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**THE USAID ECONOMIC  
SECURITY PROGRAM**

# SECTOR AND VALUE CHAIN ANALYTICS

## THE SIXTH ANALYTICAL REPORT

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Research

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## ACRONYMS

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



## EXECUTIVE SUMMARY

This annual report provides an analysis of economic trends, as well as denoting the challenges and opportunities (in local, regional, and global contexts) across selected value chains within six sectors to improve evidence-based decision-making through the provision of quality information and analytics. The specific sectors are tourism, creative industries, light manufacturing, shared intellectual services, waste management and recycling, along with cross-cutting sectors. The analysis tracks trends of 2021<sup>1</sup>.

The following is a synopsis of the findings:

**Tourism:** In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. A full recovery is not expected until at least the end of 2024 and Georgia, being heavily tourism-dependent country has been hit especially hard. However, in 2021 the significant recovery became visible due to the gradual alleviation of COVID-19 related restrictions since Q2 of 2021, the reopening of land borders, and the revival of flight routes, consequently increasing the positive expectations about the recovery.

The analysis of trends in travel services reveals that it has been the most hit VC by the pandemic. However, it must be noted that both the accommodation and food service value chains have experienced a significant recovery in 2021.

Accommodation VC has been more affected by the pandemic with the number of accommodation facilities<sup>2</sup> declining by 37.3% in 2020 compared to 2019. Thus, in 2020 the major indicators for accommodation VC have shown a harsher decline compared to food service VC. Due to this low base effect, the YoY increase (2021/2020) the turnover (61.9%) of accommodation VC was significantly higher compared to food service VC (18.2%). When comparing to the pre-pandemic (2019) figure, in 2021 the turnover for accommodation VC has shown a 29.5% decline, while for food service VC the turnover declined by only 8.55 compared to 2019.

However, despite these positive developments, major risks hindering the sound recovery of the sector still exist due to uncertainty surrounding and the overall instability of the sector, which has been exacerbated by the rapid spread of the Omicron variant in late 2021 and Russian invasion in Ukraine in early 2022. Moreover, among benchmarked countries (Albania, Croatia and Greece), Georgia has had the least effective tourism recovery, also falling behind Turkey.

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

After being heavily hit by COVID-19, the media content production and post-production value chain has started its recovery from record-low numbers, recording its first growth in Q2 2021 after the start of the pandemic. The VC's turnover and productivity expanded in 2021 when compared to the previous year, but those indicators are yet to recover to pre-pandemic levels. Meanwhile, the VC's other key indicators including employment and average salary have continued to grow in 2020, but

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<sup>1</sup> Please note that throughout the report, the annual data for 2021 is a sum of quarterly data and may differ from annual data that will be realised by Geostat in October 2022.

<sup>2</sup> This refers to officially registered accommodation facilities, and the source for the analysis is Geostat.

declined in 2021, suggesting that the labor market of the media content production and post-production value chain was slow to reflect the pandemic crisis. The overall performance of the artisan VC in 2021 can be described as the first signs of the recovery, with more than half of the firms increasing their turnover. However, the recovery is still quite limited, with a third of companies decreasing their turnover in 2021, even when compared to 2020.

**Light Manufacturing:** The turnover in all value chains of light manufacturing sector demonstrated positive nominal growth in 2021 compared to 2020, with the highest growth observed in the furniture inputs value chain (52.7%). Employment has also increased in 2021 in every value chain, with the highest average growth observed in construction materials VC (10.6%). The highest number of hired employees as of 2021 was registered in the construction materials value chain, while the lowest was observed in furniture inputs value chain. Improved performance in 2021 should be partly attributed to the base effect. The average monthly salary for 2021 ranged between GEL 936 (in the furniture VC) and GEL 1,454 (in packaging VC). Similarly, the furniture VC has been characterized by the lowest productivity<sup>3</sup> (GEL 78,528), while the highest productivity was identified in the packaging value chain (GEL 185,000).

