America. Currently, international partnerships are based on personal

⁶⁵ Business Process Outsourcing & Shared Service Centers investment potential research

⁶⁶ Business Process Outsourcing & Shared Service Centers investment potential research

⁶⁷ Value Chain Prioritization and Gaps Assessment, DAI. USAID (2019)

relationships with no serious efforts being made to enter new markets. To tackle this problem, first, firms in the Georgian ADE business activity could start participating in European design competitions in order to build new connections with related companies in the European market and, second, companies could invest in conducting market surveys in priority international markets.

The next section will provide a description of the quantitative indicators of the ADE business activity based on Geostat's Business Register and Enterprise Survey data. The indicators are also provided for the aggregated sector relevant to this business activity, namely professional, scientific, and technical activities.

According to Geostat's Business Register data for 2020, a total of 2,598 active companies were recorded in Georgia under this business activity. Meanwhile, 60.7% (1,576) of these companies are registered in Tbilisi, and the remaining 39.3% (1,021 companies) are located outside Tbilisi.

The number of active ADE companies registered in Tbilisi has been growing by an average of 6.6% (CAGR) annually since 2014 (1072 companies), with a 26.8% growth recorded in 2020 compared to 2019. It should also be noted that most of the companies in this period were small companies. In 2020, the number of small companies in Tbilisi was 1,555 (98.7%), the number of medium companies was 20 (1.3%), while there was only 1 large company in this business activity.

As for the companies outside Tbilisi in this business activity, their number increased by an average of 13.0% annually during 2014-2020, which indicates that the ADE business activity has been growing faster in the regions. In 2020, the highest annual growth rate for this indicator (48.0%) was recorded. Similar to Tbilisi, most companies outside of the capital were small companies. In 2020, a total of 1,021 (99.9%) small and one medium company were active outside Tbilisi in this business activity.

Chart 5.1 and Chart 5.2 below provide ADE business activity turnover data in comparison to the corresponding aggregated sector. Turnover for the ADE business activity has revealed an upward trend since 2014 and amounted to GEL 562.8 million in 2019 (Chart 5.1), which is about double the 2014 equivalent. The turnover of the aggregated sector has also been characterized by an increasing trend and in 2019 it amounted to GEL 1,643.3 million. Turnover of the ADE business activity represented 34.2% of the corresponding aggregated sector's turnover in 2019. The CAGR for the ADE business activity was 18.1% for the period of 2014-2019, while the same indicator amounted to only 8.9% for the aggregated professional, scientific, and technical activities sector.

Chart 5.2 presents the annual growth of turnover for the ADE business activity since 2016, which is higher than that of the aggregated sector. The annual growth rate for ADE turnover peaked in 2017 (35.4%), while the aggregated sector grew by only 8.6% in the same year. It should also be noted that the annual growth rates of turnover for the ADE business activity and the aggregated sector have been converging in recent years.

Chart 5.2 Turnover of the ADE business activity and the corresponding aggregated sector

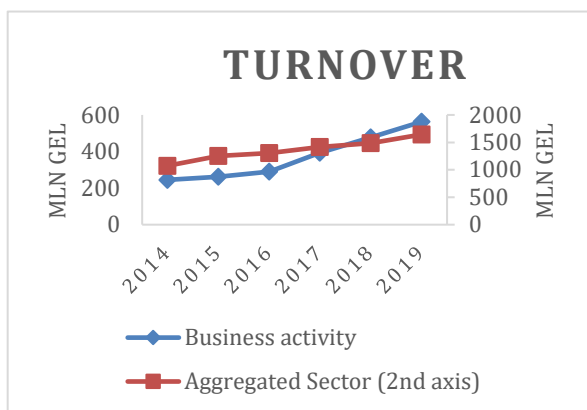
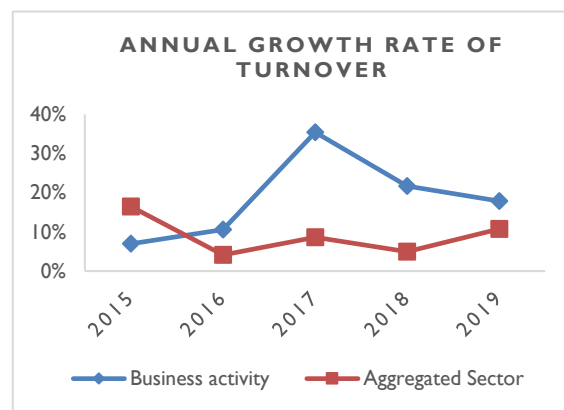


Chart 5.1 Annual growth rate of turnover for the ADE business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

According to Chart 5.3, after dropping in 2015, the value-added of the ADE business activity increased throughout 2016-2018 until another slight decrease in 2019 when it equated to GEL 338.5 million. As for the aggregated sector, it recorded an upward trend for the whole 2014-2019 period, with value-added of GEL 963.7 million in 2019. The ADE business activity's value-added represented 35.1% of the aggregated sector's value-added in 2019. The CAGR for the ADE business activity's value-added was 13.9% for the period of 2014-2019, while the same indicator amounted to 10.3% for the aggregated sector.

Chart 5.3 Value-added of ADE business activity and the corresponding aggregated sector

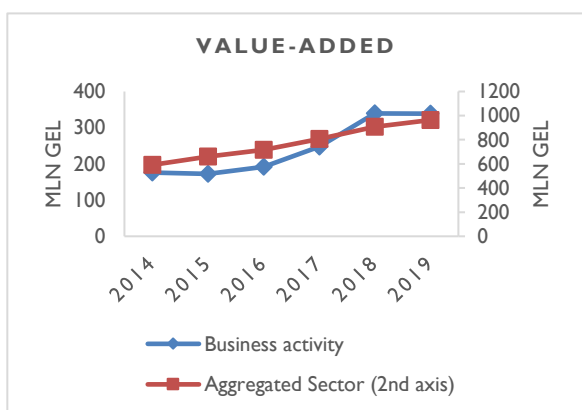
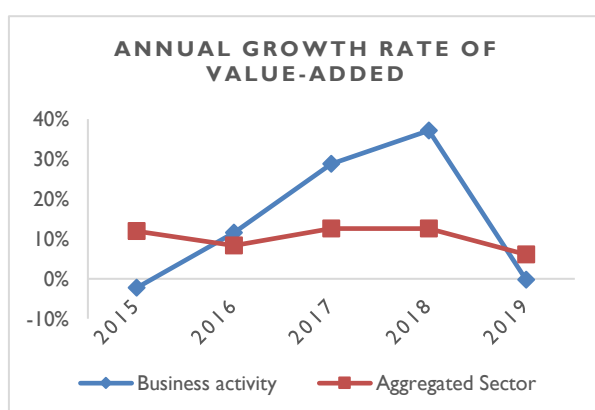


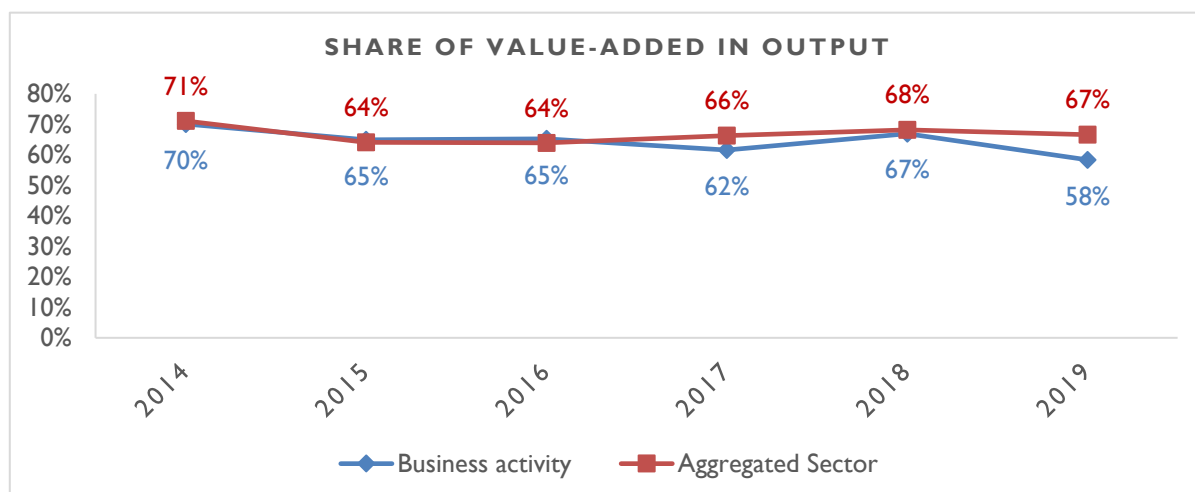
Chart 5.4 Annual growth rate of value-added for ADE business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 5.5 below presents the share of value-added in output for the ADE business activity and the aggregated professional, scientific, and technical activities sector. The share of value-added in output showed a slightly downward trend in 2014-2019 for both the ADE business activity and the aggregated sector. After a slight increase in 2018, the share of value-added for the ADE business activity decreased in 2019 to 58.4%. The same indicator was higher for the aggregated sector, amounting to 66.6% in 2019.

Chart 5.5 Share of value-added in output for the ADE business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Charts 5.6 and 5.7 below present hired employee data for the ADE business activity and the corresponding aggregated sector. According to Chart 5.7, the number of hired employees in the aggregated professional, scientific, and technical activities sector has been characterized by an increasing trend since 2014, reaching 25,075 in 2019. As for the number of hired employees in the ADE business activity, after an increasing trend in 2016-2018, in 2019 it decreased by 1.7% and reached 10,514. Meanwhile, the number of hired employees in the ADE business activity accounted for 41.9% of the aggregated sector in 2019. During 2014-2019, the number of hired employees in the ADE business activity increased by an average of 1.5% per year, while in the aggregated sector it rose by 2%.

Chart 5.7 Employment of ADE business activity and corresponding aggregated sector

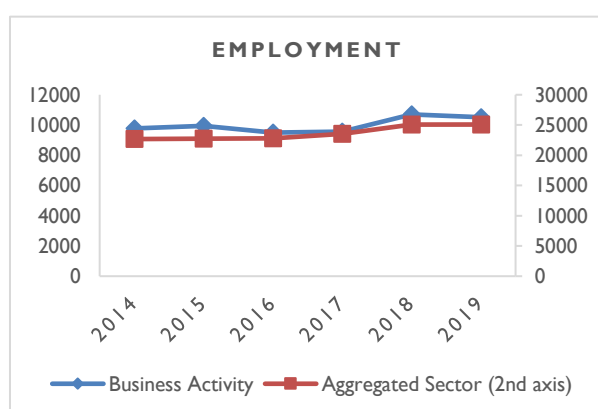
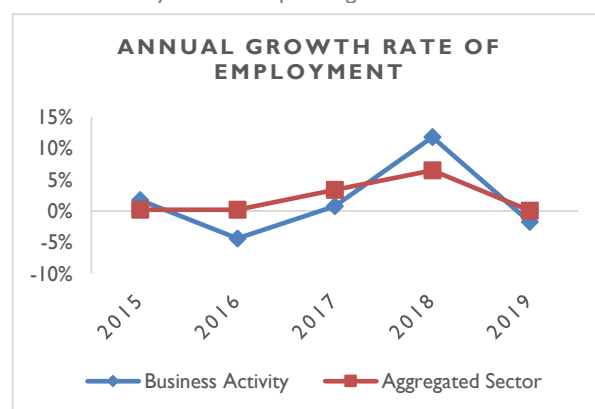


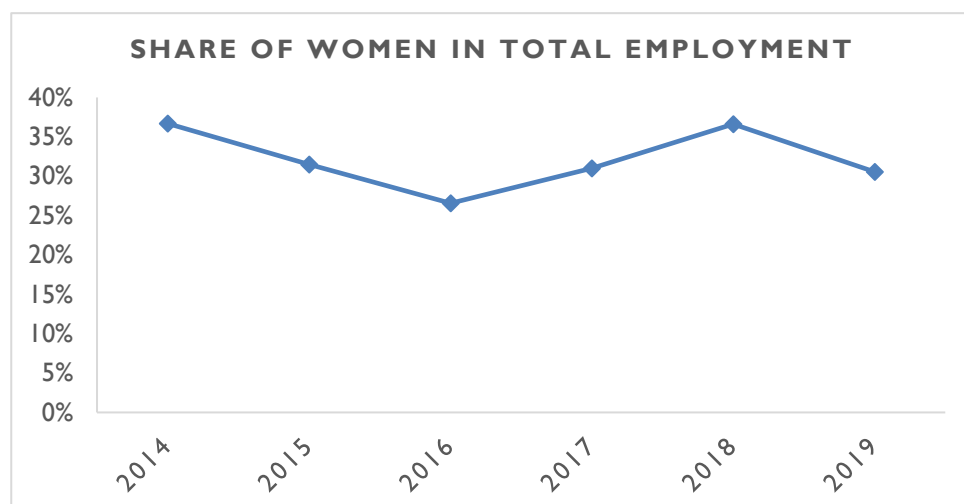
Chart 5.6 Annual growth rate of employment for ADE business activity and corresponding



Source: National Statistics Office of Georgia

As for the share of female employees in total employment for the ADE business activity (Chart 5.8), the 2014-2019 period was characterized by fluctuations. After a significant decline during 2014-2016, the share of women increased in 2018, although in 2019 it decreased again and reached 30.6%. Fluctuations in the share of women in total number of hired employees correlated with fluctuations in total hired employment. More specifically, the reductions in the total number of hired employees within 2015-2016 were caused by a decrease in the employment of women, moreover, the employment of men increased during this period. A similar picture was visible during the decline of hired employment in 2019 (-185), when the employment of women decreased by 707, while that of men increased by 522.

Chart 5.8 Share of women in total employment for ADE business activity



Source: National Statistics Office of Georgia

As shown in Chart 5.9 and Chart 5.10, the average monthly salary for the ADE business activity and the aggregated sector displayed an increasing trend over the covered period. However, the average monthly salary for the ADE business activity was lower than that of the aggregated sector and amounted to GEL 1,885 for 2019, while the same indicator for the aggregated sector was GEL 2,105.

A similar trend can be gleaned from Chart 5.10 for labor productivity data, calculated as an annual output per hired employee. Like the average monthly salary, productivity for the ADE business activity closed in on the aggregated sector over time. Productivity for the ADE business activity in 2015 amounted to GEL 55,200 and for the aggregated sector it reached GEL 57,700. It should also be noted that average annual growth for productivity and average monthly salary in the ADE business activity was somewhat similar during 2014-2019 with a CAGR of 15.8% for salaries and 16.4% for productivity.

Chart 5.10 Average monthly salary for the ADE business activity and the corresponding aggregated sector

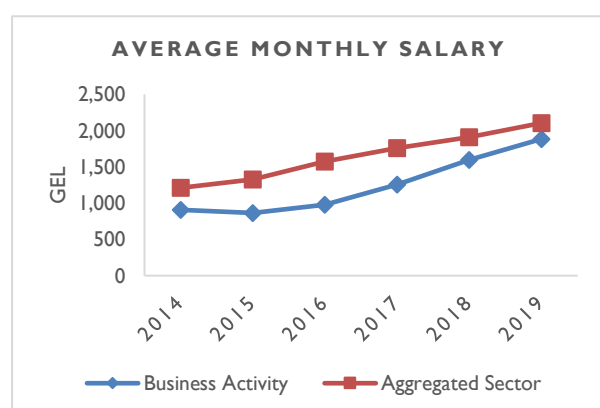
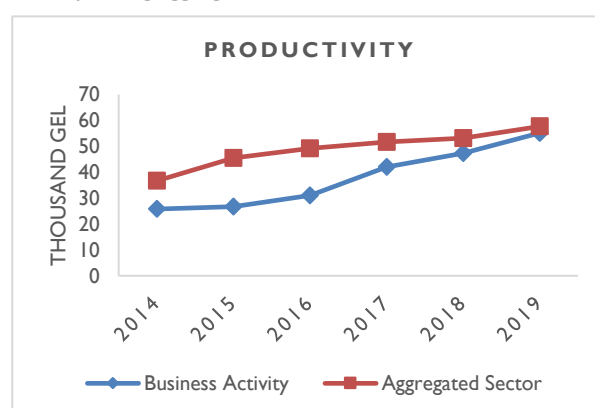


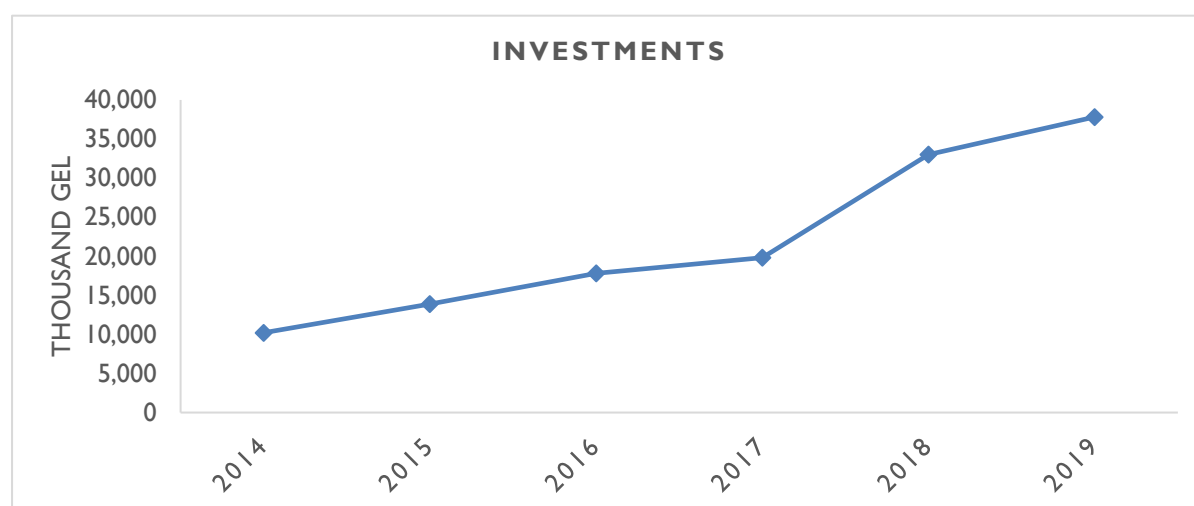
Chart 5.9 Productivity for the ADE business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 5.11 below presents investment data, which are calculated as sum of the investments in fixed assets and inventories for each given year. Investments for the ADE business activity increased for the entire period of 2014-2019, and in 2019 amounted to GEL 37.8 million. On average, annually, investments increased by 29.9%, however the highest annual growth (66.6%) was reached in 2018, after which the annual growth rate dropped to 14.6% in 2019.

Chart 5.11 Investments in the ADE business activity



Source: National Statistics Office of Georgia

FINANCE AND ACCOUNTING (F&A)

Services related to finance include managing investments and money for companies, while accounting refers to recording, maintaining, and reporting a company's financial records to regulating agencies. Currently, the majority of F&A companies in Georgia are operating exclusively on the local market. The reasons behind this are twofold: (1) tax regulations are specific for every country and thus companies usually need local expertise to outsource such services; and (2) local demand is already high, especially for large companies, who are routinely providing services for international companies.⁶⁸

According to Deloitte, as of 2018, the majority of companies that provide F&A services hire around 10 FTE employees, 17% of companies hire 50 FTE employees and only 2% hire more than 50. Regarding F&A-related skills in Georgia, there are 22 HEIs that provide F&A courses for students, located in Tbilisi, Kutaisi, Batumi, Telavi, and Zugdidi. In total, 3,500 F&A graduates enter the labor force from these HEIs each year. Moreover, 66 VET institutions and certification institutions offer F&A courses across the regions, producing approximately 950 graduates each year. Overall, there are 900 ACCA and 200 CFA students registered in Georgia. Companies, however, prefer to hire more experienced specialists rather than new graduates, and demand computer skills, language skills and preferably ACCA and CFA certification from candidates.

Despite the high number of graduates from the F&A courses, both from HEIs and VET institutions, the problem of a lack of skilled labor still exists across the BPO value chain as a whole, and specifically for F&A services. According to private sector representatives, the skills mismatch is an even bigger challenge in regions thus making regional development problematic. To tackle this problem, large companies, working in the F&A business activity, sometimes try to train their employees themselves. For example, BDO hires new graduates and trains them accordingly, while Nexia TA has established an academy for training its personnel and also offers professional courses for students.⁶⁹

In terms of F&A costs per FTE, Georgia successfully competes with other countries in the F&A outsourcing market and maintains one of the lowest average monthly salaries (USD 560) per employee. When added to low taxes and utility costs, Georgia is an attractive location for investors in F&A seeking to develop and enhance their businesses.

Below we provide a description of the quantitative indicators of the F&A business activity in Georgia as well as for the corresponding aggregated sector (professional, scientific, and technical activities).

In 2020, a total of 1,589 active companies were recorded in Georgia under the F&A business activity. Out of these, 73.2% (1,163 companies) were registered in Tbilisi, and the remaining 26.8% (436 companies) were registered outside the capital.

The number of F&A companies in Tbilisi grew by an average of 6.9% annually over the covered period (rising to 778 companies), with the highest annual growth (23.1%) recorded in 2020. In terms of company size, the F&A business activity does not include any large companies in Tbilisi, and most of the companies active in this area during 2014–2019 were small. In 2020, the number of small F&A companies in Tbilisi was 1,145 (98.5%), while the number of medium companies was 18 (1.5%).

Meanwhile, the number of companies in the regions increased by an average of 10.5% annually during 2014–2020, with the highest annual growth (44.4%) recorded in 2020. The only companies active in the F&A business activity registered outside the capital in 2020 were small.

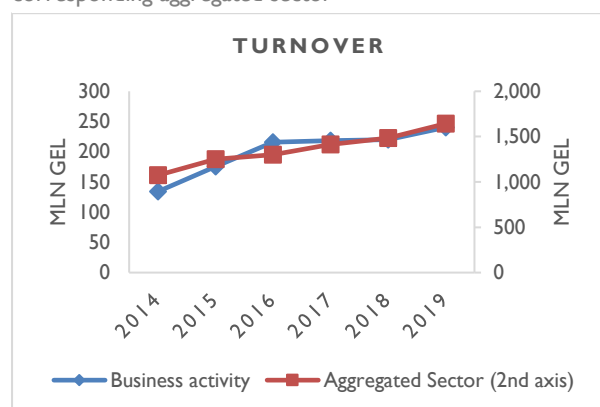
⁶⁸ Value Chain Prioritization and Gaps Assessment, DAI, USAID (2019)

⁶⁹ Business Process Outsourcing & Shared Service Centers investment potential research

As presented in Chart 5.12, the turnover for the F&A business activity demonstrated an upward trend from 2014 onwards, amounting to GEL 240.3 million in 2019. The turnover for the aggregated sector was also characterized by an increasing trend over the same period, reaching GEL 1643.3 million in 2019. The CAGR for the F&A business activity was 12.4% for the period of 2014-2019 and 8.9% for the aggregated sector over the same period.

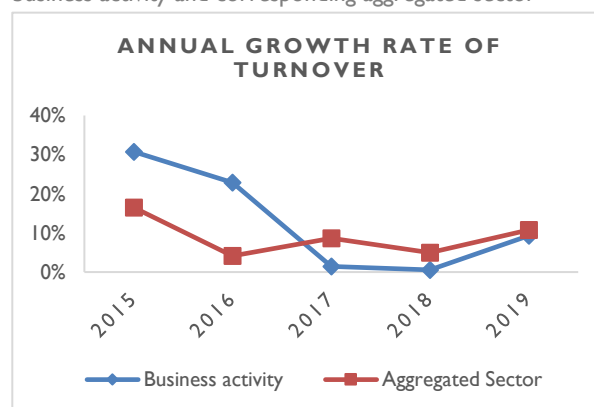
According to Chart 5.13, the annual growth rate for F&A turnover decreased after 2015, however it showed an increase in 2019, reaching 9.3%. As for the annual growth rate in the aggregated sector, it has been rising since 2017, hitting 10.7% in 2019.

Chart 5.13 Turnover for the F&A business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

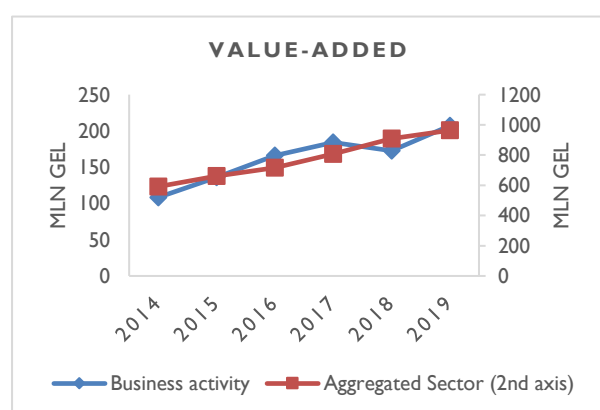
Chart 5.12 Annual growth rate for turnover in the F&A business activity and corresponding aggregated sector



As already mentioned in the previous section, the value-added of the aggregated sector demonstrated an upward trend with a CAGR of 10.3% over the covered period. As for the value-added of the F&A business activity, it increased through 2014-2019, apart from a decrease in 2018, recording its highest value of GEL 207.1 million in 2019 (Chart 5.14). Since 2014, the value-added of the F&A business activity has increased by 13.8% annually on average.

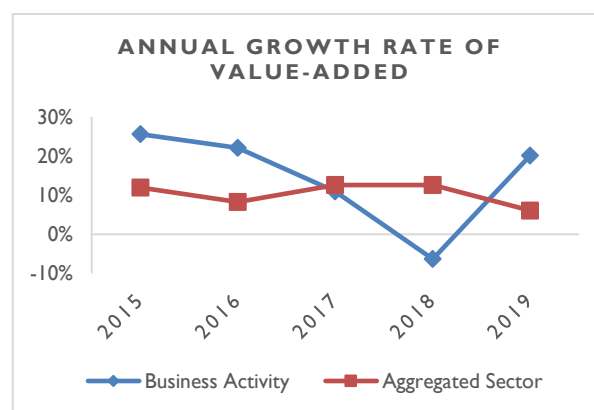
According to Chart 5.15, the annual growth rate of the F&A business activity decreased over the course of 2015-2018, sinking to -6.3% in 2018, however it did show an increase of 20.1% in 2019.

Chart 5.15 Value-added of the F&A business activity and the corresponding aggregated sector



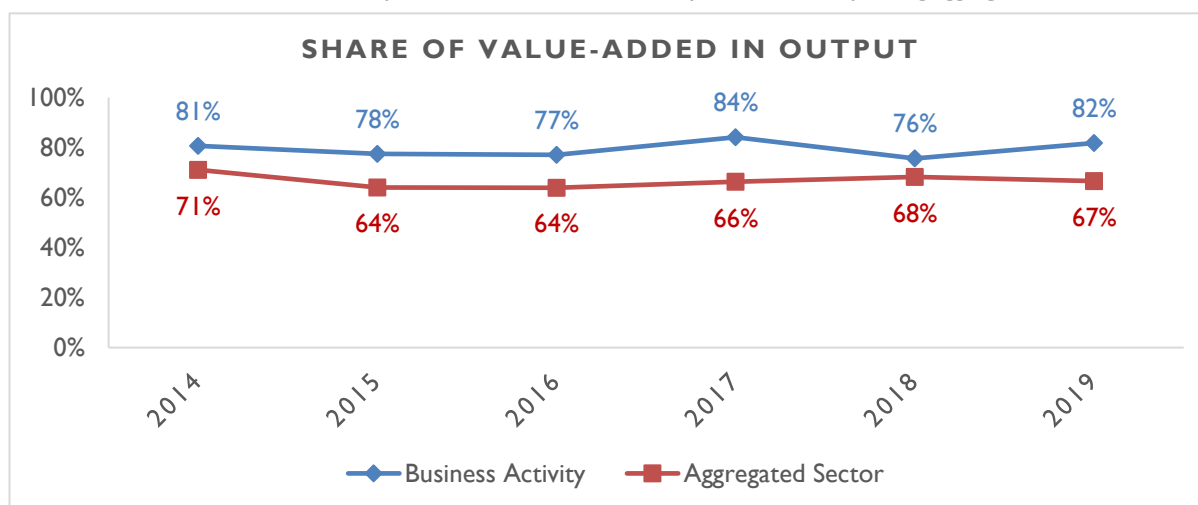
Source: National Statistics Office of Georgia

Chart 5.14 Annual growth rate for turnover in the F&A business activity and corresponding aggregated sector



As Chart 5.16 shows, the share of value-added in output for the F&A business activity was higher than in the corresponding aggregated sector throughout 2014-2019. This indicator for the F&A business activity in 2019 amounts to 81.8%, compared to 66.6% in the aggregated sector.

Chart 5.16 Share of value-added in output for the F&A business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The number of hired employees for the F&A business activity and the corresponding aggregated sector are presented on Charts 5.17 and 5.18 below. As these depict, the number of hired employees in the F&A business activity has decreased in recent years. More specifically, it decreased by 3.8% in 2018 and by 1.0% in 2019, falling to 4,759. The number of employees hired in the F&A business activity accounted for 19.0% of the aggregated sector in 2019. Meanwhile, the CAGR for hired employees in the F&A business activity amounted to -1.9% over the course of 2014-2019.

Chart 5.17 Number of hired employees in the F&A business activity and the corresponding aggregated sector

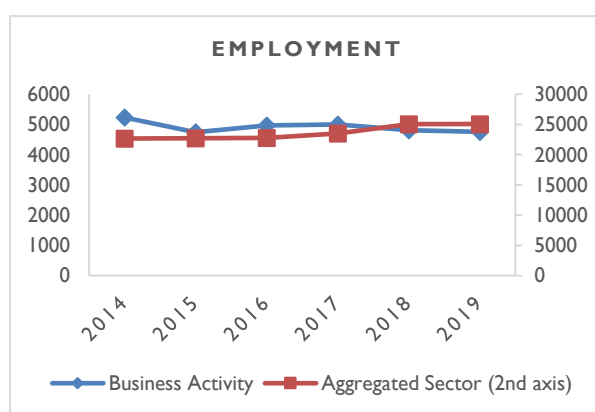
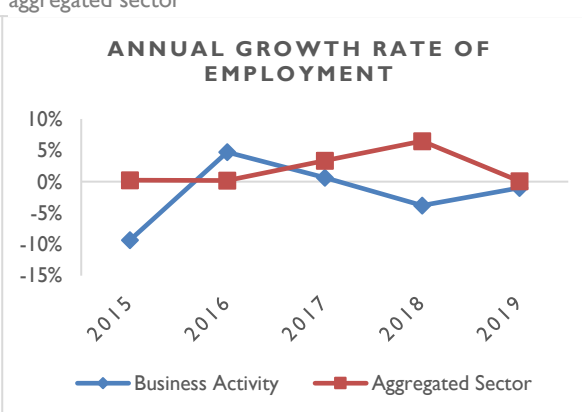


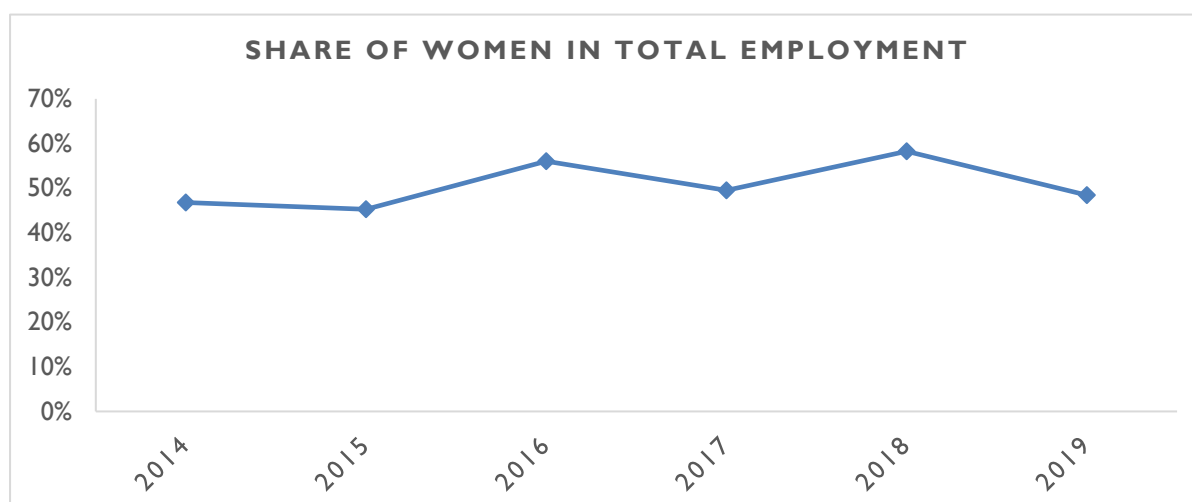
Chart 5.18 Annual growth rate of number of hired employees for the F&A business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The share of women among hired employees in the F&A business activity declined in 2019 after an increase in 2018, and amounted to 48% (Chart 5.19). An analysis of gender disaggregated data shows that the decline of total hired employees in 2018 was caused solely by a reduction in male employment (from 2525 to 2007) and the decline of total hired employment in 2019 was caused solely by a decrease in female employment from 2800 to 2304 (contrastingly, male employment increased in 2019 from 2007 to 2454).