Survey results for the PPE value chain and the wooden toys business activity suggest that about half of the surveyed firms reported increased average quarterly turnover in 2021, compared to 2020. As for employment, 50% of companies in PPE value chain indicated no change in average quarterly employment, whilst 55% of wooden toys manufacturers reported average quarterly rise in their number of employees in 2021, compared to 2020.

**Solid Waste Management and Recycling:** In 2021 turnover for the solid waste management and recycling sector has increased by 44.3% (after a decline in 2020 by 6.6%), amounting to GEL 86.6 million. In 2021 employment increased only slightly (1.5%) compared to 2020 and reached 7,469 people. As for an average monthly salary, it expanded in 2021, amounting to GEL 1,083, which is 10.3% higher than in 2020. While the productivity in the solid waste management sector increased significantly (45.8%) in 2021 and amounted to GEL 11 708.

**Shared Intellectual Services:** The majority of surveyed companies in 2021 in both, the CRM and HRM business activities, were small businesses, with average quarterly turnover below GEL 100,000 in 2021. Moreover, a significant proportion of the CRM and HRM companies (63% of HRM companies, and 76% of CRM companies) reported an increase in average quarterly turnover in 2021 compared to 2020. On average, the HRM business activity presented a slight 5.5% improvement in turnover, while the CRM recorded a larger increase of 19% in 2021. As for employment, the half of surveyed HRM operators reported no change in their number of employees in 2021 compared to 2020, while on average, 67% of CRM companies indicated growth in employment.

Qualitative analysis revealed that two stressing challenges remain universal across the BPO Value Chain. These challenges have continued to persist in 2021 as well. The first challenge relates to the lack of qualifications of the sector representatives. Interviews with the industry representatives reveal that the problem hindering development of these industries stems from the low competencies of the service providers. The lack of relevant market-oriented educational programs has been identified as the root-cause of this barrier. Another prominent problem, outlined by the majority of sector representatives, relates to the lack of regulatory mechanisms and professional standards, highlighting, for instance, issues related to the certification of architectural services provision and professional standards in HRM. Some of the sector representatives underline that introduction of such standards

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<sup>3</sup> Annual output per hired employee.

will elevate quality of services provided. However, consistent advocacy efforts to tackle described challenges are not observed so far.

**Cross-cutting Sectors:** The pandemic and related-restrictions in 2020, as well as the beginning of economic rebound in 2021 had a different and less-straightforward impact on cross-cutting sectors compared to other sectors of the economy. On one side, cross-cutting sectors are tightly intertwined with every other sector in the economy and thus are significantly affected both by the recession and the subsequent economic rebound. Indeed, the transports and logistics value chain experienced a strong decline in 2020 and started to rapidly recover in 2021. But other two value chains - ICT and e-commerce, in parallel to the movements in overall economic growth, also experienced the reverse pressures from the pandemic-related restrictions.

It can be said that the ICT value chain was less severely damaged in 2020 compared to the other value chains of the economy, while some indicators of the VC's performance have even experienced growth (indicators for ICT hardware). The explanation is that even though the pandemic led consumers to rely more on digital technologies, they also had less money to spend in total, so the boost from restrictions was not enough to make the VC grow in 2020. But with the rebound in the economy and despite the loosening of restrictions in 2021, ICT, especially ICT software, experienced growth in most indicators.

As for e-commerce, despite the recession, the restrictions resulted in the high growth of total quantity (YoY 33.0%) and value (YoY 37.4%) of e-commerce transactions in 2020. And even with the loosening of restrictions, the e-commerce value chain has continued strong growth in 2021, with the number of transactions increasing by 16.4%, while the growth of the value of those transactions was as high as YoY 47.0%.

After being significantly damaged by the recession in 2020, the transport and logistics VC and especially the air transport industry (which was hit the hardest in 2020 as there was no flexibility in contrast to other sectors of the value chain) experienced strong growth in 2021 compared to 2020. In some key indicators (turnover, average monthly salary, productivity), the growth was enough to even surpass 2019 levels. Though in VCs some other key indicators (imports and exports, GDP, employment) this growth was mainly attributed to the low base of 2020 and was not enough to recover to the pre-pandemic performance.

To sum up, in 2021 all cross-cutting value chains have experienced considerable growth, even when loosening pandemic-related restrictions could act negatively on ICT and e-commerce. This might be hinting at the possible permanent nature of the shift toward a digital economy that was caused by the restrictions in 2020. However, pent-up demand in 2021 could also be the key reason for this increase. Subsequent analysis of those value chains in future years will allow making more conclusive observations about the nature of the current increase.

## METHODOLOGY

### DATA AND METHODOLOGY

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

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

Table I Main indicators and respective data sources

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

The process of data collection and analysis is outlined below:

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

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

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

- II. The numbers of active enterprises operating in each value chain are taken from Geostat’s Business Register. This allows us to observe the dynamics in the number of active enterprises located in or outside Tbilisi by main kind of economic activity (available at a narrower level of NACE codes).
- III. For trade data, the correspondence analysis was performed to link NACE sectors (through CPA product classification, which is also used by the EU) with foreign trade data (through Harmonized System (HS) classification at the six-digit level). Importantly, the applicable HS codes for the personal and protective equipment value chain were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization (WCO) and the World Health Organization (WHO)<sup>4</sup>.

## 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 Geostat<sup>1</sup> as well as the list of stakeholders<sup>2</sup> 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
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<sup>4</sup> HS classification reference for Covid-19 medical supplies 2<sup>nd</sup> Edition. WCO.WHO (2020)

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

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

The survey was conducted by phone by PMC RC and ISET staff. Despite a significant number of companies turning out to be unreachable, more than 100 companies were surveyed, and the obtained data provided information on the situation and trends in the six value chains with regard to turnover, employment, wages, and respective year-on-year changes. To capture potential differences between companies within each value chain, questions on the level of turnover<sup>3</sup> and wages were also asked. Additional comments collected by the interviewers provided interesting insights into certain aspects of the value chains' activities (Appendix 2).

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

## QUALITATIVE ANALYSIS

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

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

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

**Focus groups and individual interviews with enterprises (Appendix 3):** Focus groups were formed of representatives of companies within the same or similar value chains. Each individual group was composed of participants from companies of similar size and characteristics to ensure the maximum openness and responsiveness of the respondents. Focus groups with the same composition of participants will be interviewed in subsequent quarters to ensure respondents' commitment and more consistent tracking of the trends in the value chains. In addition to the focus groups, which are composed of homogeneous enterprises, researchers conducted individual interviews with companies that do not share common characteristics to widen the range of perspectives obtained from within the value chains (Appendix 4).

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

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

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

# I. TOURISM

## SECTOR SUMMARY

This chapter provides a quantitative and qualitative analysis of the tourism sector in Georgia, as well as an overview of the signs of a recovery from the heavy blow it suffered in 2020 and brief analysis of international visitor trends amid the Russian invasion in Ukraine on February 24th of 2022. This study of the tourism sector has been categorized into the following four main value chains: accommodation; adventure tourism; gastronomic tourism; and cultural tourism<sup>5</sup>.

In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. A full recovery is not expected until at least the end of 2024 and Georgia, being heavily tourism-dependent country has been hit especially hard. However, in 2021 the significant recovery became visible due to the gradual alleviation of COVID-19 related restrictions since Q2 of 2021, the reopening of land borders, and the revival of flight routes, consequently increasing the positive expectations about the recovery.

In 2021, the number of international visitors<sup>6</sup> was 13.7% higher compared to 2020 and amounted to 24.1% of the average number of annual visits of 2017-2019 years. It must also be noted that the magnitude of the recovery has been increasing significantly throughout the 2021, reaching 46% of the average pre-pandemic figure in December 2021. Moreover, as of December 2021, the number of flight routes has recovered to 93% of 2019 levels. Air travel carries much higher importance for tourism in Georgia in 2021 and has contributed to the significant recovery of some major inbound tourist markets such as Belarus, Ukraine, Kazakhstan, Gulf States, and Israel, while the recovery figure for the visitors from neighboring countries, especially from Armenia and Russia, remained relatively limited.