Chart 5.19 Share of women in total employment for the F&A business activity



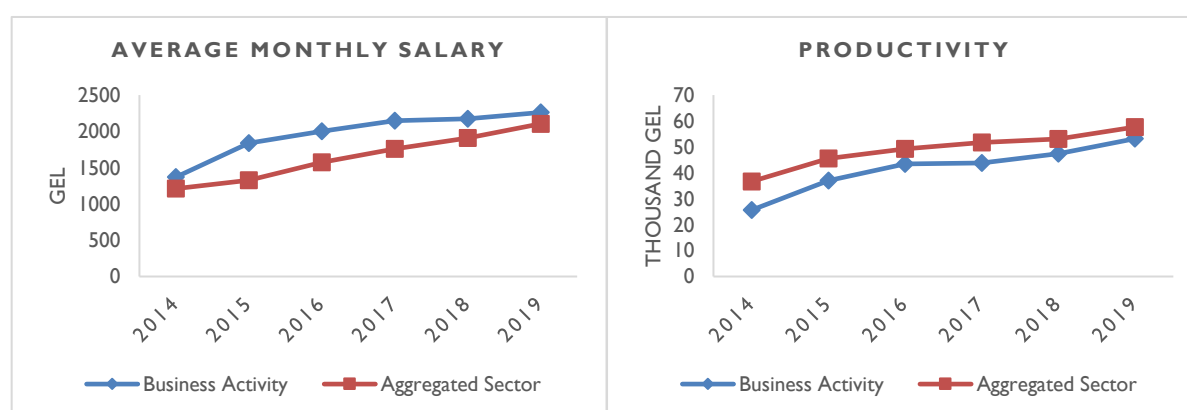
Source: National Statistics Office of Georgia

According to Chart 5.20 and Chart 5.21, the average monthly salary for the F&A business activity and for the corresponding aggregated sector displayed an increasing trend over the covered period. However, the average monthly salary for the F&A business activity was higher than that of the aggregated sector during 2014-2019 and amounted to GEL 2,261 in 2019.

As seen in Chart 5.20 productivity for the F&A business activity was below that of the productivity of the aggregated sector through 2014-2019, however it still grew over time and reached GEL 53,200 in 2019. It should also be noted that productivity grew faster on average, annually, than the average monthly salary for the F&A business activity during 2014-2019 with a CAGR of 15.7% and 10.5% respectively. The situation was the reverse for the aggregated sector with CAGR of 11.7% for average monthly salary and 9.5% for productivity during the same period.

Chart 5.20 Average monthly salary for the F&A business activity and the corresponding aggregated sector

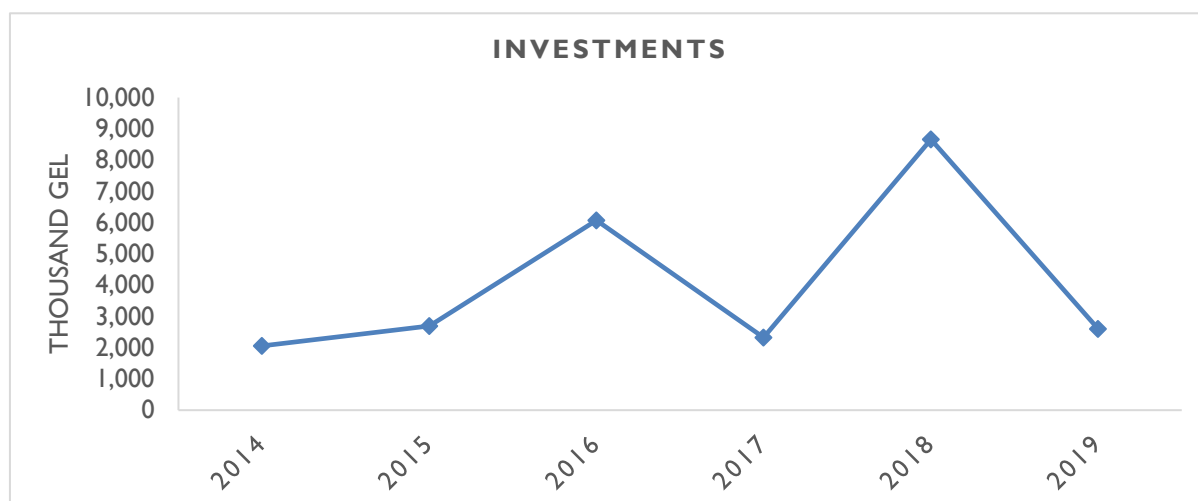
Chart 5.21 Productivity for the F&A business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Investments, measured as the sum of investments in fixed assets and inventories, for the F&A business activity was characterized by fluctuation, peaking in 2018 with GEL 8.7 million (Chart 5.22). In 2019, investments showed a drastic fall (by 70.0%), settling at GEL 2.6 million. On average, annually, investments increased by 4.9% over the covered period, with the highest annual growth of 273% reached in 2018.

Chart 5.22 Investments in the F&A business activity



Source: National Statistics Office of Georgia

HUMAN RESOURCE MANAGEMENT

Human resource management (HRM) is one of the business activities falling under the BPO value chain. According to the Value Chain Prioritization and Gaps Assessment study (USAID 2019), HRM is a relatively small business activity in size in Georgia. Notably, Georgian HRM firms mainly work in the domestic market and serve foreign companies intending to locate in Georgia. Only a small number of firms in the country are providing offshore HRM services⁷⁰.

Significantly, outside tourism, the BPO value chain received the highest CAM score, thus revealing its significant potential for further advancement⁷¹. However, within the BPO value chain, at present, HRM is not considered a promising business activity with high growth prospects, largely due to its small market size and its orientation towards domestic clients⁷².

An analysis by Enterprise Georgia showed there are approximately 75,000 HR specialists in the country, out of which approximately 20 000 are employed. These specialists mostly hold social sciences or law degrees. In HRM, the average cost per FTE employee stands at USD 680 for the country and, in comparison with many European states, this might serve as a competitive advantage for Georgia when it comes to reaching potential buyers in the future⁷³.

According to the quantitative survey conducted in the framework of this project, the HRM business activity is largely represented by small-scale businesses providing outsourcing of HRM services, recruiting, and organizing trainings and employment (incl. abroad). The majority of companies are based in Tbilisi, albeit there are also Batumi-based companies distinguished by their provision of employment services for sailors.

The majority of companies in this business activity are of limited liability. The declared turnover of the surveyed HRM companies in 2019 was under GEL 500,000, with the majority indicating a turnover of

⁷⁰ Value Chain Prioritization and Gaps Assessment. USAID (2019).

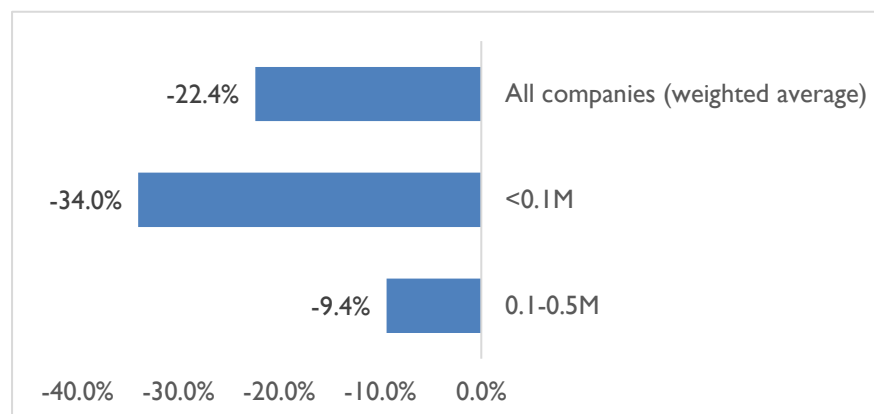
⁷¹ Ibid, p. 14.

⁷² Ibid, p. 27.

⁷³ Enterprise Georgia, Investment Opportunities in Business Processes Outsourcing (BPO) Sector in Georgia, 2019, p. 13.

less than GEL 100,000. HRM companies struggled in 2020 due to a decrease in employment opportunities, with turnover largely declining across the board. Interestingly, among the companies to post positive turnover growth, those involved in finding employment for sailors stood out. On average, the turnover growth rate among HRM companies equaled approximately -22% (Chart 5.23).

Chart 5.23 Distribution of HRM companies' growth rates by turnover range for Q1-Q3, 2020 (Y-o-Y, GEL)



Source: Author's calculations

The number of employed persons in HRM companies varied from three to 23, with the median number being five employed persons. The share of women in HRM companies constituted around two-thirds, while the proportion of staff aged under 29 years was less than 40%.

The weighted average monthly salary of the HRM business activity employees were the highest among the five examined directions, equaling ca. GEL 1300. On average, the HRM companies indicated no change in their number of employees in annual terms. The wages of HRM companies' personnel also remained predominantly unchanged, with a few companies reporting a decline in their staff numbers of about 10-20%.

6. CROSS-CUTTING SECTORS

SECTOR SUMMARY

Cross-cutting sectors have long represented the backbone of the Georgian economy, especially the transport and logistics value chain. In the past decade, the importance of cross-cutting sectors has increased as the economy has become more digitized, making it more dependent on the ICT and e-commerce value chains. Although all three value chains (transport and logistics, ICT, and e-commerce) differ in their characteristics and issues, during the pandemic, the prominence of these value chains has increased and the number of enterprises in them has proliferated, especially outside the capital city.

Lack of investments is considered to be one of the acute issues in these value chains, especially for stakeholders from ICT enterprises. Regardless of the high level of investments in the ICT value chain between 2016 and 2018, the growth of turnover and value-added halted in 2019. In addition, the expansion of these value chains is further hindered by a lack of persons employed, mainly due to the domestic workforce not having the necessary skills and a lack of interest in ICT among women, according to surveyed the stakeholders. The latter became more noticeable in 2019, when the share of women employed in the ICT value chain dropped below 50% for the first time since 2014.

Given the nature of transport and logistics as well as the reliance among Georgian ICT companies on exports, trade in both of these value chains decreased significantly in 2020. According to the stakeholders, worldwide ICT enterprises are actively trying to curb the amount of ICT work being outsourced to countries like Georgia, as a result of which the export of Georgian ICT equipment has been gradually diminishing. Furthermore, due to the low level of digitalization in the Georgian private sector, the growth of the ICT value chain appears to have peaked in 2017 and 2018. Importantly, this value chain is highly dependent on government demand for its products, which has been decreasing year after year as the GoG imports more and more ICT products from abroad.

Similar to the ICT value chain, transport and logistics has been significantly affected by the pandemic, as the exports of transport services have decreased sharply. Exports of air transport services were almost non-existent in the second and third quarters of 2020. Contrarily, exports of sea, railway, and road services, and most importantly pipeline transport and electricity transmission, have not been negatively affected by the pandemic. Unlike many other countries, including nearby Armenia, Azerbaijan, Turkey, and Ukraine, Georgian exports are not dominated by sea and air transport services. This may indicate that the full export potential of sea and air transport services for Georgia has not yet been reached.

Within cross-cutting sectors, the value chain which has not just been unharmed by the pandemic, but has actually benefited from it, has been the e-commerce value chain. Growth of the e-commerce value chain was triggered in 2017, when better infrastructure, a more favorable regulatory framework and improved payment systems allowed it to expand significantly. During the pandemic, the dependence of the economy on e-commerce has increased. However, according to the stakeholders, the abovementioned issues are still prevalent. The expansion of the value chain is further hampered by the high level of global competition, making it harder to achieve profitability.

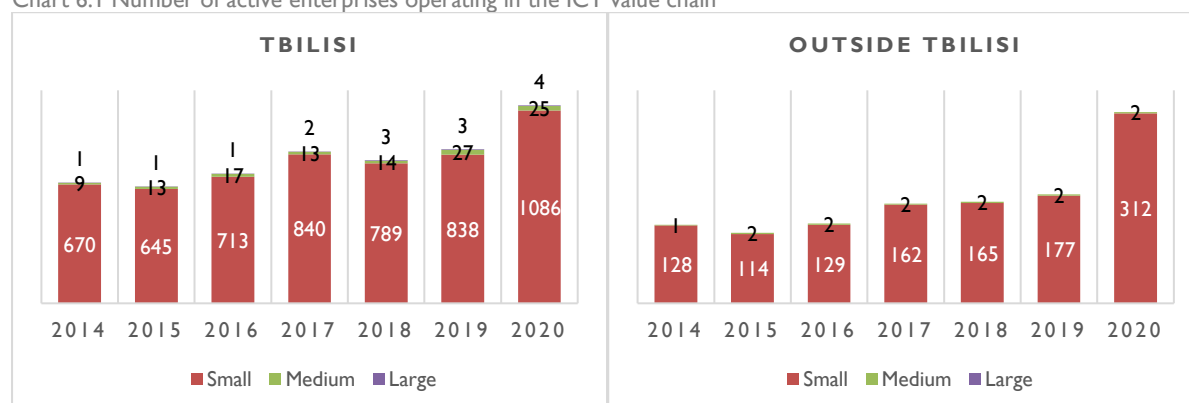
The cross-cutting sectors may have expanded significantly in the past seven years, but stable growth is not yet evident for most of the enterprises therein, especially in the ICT and e-commerce value

chains. The main force driving the expansion of these sectors was increasing domestic demand and technological advancements. However, as the growth of demand has decelerated, the companies in these sectors have encountered problematic issues that remain unresolved. In order for the cross-cutting sectors to sustain the impressive rate of expansion, improvements with regard to the regulatory framework, payment facilities, labor market, and access to loans and investments are essential.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

ICT is a value chain consisting of various types of businesses, and is also one of the main enablers for other value chains, attracting businesses engaged in the manufacture of computer, electronic and optical products, publishing activities, programming, and data processing, among other activities. In Georgia, when it comes to global trade, the ICT value chain is among the most prominent. There are 1429 ICT enterprises in Georgia, out of which four are large, 27 are medium, and the rest are described as small. The ICT value chain is mainly concentrated in the capital city, where most of its large enterprises are located. The percentage of ICT companies outside Tbilisi increased from 15.9% in 2014, to 17.1% in 2019. In total, there were 620 more enterprises in this value chain in 2020 compared to 2014, equaling 76.6% cumulative growth over the covered period. Most of these companies work in the software field, with only 38 companies producing computer, electronics, and other hardware products in 2020.

Chart 6.1 Number of active enterprises operating in the ICT value chain



Source: National Statistics Office of Georgia

The turnover of the ICT value chain equaled GEL 430.9 million in 2019. Meanwhile, turnover in this value chain grew annually every year between 2014 and 2019. However, this growth was uneven: in 2015 the annual growth rate reached 37.7%, after which the annual growth rate dropped to 5% in the following year. Compared to the aggregated sector, the turnover of which grew only by 31.8% between 2014 and 2020, the turnover of the ICT value chain increased by 142.1% in the same period. Due to the uneven growth of other sectors, the ICT value chain almost doubled its share of turnover in the aggregated sector over the covered period. Most of this growth was attributable to the software field, whereas the turnover of companies working in the hardware field has been decreasing since 2015 and completely halted any production for the whole year of 2018.

Chart 6.4 Turnover of the ICT value chain and the corresponding aggregated sector

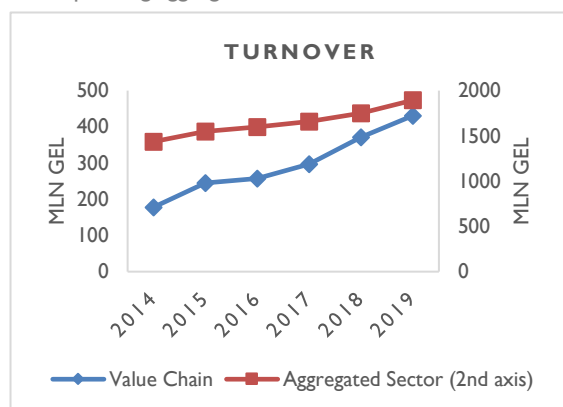


Chart 6.3 Annual growth rate of the ICT value chain and the corresponding aggregated sector

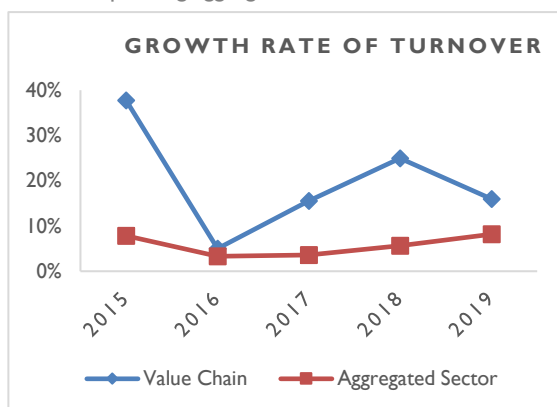
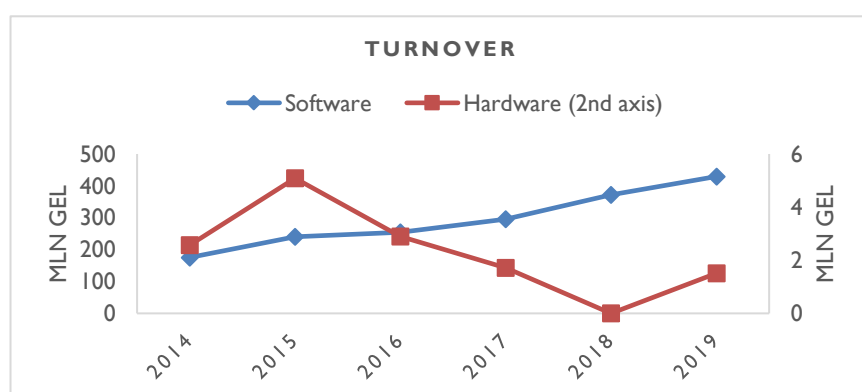


Chart 6.2 Turnover of the ICT value chain, split into software and hardware production-related fields



Source: National Statistics Office of Georgia

The trend of the ICT value chain's value-added is similar to that of turnover, with one notable exception. In 2017, the value-added of this value chain increased by 41.7%, while the value-added of the whole aggregated sector decreased by 0.9%. When the ICT value chain is excluded from the aggregated sector, fall in the value-added becomes even more significant at 8.7%. This difference in growth lasted only for one year, as in 2018 the value-added indicators for both the ICT value chain and the aggregated sector were similar. Due to the abovementioned similarities, the share of value-added in the output is also comparable, although the share of value-added in output for the ICT value chain was lower compared to the aggregated sector for every single year of the covered period except 2017.