The analysis of the dynamics of the indicators such as the number of international visitors, entry of international travelers and the income from international travelers throughout the Q1 of 2022, indicators revealed that remarkable differences can be noticed between the number of entries and the number of international visitors leaving the country. Those differences are especially vivid for Russia and Belarus, while for Ukraine the difference is relatively small. This observation is strengthened by the trends of income from international travelers in the last months, with significant monthly increases for Belarus and Russia, followed by Ukraine.

In addition to the positive dynamics in international travel, the number of domestic visits in Georgia not only reached pre-pandemic level but there has been a significant increase in 2021. In particular, the number of domestic visits increased by 18.9% when compared to 2019 and by 35.8% when compared to 2020. Moreover, the expenses of domestic visitors throughout the 2021 reached GEL 2.7 bln, which is 53.6% higher compared to 2020 and 47.2% higher compared to 2019.

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<sup>5</sup> The following methods of quantitative analysis were used: firstly, a study of the industry's general trends for two distinct periods 2015-2019 and 2020, with a focus on 2020, expressed in FDI flows, expenditure by visitors from target countries, loss of revenues in 2020 from the target countries, trends in domestic tourism in Georgia, regional and international comparison of Georgia, analysis of sales in top Georgian destination. Secondly, trends in priority value chains, incorporating dynamics in turnover, output, employment, and productivity are also analyzed. While qualitative analysis observes attitudes, perceptions, and expectations of respective stakeholders relating to the market competition and competitiveness potential, public-private partnership (PPP), the sector's potential for upgrading, and finally, the core challenges and impediments faced.

<sup>6</sup> An international visitor is a traveler taking a trip to a main destination outside his/her usual environment, for less than a year, for any purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. The usual environment of an individual, a key concept in tourism, is defined as the geographical area within which an individual conducts his/her regular life routines. For the purposes of defining "usual environment" in Georgia, travelers conducting 8 or more trips are excluded from the data.



The analysis of trends in travel services reveals that it has been the most hit VC by the pandemic. However, it must be noted that both the accommodation and food service value chains have experienced a significant recovery in 2021. Considering that the accommodation VC has been more affected by the pandemic with the number of accommodation facilities<sup>7</sup> declining by 37.3% in 2020, the YoY increase of the turnover (61.9%) has been significantly higher compared to the food service VC (18.2%). When comparing to the pre-pandemic (2019) figure, the accommodation VC has shown a 70.5% recovery in turnover, while this figure was equal to 91.5% for the food service VC. Apart from that, the hotel prices in 2021 have shown a significant increase both compared to 2020 and 2019 figures with the most prominent price increase for 5-star hotels.

However, despite these positive developments, major risks hindering the sound recovery of the sector still exist due to uncertainty surrounding and the overall instability of the sector, which has been exacerbated by the rapid spread of the Omicron variant in late 2021 and Russian invasion in Ukraine in early 2022. Moreover, among benchmarked countries (Albania, Croatia and Greece), Georgia has had the least effective tourism recovery, also falling behind Turkey.

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

Overall, the adventure tourism stakeholders seemed content with the extent of their engagement in the discussions of the new draft law on tourism since the beginning of the process. According to the interviewed respondents, the law on tourism incorporates a separate chapter and a few remarks and recommendations have been made by VC's stakeholders described below. It is the Georgian Tourism Industry Alliance being most actively involved in the process, with whom the adventure tourism value chain actors have had active communication.

During earlier studies, VC's associations reported on increased demand for membership from private sector representatives, explained by increased awareness about sector associations' essential role and function. However, part of the respondents thinks that the associations have been important only during the pandemic with the purpose of the dialogue with the public sector, for instance about the anti-crisis supportive programs introduced by the GoG. Overall, such short-term practice might still have a positive influence. Worth to note, that the members still find it hard to pay membership fees but despite this, they stay in the association and are not forced to leave the association.