Chart 6.5 Value-added of the ICT value chain and the corresponding aggregated sector

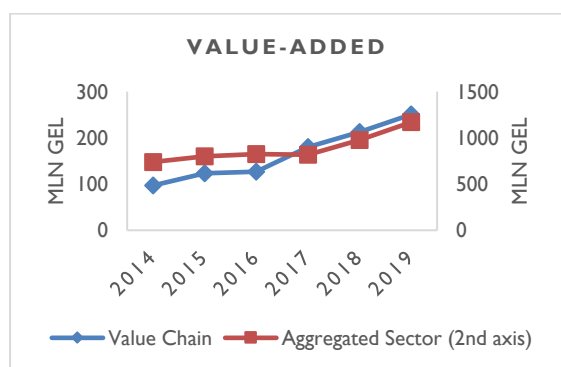


Chart 6.6 Annual growth rate of value-added for the ICT value chain and the corresponding aggregated sector

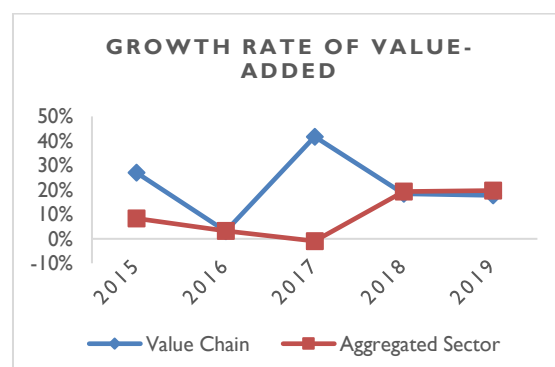
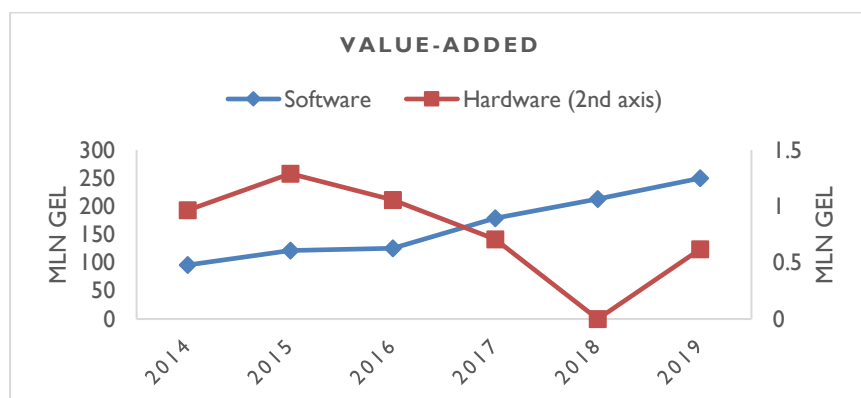


Chart 6.7 Value-added of the ICT value chain, split into the software and hardware production-related fields



Source: National Statistics Office of Georgia

Investments in the ICT value chain peaked in 2017, coinciding with the highest growth rate for value-added in the covered period, reaching GEL 29.6 million, and this indicator was similarly high in 2018. This trend correlates with growth in both turnover and value-added, where the growth was highest in 2015, fell in 2016 and then increased in the two following years before stagnating in 2019. In the case of the ICT value chain, almost all of the investment comes from investments in the fixed assets, which was attributable the high growth recorded in 2017-2018. As the hardware production field is almost non-existent in Georgia, the majority of the investments in this value chain are made in software companies. Indeed, only GEL 600,000 was invested in the hardware field in 2020.

Chart 6.9 Share of value-added in output for the ICT value chain and the corresponding aggregated sector

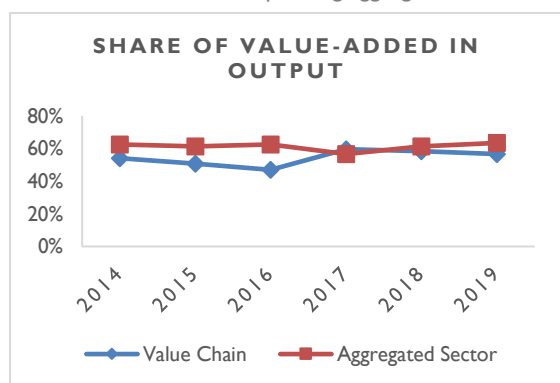


Chart 6.8 Investments for the ICT value chain

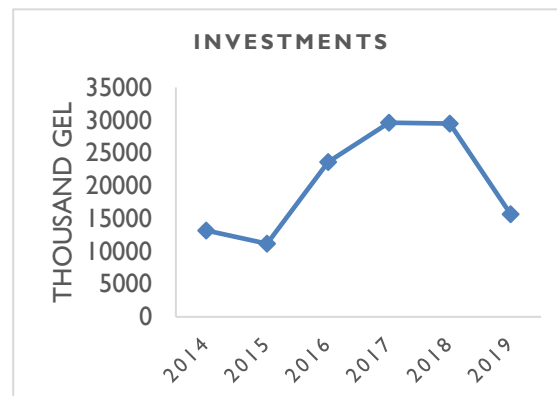
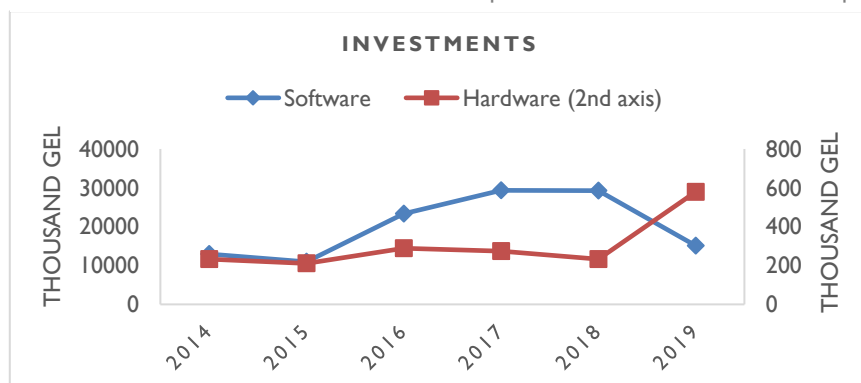


Chart 6.10 Investments for the ICT value chain, split into the software and hardware production-related fields



Source: National Statistics Office of Georgia

More than 8000 people were employed in the ICT value chain in 2019, of which 51.4% were men. Interestingly, before 2019, women outnumbered men in this indicator by 14.3% on average. The number of employees in the ICT value chain did not decrease from 2014 to 2019. Even during the pandemic, the number of hired employees has increased on average by 4.6% quarter on quarter, reaching 864 in the third quarter of 2020. The same can be said about the aggregated sector, where employment growth during the pandemic has been similar to the years prior to it, with the exception of the second quarter of 2020 when the number of employees fell by 0.8%. In 2020, software companies employed about 150 times more employees than their hardware counterparts. Employment in the latter field has fluctuated substantially, but the number of employees has not exceeded 62 in the last seven years. Furthermore, as hardware production was halted in 2018 in the country, it employed no-one for a whole year. As Chart 5.17 shows, hardware companies not only employ fewer workers, the average monthly salary is also significantly lower in this field compared to software. This disparity amounted to a 60% difference in average monthly salary in 2020, highest number in the past seven years.

Chart 6.11 Employment in the ICT value chain and the corresponding aggregated sector

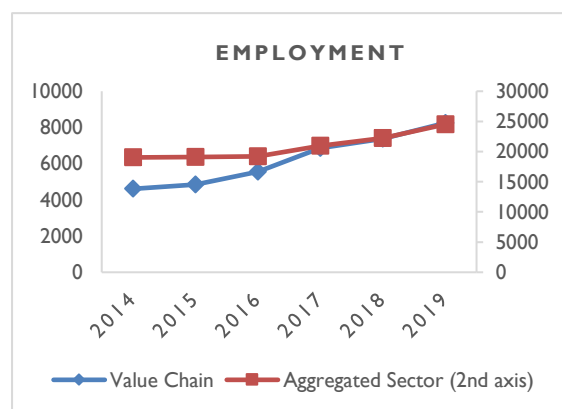


Chart 6.12 Growth rate of the ICT value chain's employment and that of the corresponding aggregated sector

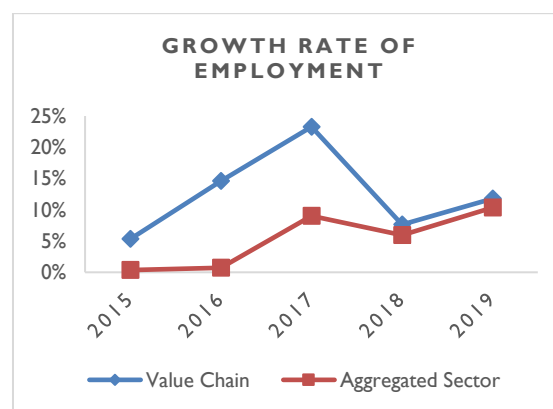
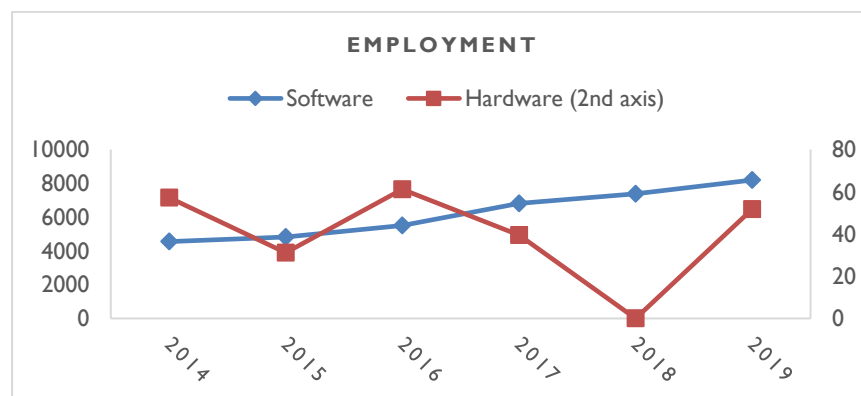
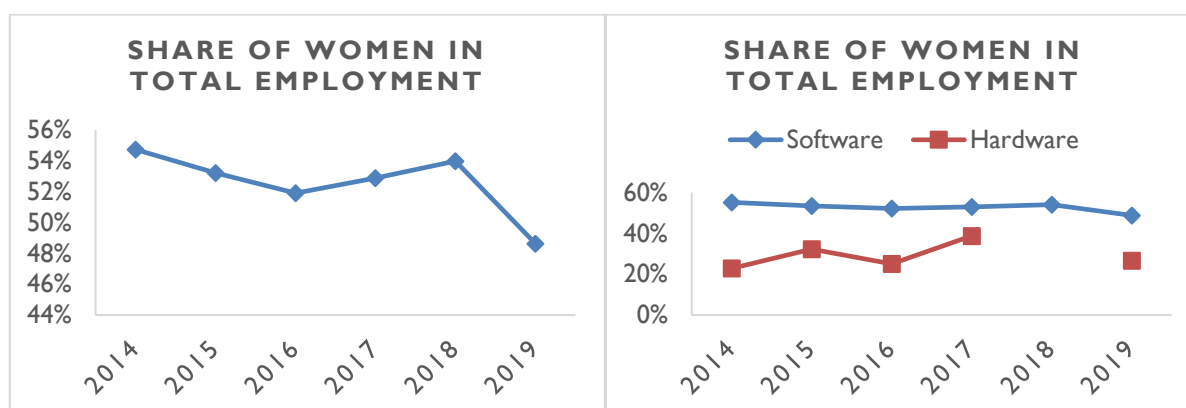


Chart 6.13 Employment in the ICT value chain, split into the software and hardware production-related fields



Source: National Statistics Office of Georgia

Chart 6.14 Share of women in total employment for the ICT value chain



Source: National Statistics Office of Georgia

As the ICT value chain has outperformed similar sectors and closed the gap in terms of turnover with the aggregated sector, the disparity with respect to average monthly salary has also decreased. In 2014, the average monthly salary for employees in the ICT value chain was GEL 965, whereas for the aggregated sector it was GEL 1163 (i.e. 20.6% higher). By 2019, this gap had been reduced to 3.1% as the average monthly salary for the ICT value chain equaled GEL 1560, compared to GEL 1609 in the aggregated sector. Interestingly, despite the average monthly salary in the ICT value chain rising by 61.1% in 2019 compared to 2014, productivity only increased by 37.6% over the same period. Unlike other indicators, the gap in productivity between the ICT value chain and the aggregated sector has been persistent. In 2019, output per worker in the ICT value chain was GEL 53,600, whereas the same indicator for the aggregated sector was GEL 75,200.

Chart 6.15 Average monthly salary for the ICT value chain and the corresponding aggregated sector

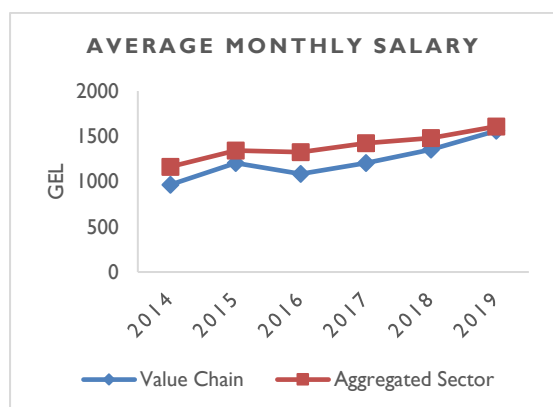


Chart 6.16 Productivity for the ICT value chain and the corresponding aggregated sector

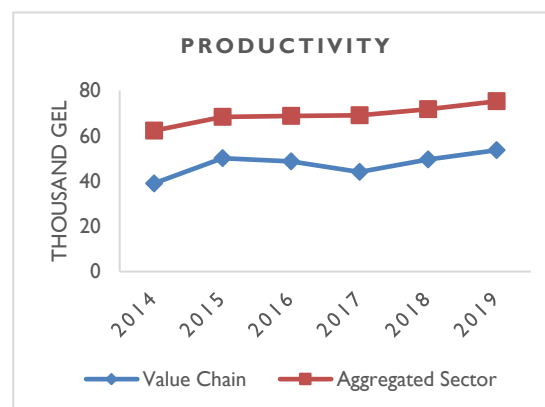
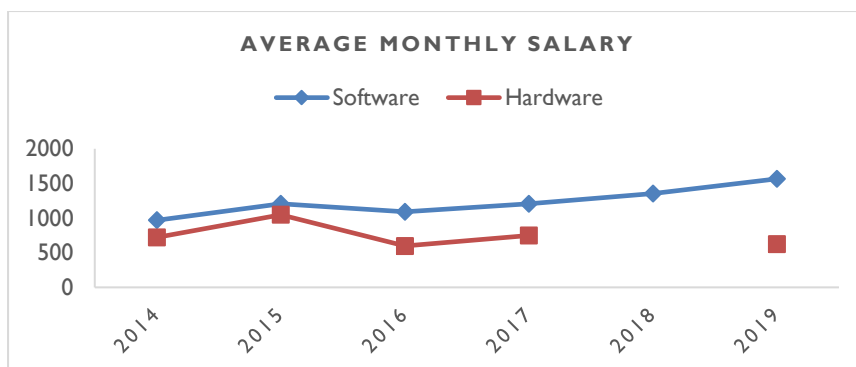