After years of consistent work by several stakeholders from the private, and public sectors, VC associations, and other actors, Georgian Mountain Guides Association (GMGA) officially became the 25th member of the International Federation of Mountain Guides Associations (IFMGA). The membership provides a number of opportunities: a mountain guide obtaining such a diploma is eligible to work in IFMGA's 25 member countries, as he/she becomes an internationally accredited professional. Secondly, Georgia gains regional functionality - ATS can already accept international students and grant them an international diploma. Thirdly, this will result in an increased attractiveness of Georgia on the global map of adventure tourism. Referring to the frequently shared opinion, this occasion is an important step put forward in the process of positioning the country internationally and should be applied efficiently, especially in the period when a country's potential is regarded to be yet underestimated, international positioning is still not being clear and specific – as marked by the majority of VC actors.

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<sup>7</sup> This refers to officially registered accommodation facilities, and the source for the analysis is Geostat.

The importance of mountain tourism development has been discussed rather frequently during our fieldwork. According to shared opinions, the conceptual development of mountain tourism should include a systemic development of four interconnected, key components: Huts, Routes, Guides, Rescuers - Huts, Routs, Guides, Rescue (HuRoGuRe). However, the quality of services, particularly in the regions, is regarded to be underdeveloped and in need of enhancement. Therefore, improving the skills of entrepreneurs among local communities, and sharing international best practices, is believed to increase the quality of services and increase their efficiency. The stakeholders recommend the creation of educational spots in the regions providing theoretical and more importantly work-based learning opportunities.

The adventure tourism VC stakeholders are still concerned about the retained trend of foreign guides entering the country not being registered, nor following the regulations, and courtesy of the country's liberal economic and labor policy, having no restrictions on their economic activities. Referring to the opinions shared by part of respondents, after the law on tourism is in force, the sector will have a legal basis to request foreign guides for adherence to the law. A different view was also expressed that, although this trend carries undesirable influences, it may at some extent have a positive impact on improving the quality and competitiveness in the value chain.

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

The majority of respondents of the cultural tourism value chain underlined the importance of developing a cultural tourism strategy, incorporating a clear vision about positioning the country in the international market. Among other factors, the respondents pointed out the urgency of such a strategy document in line with the emergence of mass tourism in Georgia, which suppresses cultural attractions and their authenticity, as well as discourages HVM tourists from choosing Georgia for its cultural values. Besides, the majority of stakeholders have been discussing the issue relating to the low level of services currently offered by the cultural tourism value chain. According to them, such services are directly associated with the consumer satisfaction and attitudes of the tourists interested in cultural tourism in Georgia. Therefore, a crucial need for leveling up such services has been highlighted, as the combination of high-quality services with the unique museum reserves of Georgia is an outstanding precondition for the VC's efficient and rapid development.

Although a decrease in the number of visitors, the revenues of Georgian museum-reserve in 2021 were around only 10% behind the similar figures of 2019. This was mainly caused by the National Agency for Cultural Heritage Preservation's decisions made before the pandemic for increasing service tariffs by 100% (ticket prices, guide services, and other services). The new plan envisaged an increase in revenues by 100% from GEL 3.4 million in 2019 to GEL 7 million in 2020, however because of the pandemic, the agency was not able to reach the goal. There is no tool to accurately differentiate between local and foreign tourists at the Georgian museum-reserve, however, the respondents believe

the main defining contingent is international tourists, the estimated share of foreign tourists in total visits being 60-70%.

Representing one of the most fascinating examples of civil engineering achievements of the 20th century Georgia, the Enguri HPP arch dam has become a certified member of (and the first attraction from Georgia to join) European Route of Industrial Heritage (ERIH) of the Cultural Routes Program of Council of Europe. It is believed that the attraction's recognition will have a positive influence of attracting local and international tourists. GNTA plans a further improvement of Enguri HPP dam tourist zone infrastructure which will include the construction of overlooking grounds, a ropeway, a science and discovery center, an open-air concert space, and the world's tallest elevator to the dam. Besides, a new fast-growing direction has emerged - the Nokalakevi historical-architectural museum-reserve in Senaki municipality, Samegrelo-Zemo Svaneti region. It is a fortress city village with a total area of 37 hectares. Although the rehabilitation works are still underway, recently the site displayed a dramatic increase in the number of visitors.