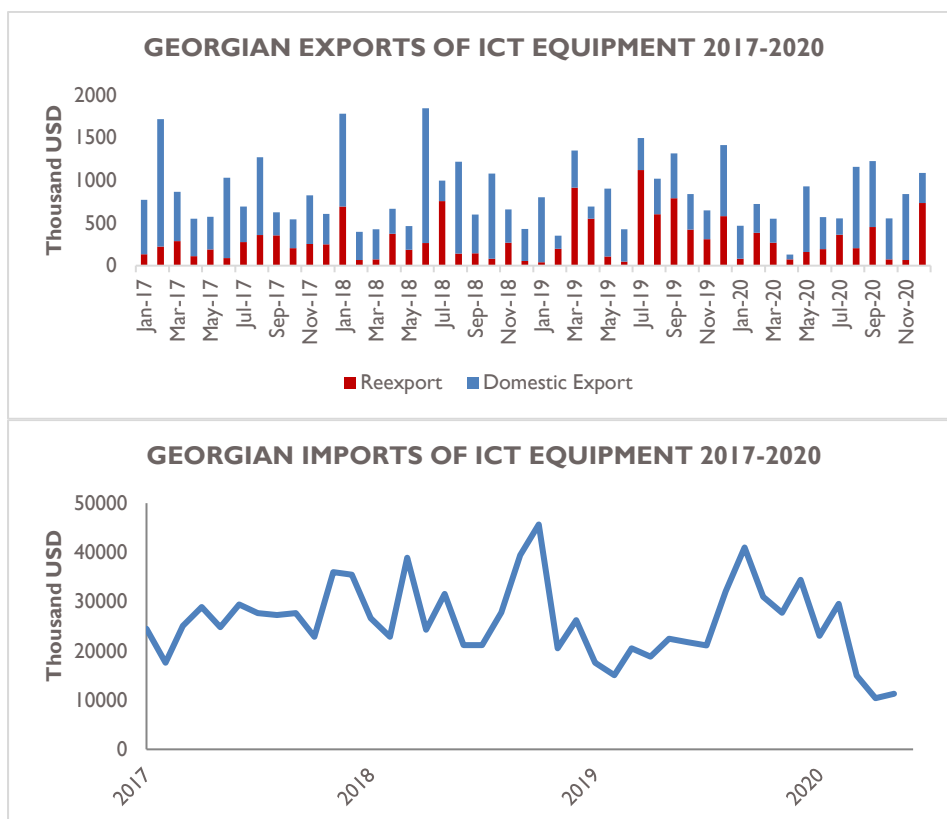
Chart 6.17 Average monthly salary for the ICT value chain, split into the software and hardware production-related fields



Source: National Statistics Office of Georgia

When it comes to ICT equipment, Georgia is more of an importer rather than an exporter. In 2019, for example, the value of ICT equipment imports was 53.4 times that of exports. Moreover, a significant proportion of the exported ICT equipment is actually *re-exported*. The share of re-exports in total ICT exports was at its highest in 2019 when it reached 50.5%. The value of exports ranged between USD 10,000 and USD 11,200 in the years leading up to the pandemic, while even during the pandemic total exports decreased only by 21.9%. Interestingly, imports of ICT equipment strongly correlate with total turnover and value-added of the ICT value chain. Imports reached their highest value in October 2018, reaching USD 18.5 million, while annual imports were also highest in 2018, at USD 346.2 million (5.7% higher than the previous year and 14% higher compared to the next year). As shown in Chart 6.18, the value of imports dropped significantly in April 2020.

Chart 6.18 Georgian exports and imports of ICT equipment



Source: National Statistics Office of Georgia

A significant proportion of ICT equipment is imported from the United Arab Emirates (29.2%) and Russia (13.3%). The rest is imported from various other sources including Hong Kong (11.5%), Czech Republic (9.5%), and Netherlands (8.2%). Compared to the import trends, exports are more concentrated among five countries, some of which are geographically close to Georgia.

Chart 6.19 Georgian imports of ICT equipment by trade partner (2020)

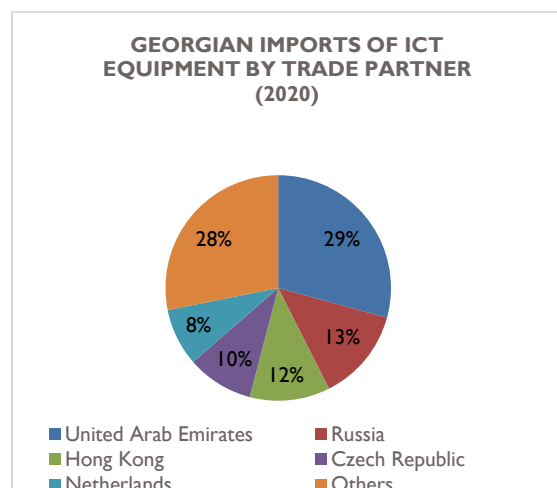
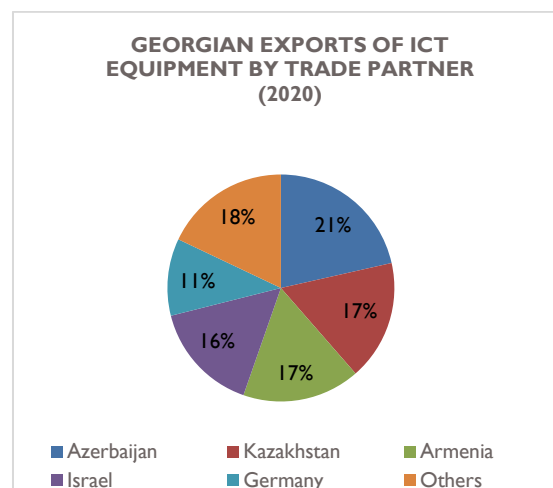


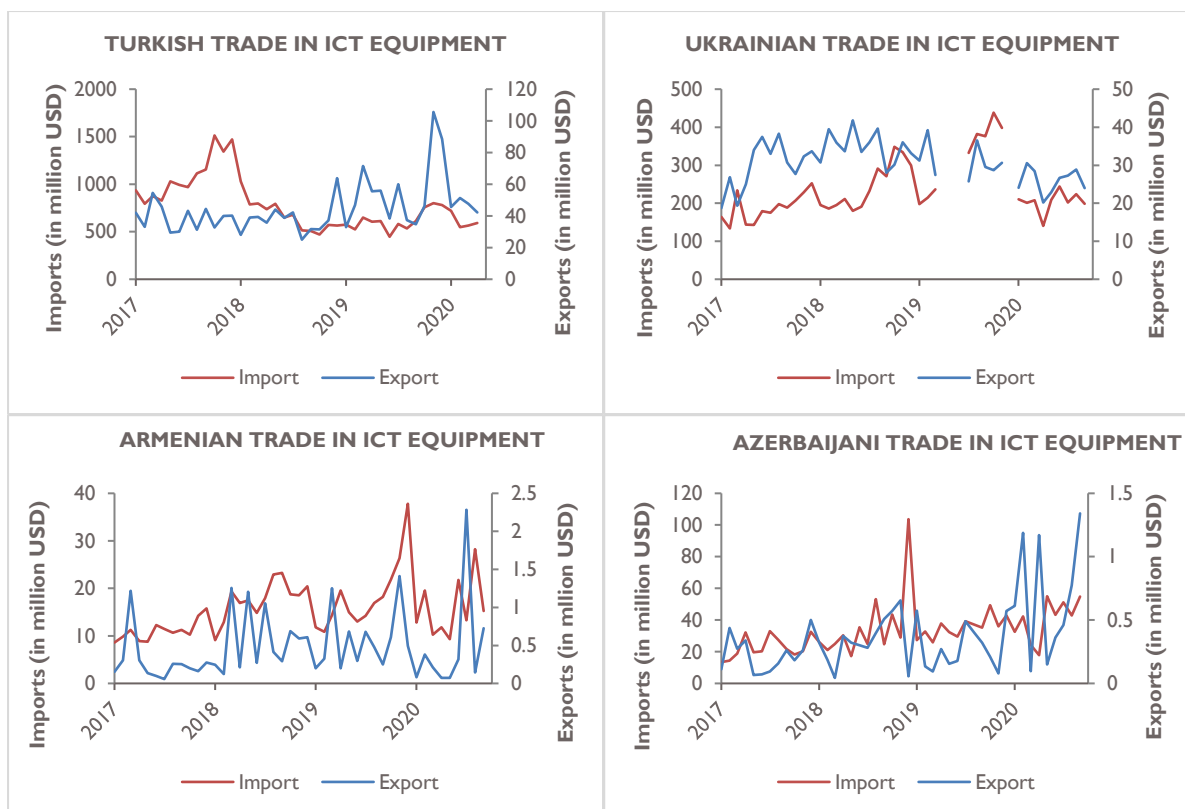
Chart 6.20 Georgian exports of ICT equipment by trade partner (2020)



Source: National Statistics Office of Georgia

When it comes to the four selected countries in Georgia's vicinity (Armenia, Azerbaijan, Turkey, and Ukraine), the values of imports and exports are highly dependent on the (sometimes volatile) macroeconomic conditions of the given country. Turkey is both the largest importer and exporter of ICT equipment of these four countries. In 2019, Turkey imported USD 7.5 billion of ICT equipment, almost 200 times that of Azerbaijan and 100 times that of Armenia. Unfortunately, the values of imports and exports for Ukraine are unknown for four months of 2019, rendering the comparison of total annual values between all four countries impossible. As there are no major ICT equipment producing enterprises in the region the value of imports exceeds the value of exports. For example, in the first quarter of 2020, all four countries imported USD 1.9 billion of ICT equipment, while exporting only USD 147 million. The values of exports and imports highly correlate with currency exchange rates. In Turkey, a 61.7% drop in imports in 2018 coincided with a massive currency depreciation, whereas the abnormally high value of imports in Ukraine in the second and third quarters of 2019 coincided with a temporary appreciation of its national currency. about a similar pattern emerged in Armenia in the third and fourth quarters of 2019. Meanwhile, a look at the imports of Azerbaijan reveals that the demand for ICT equipment in that country was not affected significantly by exchange rates as imports increased by 59.4% in 2018 and then contracted by 1.9% the following year.

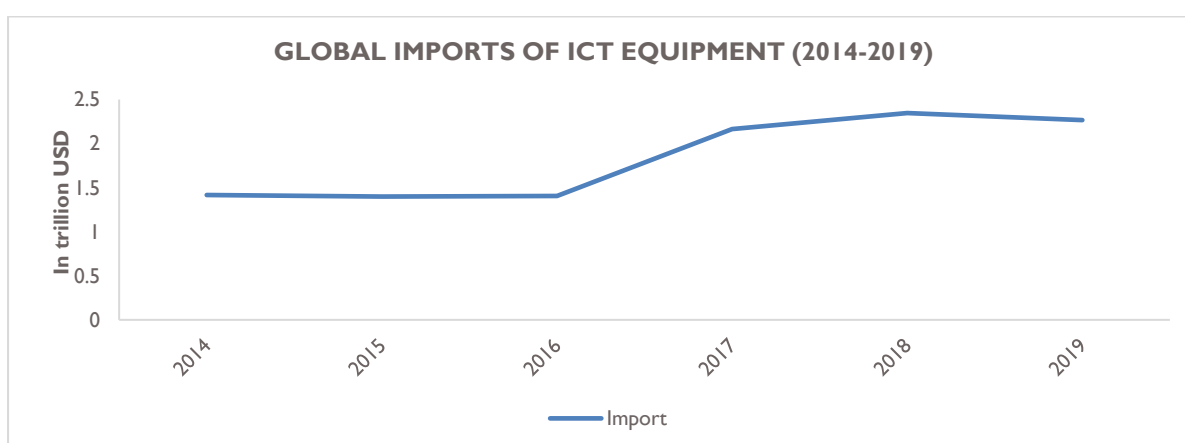
Chart 6.21 Regional trade patterns in the ICT value chain



Source: UN Comtrade

The global trade of ICT equipment reached USD 2.3 trillion in 2019, which is 60% higher than the 2014 figure. Between those years, global trade of ICT equipment experienced both stagnation and expansion. From 2014 until 2016, international trade contracted due to a deceleration in the growth of the global economy⁷⁴ with ICT equipment trade being no exception (total imports decreased by 0.6% in the same period). Thereafter, global imports increased by 66.7% in the following two years, until losing momentum in 2019 and falling by 3.4%.

Chart 6.22 Global trade patterns in the ICT value chain



Source: UN Comtrade

Overview of existing challenges and opportunities

⁷⁴ Lewis, Logan, and Ryan Monarch (2016). "Causes of the Global Trade Slowdown," IFDP Notes. Washington: Board of Governors of the Federal Reserve System, November 10, 2016. <https://doi.org/10.17016/2573-2129.25>

This section is based on the views of ICT value chain stakeholders (representatives of private companies, government, and donor organizations) collected during August-September 2020. The following issues were raised by stakeholders:

Skilled labor shortage: There is a shortage of skilled labor supply in the ICT market in Georgia. According to the stakeholders, Georgian universities not only have outdated programs, but also do not provide graduates with the skills necessary to meet the demands of the ICT labor market. The ICT sector representatives agreed that the private sector has a potential role in the future development of ICT educational programs.

Decreasing government demand: According to the interviewed ICT sector representatives, the Government of Georgia is the largest potential consumer of the ICT services provided by the private sector. However, government demand is expected to decrease as it is investing in developing an in-house ICT infrastructure. Stakeholders also mentioned that in countries with strong ICT sectors, their services are outsourced by governments that support the overall development of the sector. The private sector representatives underlined the need for dialogue with the Government on these issues. After the pandemic broke out, some Georgian ICT companies were considering developing a COVID-19 application, but the GoG instead procured and imported an application from abroad.

Lack of interest among women in the ICT value chain: Women are less interested in the ICT value chain than men, which the surveyed stakeholders attributed to cultural factors. The number of women studying STEM (science, technology, engineering, and math) disciplines is relatively low. Therefore, the stakeholders suggested that more targeted programs supporting women's engagement in ICT should be designed.

Lack of tailored funding opportunities: According to the surveyed stakeholders, overall, there is a lack of access to financing in the ICT value chain, broken down as follows:

- **Lack of access to bank loans:** ICT companies struggle to provide the necessary collateral for bank loans as, normally, they do not own fixed assets.
- **Lack of alternative finance (AF):** There is a lack of alternative financing possibilities for businesses beyond traditional banking loans, like crowdfunding, P2P lending, marketplace lending, and business angels.
- **Lack of government programs:** According to the ICT value chain stakeholders there is a lack of ICT-focused government programs. Moreover, there is a lack of programs financing the digital transformation of enterprises. The existence of such programs would increase the demand of companies for ICT services.
- **Lack of FDI:** Despite the country's favorable business environment, there is still a lack of FDI when it comes to ICT. The stakeholders interviewed bemoaned the insufficient promotion of the Georgian ICT value chain as a probable reason for the low level of investment it attracts.
- **High tax burden:** According to the interviewed ICT companies, a high tax burden decreases their competitiveness internationally. Such companies would prefer income tax to be decreased from 20% to 5% for them⁷⁵.

Lack of market diversification: According to the surveyed ICT value chain representatives, the DCFTA presents some good opportunities when it comes to exporting ICT services to the EU.

⁷⁵ A new GoG initiative, which was influenced by Belarus's experience, which came into effect in October 2020. The newly-adopted government decree identifies viable sectors for international enterprises, and the ICT sector is among them. It incorporates a number of tax benefits for international enterprises, including decreased income tax from 20% to 5%, decreased profit tax from 15% to 5%, and an exemption from property tax.

However, the current focus is more on the domestic market. The surveyed companies admitted that this focus should be shifted toward foreign markets as many of the big domestic enterprises and organizations are trying to develop in-house ICT services, which will reduce domestic demand for outsourced ICT services.

Lack of private sector awareness about the importance of digitalization and innovation:

According to the ICT value chain representatives, Georgia's private sector lacks awareness regarding the implementation of ICT solutions in companies. For example, only 3.2% of surveyed enterprises had introduced new or improved products in their business activity, while only 3.2% had introduced new or improved services. This problem is even more noticeable in the regions.

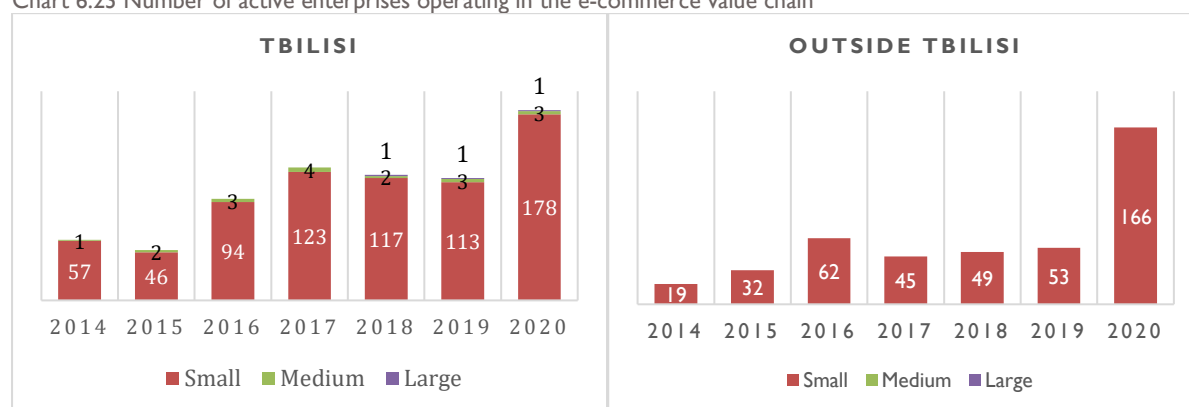
Challenges related to the COVID-19 pandemic: The impact of the COVID-19 pandemic on ICT companies differs depending on the sectors to which they provide services. For example, companies working on projects in the hospitality industry have experienced a dramatic decline in sales, especially during the first six months of 2020.

E-COMMERCE

For many years, e-commerce has been considered a niche segment of the ICT value chain. 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 in this regard.

With increasing debit and credit card ownership in Georgia, the e-commerce value chain has been expanding steadily. The number of enterprises in this value chain, for example, increased by 351.9% between 2014 and 2020. The most noticeable changes in this indicator happened in 2016 and in 2020. In the latter year, an additional 113 enterprises were established outside of Tbilisi, which can be explained by the peculiarities of the pandemic-related lockdown and the subsequently increasing role of e-commerce in the economy. The reasons behind the 2016 increase are less obvious and are discussed below.

Chart 6.23 Number of active enterprises operating in the e-commerce value chain

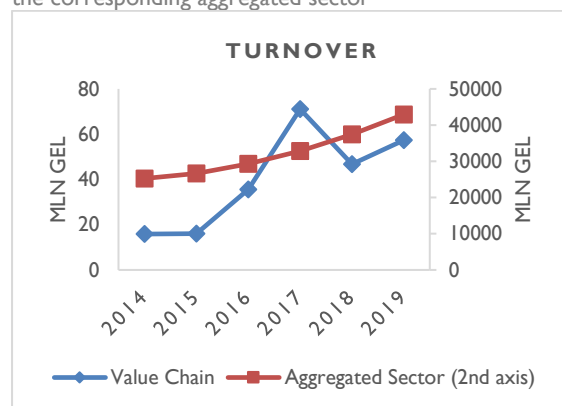


Source: National Statistics Office of Georgia

From 2014 to 2019, the turnover of this value chain increased from GEL 15.853 million to GEL 57.303 million, which is equal to 261.5% cumulative growth. The turnover of the e-commerce value chain represents only 0.1% of the turnover of the aggregated sector (wholesale, retail trade, and repair of motor vehicles and motorcycles). Over the covered period, the turnover of the aggregated sector increased by only 70.1%, 3.7 times less compared to the e-commerce value chain. The aggregated sector's growth was relatively smooth over this period, starting with a 5.7% increase in 2015 and

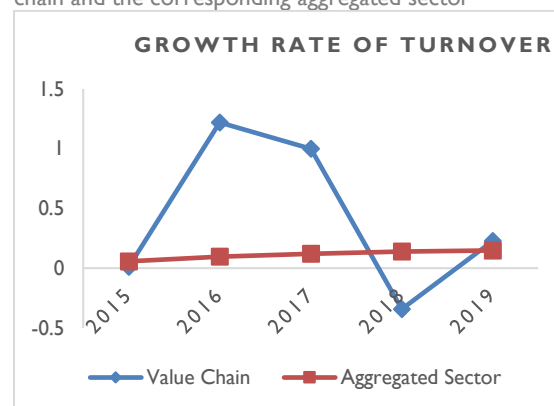
slowly increasing to 14.8% annual growth in 2019. Unlike the aggregated sector, the turnover of the e-commerce value chain experienced a surge in 2016 and 2017, rising by 121.9% and 99.9% respectively. This growth was somewhat offset by a 34.2% decrease in turnover in 2018.

Chart 6.24 Turnover of the e-commerce value chain and the corresponding aggregated sector



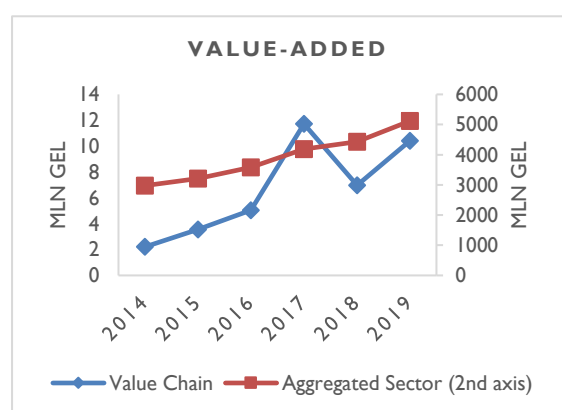
Source: National Statistics Office of Georgia

Chart 6.25 Annual growth rate of the e-commerce value chain and the corresponding aggregated sector



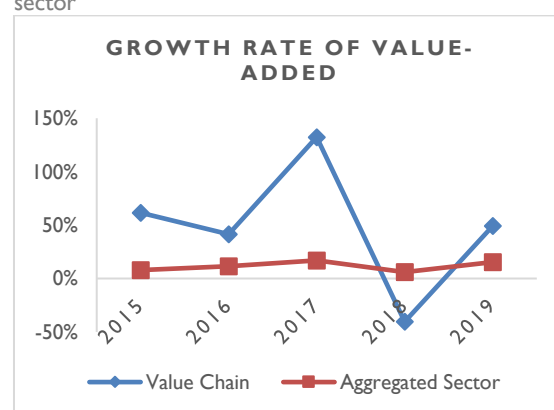
Similar trends were observable in the value-added of the e-commerce value chain. From 2014 to 2019, value-added in this value chain increased by 372.2%, whereas the same indicator for the aggregated sector was only 71.9%. The value-added of the e-commerce value chain experienced similar growth to turnover, however in the former's case the surge happened only in 2017, in which 132.4% annual growth was recorded. Similar to turnover, the value-added of e-commerce also saw a decline in 2018 (by 40.4%), to some extent undoing the growth of the previous year. There are various reasons behind the abrupt surges of turnover and value-added. Specifically, these include the increased number of internet users, which surpassed half of the population in 2016, improved infrastructure for online shopping, loosened and more favorable regulations, and the rising number of consumer loans starting from 2015 which bolstered online transactions. Interestingly, the share of value-added in output decreased during the period of e-commerce expansion, from 83.1% in 2015 to 44.8% the following year. Such a drastic fall may be indicative of lower prices, higher costs, and subsequently smaller profit margins, probably due to increased competition. With significantly lower value-added in proportion to output, the e-commerce value chain contracted in 2018. In the following year, both turnover and value-added saw an increase of 22.6% and 49.1% respectively. It is important to note here that the size of the value chain before the high turnover rise was only GEL 16.019 million, meaning that the success of even a single company could have affected the data substantially.

Chart 6.26 Value-added of the e-commerce value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 6.27 Annual growth rate of value-added for the e-commerce value chain and the corresponding aggregated sector



For the majority of the past six years, investments in this value chain have been low. In 2015 and 2016 it even dropped to negative GEL 678,900 and negative GEL 54,500. The reasons behind this contraction were related to the particular characteristics of e-commerce, where investments in fixed assets are mostly unnecessary and relatively low, whereas the investments in inventories are far more relevant and common. In fact, the investments in fixed assets were at their highest in 2015 and 2016, reaching about GEL 350,000 and GEL 500,000, respectively. Meanwhile, in 2019, investments in both fixed assets and inventories increased substantially. In particular, due to the rising demand of online products and delivery services, in the e-commerce value chain more than GEL 6.5 million was invested in inventories in this year.

Chart 6.28 Share of value-added in output for the e-commerce value chain and the corresponding aggregated sector

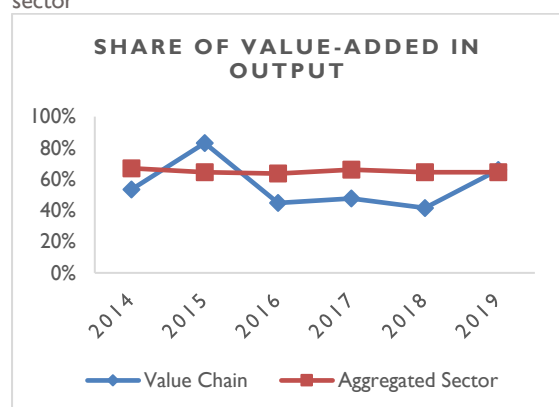
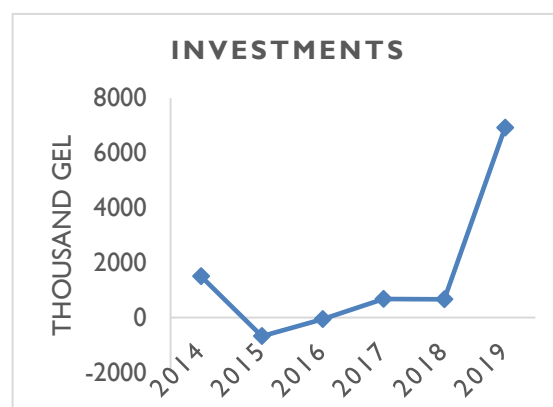


Chart 6.29 Investments in the e-commerce value chain



Source: National Statistics Office of Georgia

The number of hired employees in this value chain has been steadily increasing since 2014. Since then, the e-commerce value chain has added more than 470 employees, and in 2019 its total amounted to 768. E-commerce only employs a tiny proportion of the total employed in the wholesale and resale trade sector – 0.4%. Similar to the turnover and value-added trends, the number of people employed in e-commerce increased by 78.8% in 2017. The value chain then saw a contraction in the number of employees (by 22.6%) in the following year. When it comes to the share of women working in the value chain, 82.9% of the overall workforce cutback in 2018 was due to a decline in the number of employed women. Thereafter, men outnumbered women by 50% in both 2018 and 2019.

Chart 6.30 Employment in the e-commerce value chain and the corresponding aggregated sector

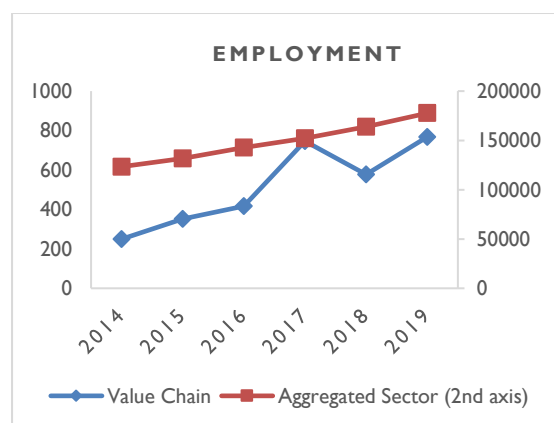
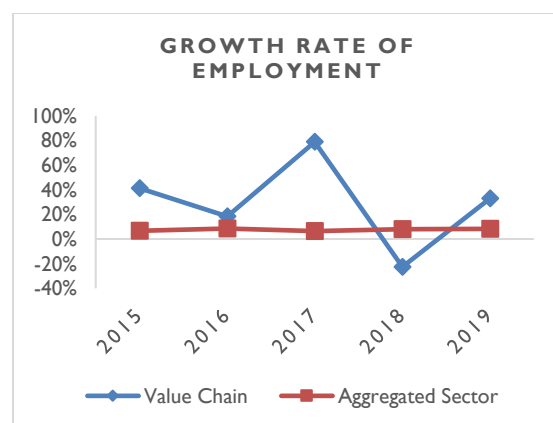
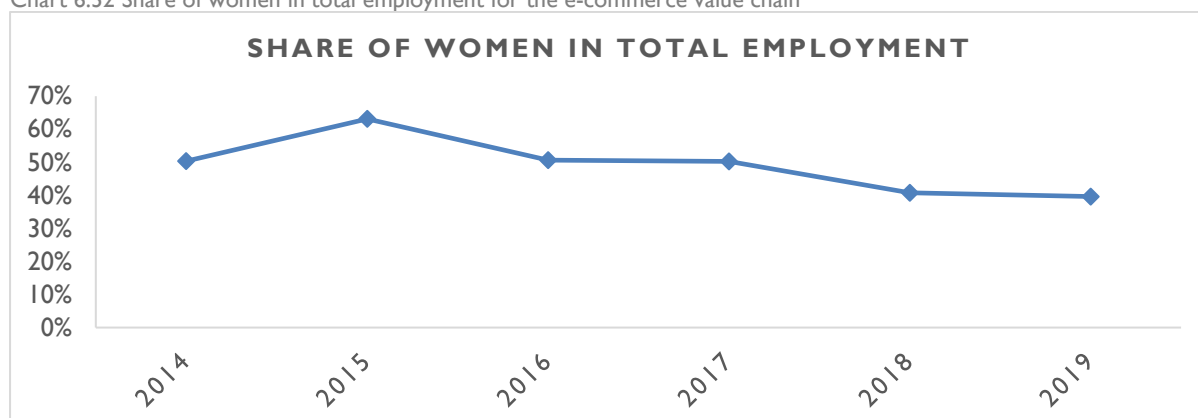


Chart 6.31 Growth rate of e-commerce value chain employment and the corresponding aggregated sector



Source: National Statistics Office of Georgia

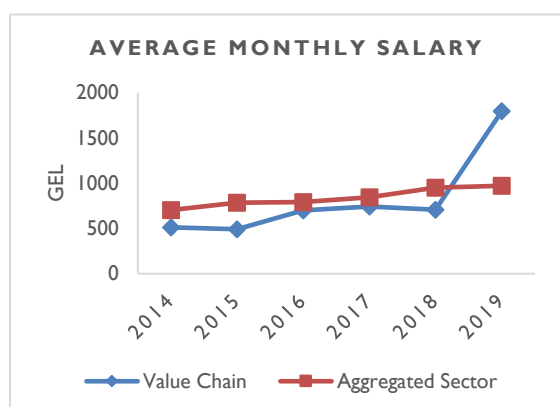
Chart 6.32 Share of women in total employment for the e-commerce value chain



Source: National Statistics Office of Georgia

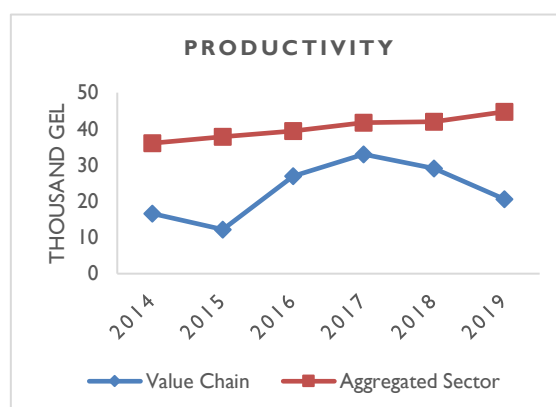
The average monthly salary increased from GEL 511 in 2014 to GEL 706 in 2018, equating to 38.1% growth. During this period, the average monthly salary in the e-commerce value chain was on average 22.7% lower compared to the aggregated sector. In 2019, the average monthly salary for the e-commerce value chain surged to GEL 1794, which represented 154.1% growth. As mentioned above, fewer than 800 workers are employed in the value chain, therefore even a single outlier company can have a substantial effect on the data. The latter is a plausible explanation, as productivity in the value chain has been decreasing since 2017 by 20.4% on average. Even compared to the aggregated sector, the productivity of e-commerce was less than half in 2019 GEL 20,600 compared to GEL 44,700. Even with falling productivity in the e-commerce value chain, the cumulative growth of productivity from 2014 to 2019 equaled 24% in both the value chain and the aggregated sector.

Chart 6.34 Average monthly salary for the e-commerce value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 6.33 Productivity for the e-commerce value chain and the corresponding aggregated sector



Overview of the existing challenges and opportunities

This section reviews the views of the e-commerce value chain stakeholders (representatives of private companies, government, and donor organizations) collected during August-September 2020 with respect to problems affecting this value chain.

Incomplete regulatory framework: According to the surveyed stakeholders, the absence of an e-commerce law represents a challenge for the development of e-commerce businesses in Georgia. The MoESD has prepared a draft law on e-commerce and submitted it to the Parliament of Georgia for discussion and approval; however, the law has not been adopted yet. It was also mentioned by

stakeholders that the E-commerce Association of Georgia had not been involved in the discussions on this draft e-commerce law.

Lack of complex fin-tech service providers in Georgia: According to the surveyed private companies, they have to purchase services (e.g. ICT and accounting solutions) from many different supplies to set up an e-commerce platform, which makes this process expensive and time-consuming. Many stakeholders believe that it would be more convenient to have unified services available on the domestic market.

The following challenges were identified by the Chain Prioritization and Gaps Assessment Study in 2019:

Policy deficiencies: A lack of relevant e-commerce-related legislation was identified as one of the key issues by stakeholders in 2019 as well. They also mentioned the need to put in place a VAT regime for e-commerce.

Lack of secure payment facilities: Currently, secure payment facilities such as PayPal and Stripe are not widely available to Georgian consumers. This issue, coupled with the country's dubious reputation for security issues, requires Georgian e-commerce firms to overcome both functional payment and reputational issues, thus making their activities more complex and expensive.

High costs: According to the stakeholders, the development costs for e-commerce platforms are high and require significant investment. Therefore, many Georgian companies have so far been unable to create such platforms for their products, regardless of their technical expertise.

High competition: Due to high competition levels on the global market, many companies in Georgia, which lack strategic direction, marketing, and functionality, fail to achieve profitability. In this regard, Georgian companies should focus on designing unique, professional, and functional platforms that operate in the 'right' markets and deliver the 'right' goods. However, developing these types of platforms will be both costly and time-consuming.

TRANSPORT AND LOGISTICS

The transport and logistics value chain is the largest value chain in the cross-cutting sectors. It encompasses rail transport, transport via pipelines, taxi operations, water and air transport, warehousing activities, postal and courier services, and other services. Not only is the value chain deeply intertwined with every other sector, it also plays a major role in regional trade.

The transport and logistics value chain is one of the largest in the Georgian economy. In 2020, there was a total of 10039 companies in the value chain. Unlike the majority of other value chains, most of the enterprises are located outside of Tbilisi, with only 25.4% of companies based in the capital city. However, Tbilisi still hosts the majority of medium and large enterprises, with 17 large and 55 medium companies, compared to only 9 large and 40 medium enterprises outside the capital. The number of companies in this value chain has been growing steadily since 2014, when only 2820 enterprises operated in the transport and logistics value chain. Indeed, the cumulative growth in this indicator over the covered period was 256%. Most of this rise in the number of companies was due to the addition of 2535 enterprises outside of the capital in 2020, increasing from 4901 to 7440 in a single year.

The turnover of the transport and logistics value chain amounted to GEL 6.03 billion in 2019. The turnover of the value chain and the aggregated sector (transportation and storage) has been almost identical. The cumulative growth of turnover for the value chain from 2014 to 2019 was equal to 61.65%, which is far less compared to the growth of other value chains in the cross-cutting sectors. The growth throughout the covered period was volatile and even turned negative in 2016, decreasing by 3.9%. The turnover of the value chain experienced its highest growth in the given period in 2019 with annual growth of 19.3%, more than doubling the previous year.

Chart 6.35 Turnover of the transport and logistics value chain and the corresponding aggregated sector

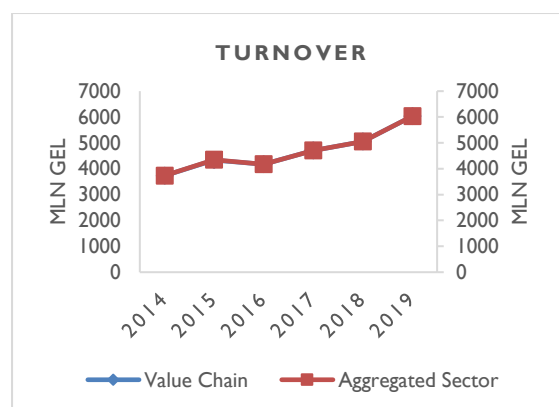
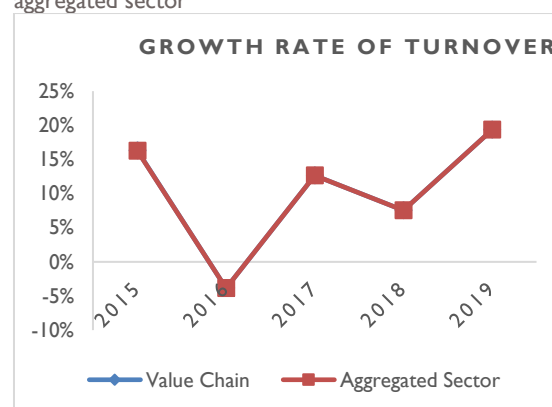


Chart 6.36 Annual growth rate of turnover for the transport and logistics value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Value-added followed a similar trend to that of total turnover, however with slightly more volatility. From 2014 to 2019, the value-added of the transport and logistics value chain grew by 67.8%, however, unlike turnover, the value-added increased most in 2017, not in 2019. Furthermore, growth of value-added in 2019 reached only 11.5%, which was significantly less compared to turnover growth in the same year.

Chart 6.37 Value-added of the transport and logistics value chain and the corresponding aggregated sector

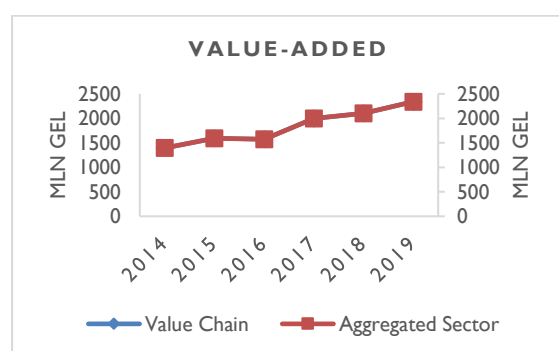
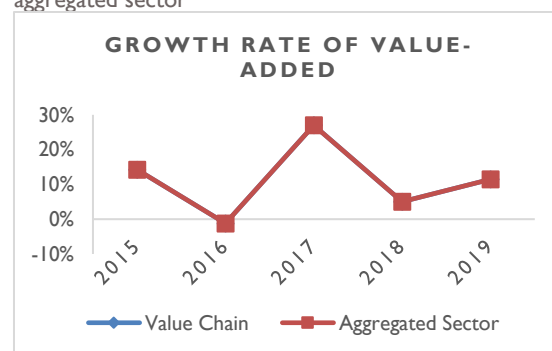


Chart 6.38 Annual growth rate of value-added for the transport and logistics value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As a result of the uneven growth, the share of value-added in output has decreased since 2017, reaching 50.6% in 2019. In spite of this decline, the share of value-added for the transport and logistics value chain is still on par with other value chains in the cross-cutting sectors. One of the reasons behind the high turnover and value-added growth in 2017 might be investments, which reached GEL 1.7 billion that year. Unlike the retail sector, like e-commerce, transport and logistics value chain is heavily dependent on physical assets. Therefore, most of the change in investments is due to

expenditure on fixed assets; the surge of investments in 2017 involved a GEL 1.6 billion investment in fixed assets in the value chain. Various projects, such as the Batumi bypass road project financed by the Asian Development Bank (ADB) and Asian Infrastructure Investment Bank (AIIB) with a total cost higher than GEL 300 million, in addition to massive public infrastructure spending by the Government in 2017, which equaled more than GEL 1.2 billion, are most likely the driving forces behind such significant investment growth.

Chart 6.39 Share of value-added in output for the transport and logistics value chain and the corresponding aggregated sector

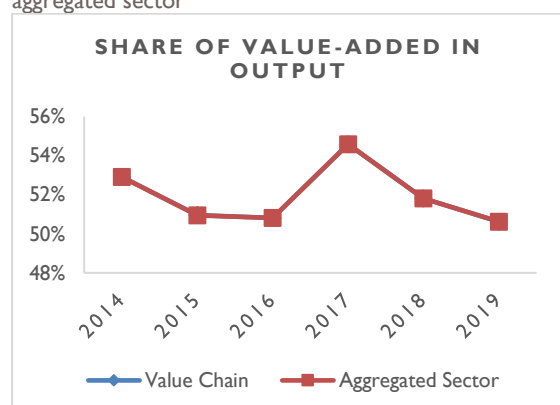
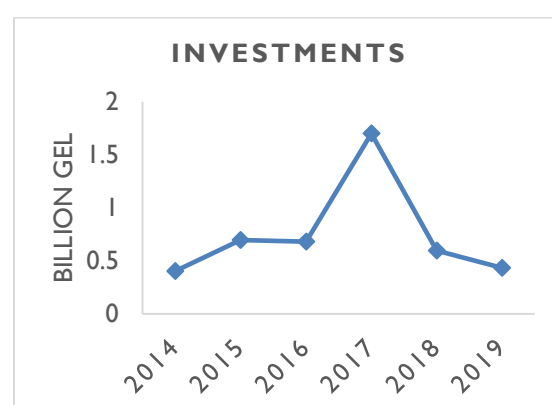


Chart 6.40 Investments in the transport and logistics value chain



Source: National Statistics Office of Georgia

Compared to the e-commerce and ICT value chains, which in total employed more than 9,000 workers in 2019, the number of employees hired in the transport and logistics value chain equaled several times more - 56,600. Over the covered period, this number increased by 24.4%, which also falls short compared to the other cross-cutting sectors' value chains. Contrary to the expectation that employment would decrease in correlation with the turnover contraction, the number of employed persons in the value chain actually increased by 6.5% in 2017. The average growth of employment seems low, however it stayed positive for every year of the covered period. Due to the insignificant changes in employment in total, the share of women among employees stayed relatively low: the workforce in the transport and logistics value chain is predominantly male, which is unlikely to change in the near future given that from 2014 to 2019 the share of women increased from 20.4% to 24%, less than a percentage point increase per year.

Chart 6.41 Employment in the transport and logistics value chain and the corresponding aggregated sector

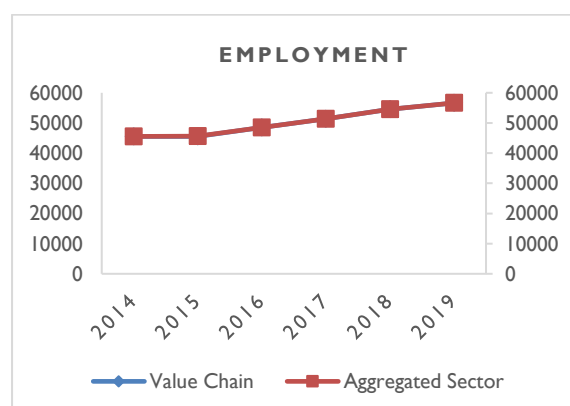
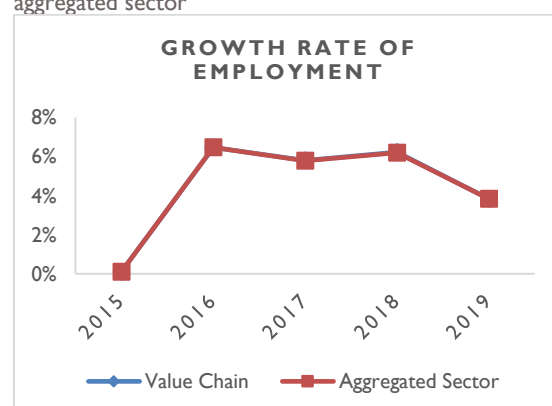
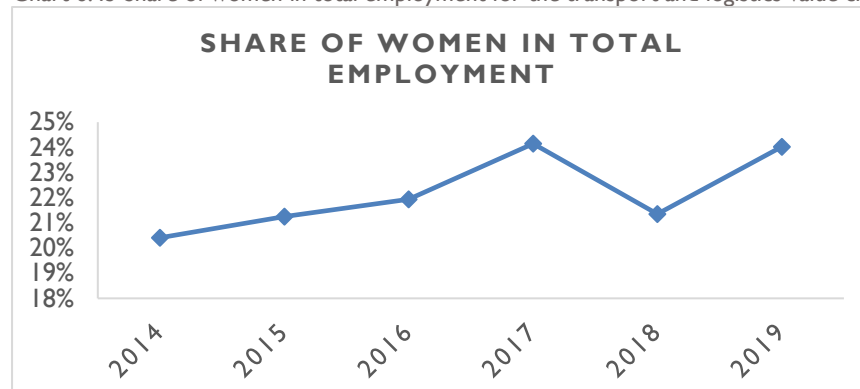


Chart 6.42 Growth rate of employment in the transport and logistics value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 6.43 Share of women in total employment for the transport and logistics value chain



Source: National Statistics Office of Georgia

The average monthly salary in the value chain increased by only 32.1% in the covered period, from GEL 1048.3 to GEL 1384.7, representing slower growth compared to similar value chains. The lowest growth of average monthly salary was in 2016, which coincided with the largest increase in the number of employees. Meanwhile, the highest growth was recorded in 2015 with a 10% year-on-year increase. Coincidentally, 2015 was the year in which the number of employees rose only by 0.1%. Despite the low increase in the number of employees, average productivity per worker fell behind the total turnover and output, increasing from GEL 57,900 in 2014 to GEL 81,300 in 2019, equaling 41% cumulative growth. While clearly underperforming compared to the 137.6% growth in productivity in the ICT value chain, this is still almost double the growth of productivity in the e-commerce value chain. Interestingly, transport and logistics is the most productive value chain per worker in the cross-cutting sectors: 52.1% more productive than ICT, and 295.8% more productive than e-commerce.

Chart 6.44 Average monthly salary for the transport and logistics value chain and the corresponding aggregated sector

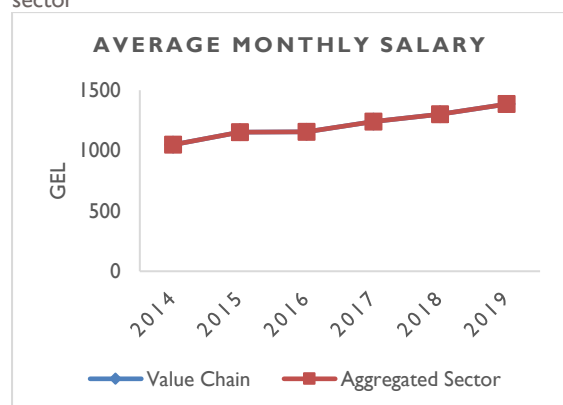
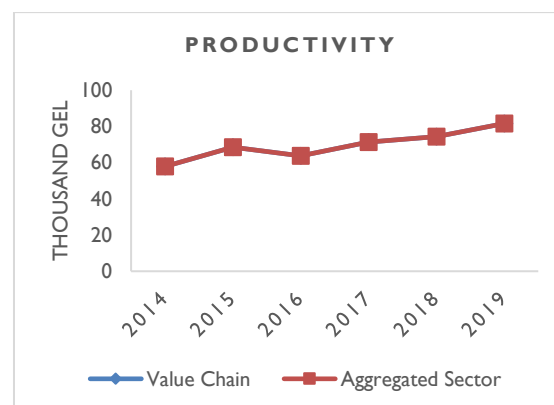


Chart 6.45 Productivity for the transport and logistics value chain and the corresponding aggregated sector

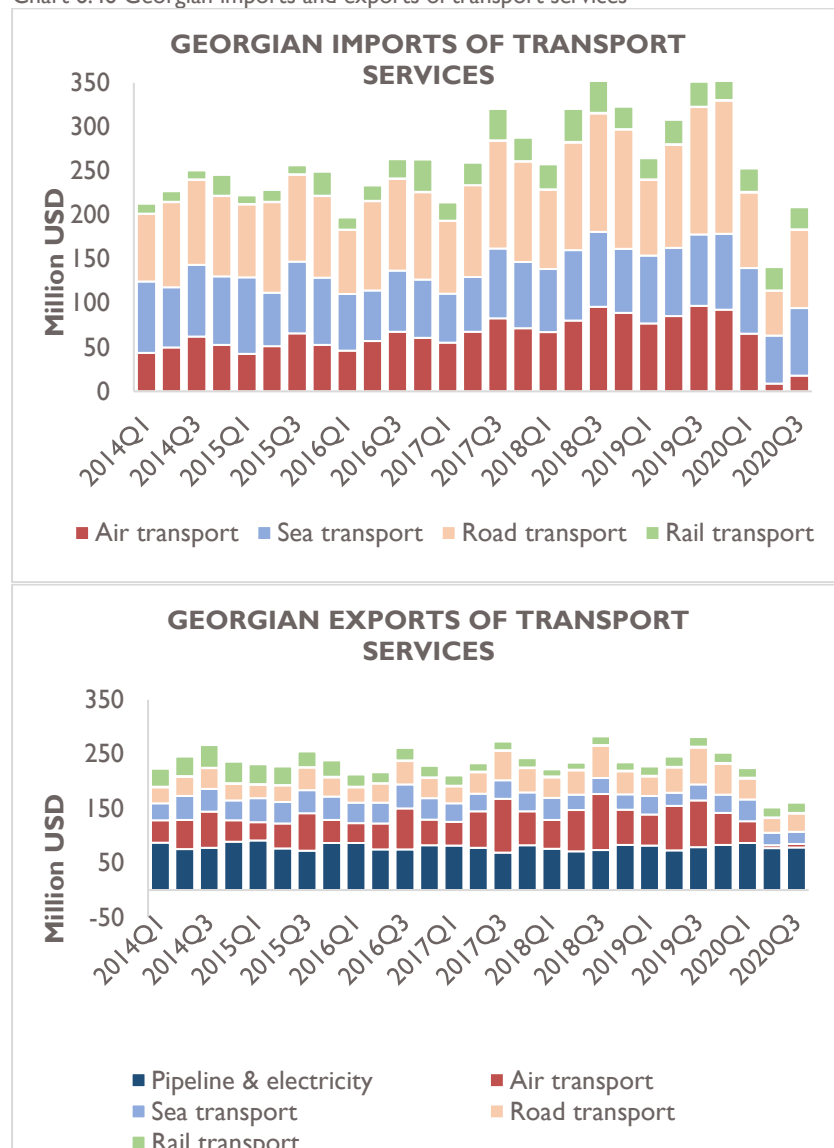


Source: National Statistics Office of Georgia

When it comes to transportation services trade, Georgia reported a trade deficit of USD 169.6 million in 2019, although the deficit decreased to USD 65.7 million, the deficit seems to be persistent. The main transportation service which Georgia exports is pipeline transport and electricity transmission, which equaled USD 317.5 million in 2019; even during the pandemic, this indicator has increased by 3.4%. Interestingly there no pipeline transport and electricity transmission services are imported into Georgia. When it comes to the country's second-biggest transport services export, air transport, the

fall during the pandemic has been significant. In the second and third quarters of 2020, the average value of air transport service exports fell to USD 5.7 million, compared to the previous year's USD 83.9 million. Meanwhile, rail transport service imports and exports seem to have been unaffected in 2020, but for road and sea transport services overall trade declined by 34.3% and 7.8% respectively.

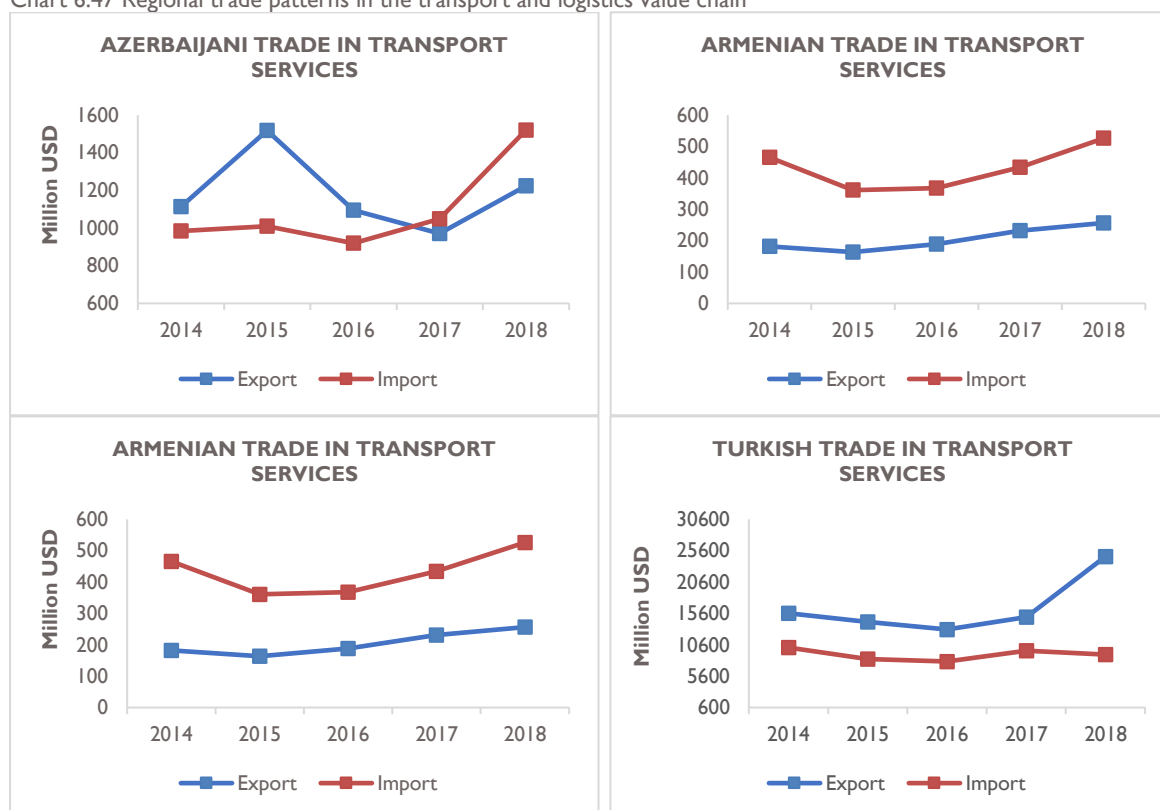
Chart 6.46 Georgian imports and exports of transport services



Source: National Bank of Georgia

Unlike Georgia, the other four selected countries in the nearby region, except Azerbaijan, reported a surplus in transport services trade in every year from 2014 to 2018. As a country with a well-developed tourism industry, Turkey exports a vast amount of transport services. In 2016 (the last year when Turkey reported transport service trade in detail), sea transport exports amounted to USD 1.5 billion, while air transport exports equaled USD 10 billion. After a few years of stagnation, due to Russia's ban on charter holidays and terrorist attacks, the trade surplus in transport services again increased by 193% and reached USD 15.6 billion in 2018. Similar trends can be observed in Ukraine and Armenia. Meanwhile, Azerbaijan dropped from a USD 508.6 million surplus in 2015 to a USD 297 million deficit in 2018. Elsewhere, a significant proportion of the rising service imports has been due to oil pipelines which Azerbaijan is slowly expanding into European countries.

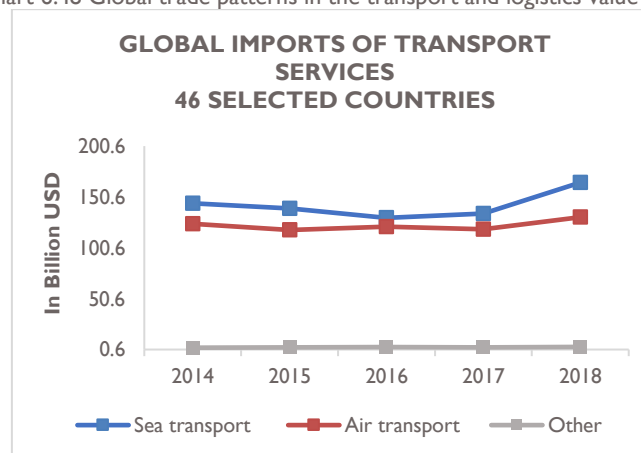
Chart 6.47 Regional trade patterns in the transport and logistics value chain



Source: UN Comtrade

It is almost impossible to estimate the global trade of transport services, as most countries do not report on this annually. Therefore, only the countries which reported every single year from 2014 until 2018 on such trade in detail were used for calculations and comparisons. Although the total trade is unknown, we see that both sea and air transport service trade decreased from 2014 to 2015 by 3.4% and 4.8% respectively. Meanwhile, major growth was visible for both services at the end of 2017 with increases of 22.6% and 10.1%, respectively. Interestingly, unlike Georgia, where electricity transmission, pipeline, road and railway transport contribute up to 63.6% of service exports, in global trade all transport services except sea and air are insignificant. In the case of global transport service trade, air and sea transport services make up over 99% of the total imports.

Chart 6.48 Global trade patterns in the transport and logistics value chain



Source: UN Comtrade

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	481850; 630790; 902000; 900490; 392620; 401511; 401519; 611610; 621600; 650500; 401590; 621010; 621050	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

Organisation		Name
TOURISM		
DMOs		
Kakheti DMO		Tinatin Khanjaliashvili
Samegrelo – Zemo Svaneti DMO		Levan Tsulaia
Samtskhe-Javakheti DMO		Nino Khazalashvili
Associations		
Gastronomic Association of Georgia		Levan Qoqiashvili
Georgian Ecotourism Association		Natalia Bakhtadze
HORECA (Georgain Hotel Restaurant Café Federation)		Katy Meladze
Georgian Mountain Guides Association		David Rakviashvili
Georgian Tourism Association		Nata Kvatchantiradze
Georgian Certified Guides Association		Giorgi Dartsimelia
Endurance Riding and Equine Tourism Association (ERETA)		Gigi Tevzadze
Private Sector		
Visit Georgia		Giorgi Khidesheli
Adjara Group		Nino Tskhadaia
Best Western Brand		Gocha Jaiani
Legends Tskaltubo Spa Resort		Andro Jishkariani
Georgian Hospitality Group		Saba Kiknadze
LIGHT MANUFACTURING		
Associations		
Georgian Furniture Cluster		Besik Verdzeuli
Design Georgia		Keta Buachidze
Packaging Association of Georgia		Revaz Topuria
Private Sector		
Furniture	LTD Avangardi	Besik Verdzeuli
	Madera Georgia	Beso Matkava
	LTD Factory	Nikoloz Menabdishvili
	LTD Ifrani	Zurab Shubitidze
	LTD Randi	Londa Shavadze
Packaging	LTD Caucaspac	Guram Makarov, Amiran Tsertsvadze
	LTD Georgian Packaging	Veronika Gogokhia
	LTD Fabrika 1900	Zura Alavidze
	LTD Greenpack	Salome Kareli
Personal and Protective Equipment (PPE)	LTD Doctor Goods	Mamuka Khaduri
	LTD Boldi	Keti Bogveli
	LTD Materia Fashion House	Tina Kuprashvili
Constriction Materials	JSC Panex	Otar Kurdiani
	LTD Kamara	Kakha Bikashvili
Wooden Toys	LTD Sheni Mtsvane Satamasho	Melano Tkabladze

	LTD Mtsvervali	Tina Datukishvili
	Geostyle Wood Art	Dato Gvantseladze
WASTE MANAGEMENT AND RECYCLING		
Waste Management Association		Ana Tskhadadze
LTD "Bio Diesel Georgia"		Murman Pataria
LTD "Geo Mulch"		Ana Tskhadadze
LTD KERE		Giorgi Kereselidze
LTD Mtsvane Sachukari		ANA Beridze; Akaki Darchia.
CREATIVE INDUSTRIES		
Associations		
Georgian Film Cluster		David Vashadze
Georgian Heritage Crafts Association		Ano Shanshiashvili
Media Production and Post-Production		
Enkeny Films		Sophio Bendiashvili
20 Steps Production		Vladimer Katcharava
Post Red (Post-production)		Beso Katcharava
Studio Phonograph		Paata Godziashvili
Artisan		
Chikatai		Tako Buiglishvili
WHITE Studio		Ana Japaridze, Nino Kopaladze
Gallery 27		Nino Kvavilashvili
"Estia"		Medo Kevlishvili
Blue Tablecloth		Nikoloz Nutsbidze

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 პოტენციალი მომდევნო 3 თვეში? დაინტერესება საერთაშორისო კლიენტებისგან?		
ექსპორტის პოტენციალი უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?		
ძირითადი საერთაშორისო საბაზრო ტენდენციები? როგორ არის საქართველო პოზიციონირებული?		

4. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

იმპორტის ჩანაცვლების პოტენციალი? 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 - ASSOCIATIONS 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	კომენტარი
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	<input type="checkbox"/> მაღალ კონკურენტული	
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 პოტენციალი მომდევნო 3 თვეში? დაინტერესება საერთაშორისო კლიენტებისგან?		
ექსპორტის პოტენციალი უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?		
ძირითადი საერთაშორისო საბაზრო ტენდენციები? როგორ არის საქართველო პოზიციონირებული?		

12. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

იმპორტის ჩანაცვლების პოტენციალი? 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 – VISITORS STATISTICS

Appendix 6.1 – Number of visitors by visited locations (sorted by visitors in 2019)

Number of visitors by visited locations	2015	2016	2017	2018	2019	2020 Q1
Tbilisi	2 329 306	2 542 687	3 098 176	3 624 434	4 103 805	559 346
Batumi (Kvariati, Botanical garden, Gonio fortress, etc.)	1 510 711	1 627 261	1 837 307	2 005 405	2 172 159	204 696
Marneuli	603 286	751 882	837 244	807 604	857 296	169 908
Kazbegi (Gergeti Trinity church, etc.)	256 200	437 014	465 329	619 581	625 653	61 175
Mtskheta (Svetitskhoveli Cathedral, Jvari monastery, Armazi fortress, Samtavro, Pompey's bridge, etc.)	241 204	256 589	411 481	686 898	513 512	42 005
Kutaisi (Gelati monastery, Bagrat's Cathedral, Tskaltubo caves, etc.)	129 478	236 866	317 488	315 945	343 574	37 130
Gudauri	94 350	144 661	339 146	340 552	339 400	113 965
Other	256 856	271 911	487 664	407 342	300 092	54 150
Sighnaghi (Bodbe Monastery, etc.)	99 476	175 203	280 806	329 943	281 286	20 027
Rustavi	184 980	157 561	191 320	217 734	277 495	51 292
Borjomi (Likani, Mineral waters, Green monastery, Timotesubani, National park, etc.)	107 007	164 694	260 021	234 962	235 363	7 929
Kobuleti	149 117	139 620	221 272	222 021	209 374	5 208
Gori (Stalin's museum, Gori fortress, Uflistsikhe, etc.)	74 040	108 216	136 357	165 880	190 062	15 786
Telavi (King Erekle's museum and palace, Tsinandali palace, etc.)	69 985	99 393	163 500	257 848	184 345	8 106
Mestia & Ushguli	78 035	124 348	129 863	89 081	142 255	7 724
Lagodekhi (National Park, etc.)	126 259	108 375	137 311	149 592	136 531	13 454
Akhaltzikhe (Rabati)	140 855	166 927	204 450	160 736	125 001	10 459
Ananuri (Church, Zhinvali Reservoir, etc.)	73 556	93 654	94 922	124 343	123 290	8 413
Bolnisi (Bolnisis Sioni Church, etc.)	116 095	111 054	159 947	109 714	97 603	6 590
Ureki	31 471	31 389	74 912	82 312	95 223	2 464
Vardzia (Vanis Kvabebi, Safara, Khertvisi, etc.)	34 472	60 591	86 089	69 555	87 938	3 443

Gardabani (Martkopi Monastery)	35 946	45 081	51 380	26 992	70 548	6 994
Bakuriani (Kokhtagora, Didveli, etc.)	44 936	48 091	63 035	68 299	60 207	21 904
David Gareji	21 096	22 887	44 193	22 623	55 463	1 143
Kvareli (Nekresi, Kvareli lake, Ilia Chavchavadze's museum, etc.)	28 853	51 406	95 123	139 971	55 351	1 230
Dmanisi (Dmanisi Museum, Archeological monument, etc.)	46 465	21 818	40 146	45 782	47 233	9 228
Zugdidi (Dadiani's Palace, etc.)	44 079	21 816	41 671	31 654	40 234	2 888
Anaklia	29 575	49 263	66 842	40 640	27 569	280
Tusheti	12 730	14 244	37 977	8 667	21 176	239
Shovi and Utsera (Mineral Waters, Shaori Lake, Nikortsminda, etc)	5 029	7 889	13 740	7 073	13 716	0
Sairme	9 532	11 673	26 016	22 678	8 560	1 762
Shatili & Mutso	6 216	8 474	10 301	2 609	7 585	0

Appendix 6.2: Number of visitors by conducted activities

Number of visitors by conducted activities	2015	2016	2017	2018	2019	2020 Q1
Activities related to Adventure tourism						
Visiting National Parks, Nature, Landscape, Exploring Remote and Exotic Places	1 005 170	880 842	1 162 827	1 368 717	1 173 928	95 625
Skiing, Snowboarding, Heliskiing	32 259	86 366	108 819	146 506	170 193	95 363
Mountaineering , Climbing	122 631	155 580	181 897	54 803	99 791	7 531
Cycling	110 546	90 370	107 805	63 777	77 285	8 925
Horse Riding	42 795	61 466	59 078	49 014	54 784	3 314
Boating, Rafting, Canoeing	13 374	16 922	26 320	9 467	30 301	2 906
Hunting, Fishing	48 302	35 677	12 916	17 181	15 132	2 167
Activities related to Cultural/religious tourism						
Sightseeing, Visiting Cultural and Historical Heritage, Museums	1 539 490	1 648 028	2 202 105	2 792 406	3 294 920	351 387
Pilgrimage (includes also attending religious meetings and events, etc.)	360 438	436 791	602 110	742 024	899 722	120 579
Getting known with Local Art, Culture, Language, History	211 185	260 194	461 398	595 504	649 954	72 566

⁷⁶ 2015 Q1 visitors were estimated based on 2016 Q1 visitors

Attending Concerts, Festivals, Exhibitions, Going to a Cinema, Theatre, Participating in Local Holidays	183 541	131 587	185 562	289 270	196 140	18 438
Activities related to Gastronomic tourism						
Tasting Local Cuisine and Wine	2 602 507	3 093 695	4 151 895	4 385 220	5 408 635	760 773
Other activities						
Shopping	2 738 828	3 310 128	4 357 511	4 409 257	4 386 834	602 913
Going to the Beach, Swimming in the Sea, Lake, River	655 077	667 552	929 081	1 080 443	1 485 872	47 320
Visiting Entertainment Parks	494 730	507 519	843 809	918 516	1 079 354	101 534
Gambling	160 139	203 522	283 562	291 242	387 649	62 599
Nightlife, Visiting Night Clubs	351 262	248 856	484 701	456 605	333 724	44 408
Taking Part in Agricultural Activities	97 982	27 312	15 397	58 372	67 654	973
Resting on a Recreational Resorts	83 684	53 125	79 149	136 421	60 199	5 407
Attending Sport Events	19 142	12 029	13 764	56 803	27 171	6 722
Other	259 057	40 158	5 368	25 645	7 551	281

APPENDIX 7 – 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
- 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).