A comparative advantage of Georgian Gastronomy Tourism is believed to be the Georgian traditional tastes and flavors, especially following a current global trend in gastronomy that goes back and seeks authentic and simple tastes. Importantly, there is an increased interest from small wineries in various regions of Georgia in seeking and using old varieties of grapes and unique technologies of winemaking. It is also believed that HVW tourists could be attracted by such authenticity and traditions of Georgian gastronomy, which eventually can position the country well on the international market.

However, as observed and shared by the DMOs of Georgia, there are gaps in local supply chains in the regions, as the consumption of locally produced goods was found to be minor. Which is regarded to hamper the development of local agriculture, as well as the uniqueness and authenticity mentioned above of every single location in the regions of Georgia.

Shortage of a workforce in Gastronomic VC and the hospitality industry, in general, remains a very painful issue for employers. After reopening, the business actors found it hard to bring both, former employees, as most of them have already had other occupations; and new staff, as the average demanded salary, has substantially increased and the employers could not afford them. The problem was reported to be much more severe in the regions. Besides, recently, the practice of migrating personnel from the country has become more frequent. Part of the workforce is heading to and start working in Qatar, as the latter is a host country for FIFA World Cup 2022 tournament and manages the global recruitment process. As stated, a new reality and circumstances have jeopardized the quality of services and the stakeholders are afraid that the negative consequences might become visible and be more disruptive in the medium term.

A severe problem related to increased input costs has been covered very frequently during the qualitative study. Recall, that since the beginning of January 2021, gas and electricity tariffs for corporate customers have increased by 28% and 50-70%, respectively. In addition, the input costs for intermediate goods and operational costs are gradually increasing and there've been cases when small companies couldn't withstand it and went bankrupt.

According to our respondents from hospitality VC, In September and October 2021 hotel occupancy rate was 45-50%, 30% in November; and 35% in December. The Average Daily Rate (ADR) has reduced during this period. Besides, the recent trend is that the demand for 5\* branded hotels has increased, when before the pandemic there was an opposite tendency when the guests preferred to

go to small hotels and guesthouses in search of local and authentic elements. Such a shift in this trend is logically related to the safety against the Covid19 virus. Interesting to observe this trend in the current period when the pandemic is believed to be in a final phase and end in 2022.

## **SECTOR TRENDS**

Tourism developments in Georgia<sup>8</sup>

After a challenging 2020, the first months of 2021 was still dominated by COVID-19, with severe lockdowns and curfews in January and February. Since March 2021, gradual easing of restrictions started, with curfew being removed since July 1.

Recovery in 2021 was supported by revival of air travel, with various airlines restarting or entering flights to and from Georgia. GNTA supported the recovery by conducting various info-tours and press-tours throughout the year. Detailed lists of those developments are provided in the corresponding section of the previous quarterly reports.

2022 was expected to be a year when tourism got significantly close to 2019 levels. With the slowdown of the Omicron wave of COVID-19, and also following challenges and issues with its implementation, Green Passport no longer acts as a requirement to enter public spaces such as hotels and restaurants since February 1. The most part of the sector assess these changes positively, as the Green Passport was failing to fulfill its purpose.

Further COVID-related regulations, such as prohibition for night clubs to operate were removed from the February 22. More importantly, from March 1 the concept of quarantine hotels was retired. To add to the alleviation of restrictions, each and every restriction related to COVID-19 was removed on March 22, except for mandatory mask-wearing condition in public transport and closed spaces.

Most importantly, the tourism sector received an important relief by the initiative of the GoG to write off property tax of accommodation facilities, food service facilities and tourist agencies in 2021.

However, a Russian invasion of Ukraine has unexpectedly hit the already vulnerable tourism sector with yet another negative shock. Several major conferences were called off, and thousands of bookings by visitors were removed. Worth noting that GNTA has offered free accommodation from Ukrainian refugees.

Apart from the number of visitors lost from Ukraine and partially from Russia, the most significant impact on tourism is the regional risk factor – as a close zone of the conflict, with its own occupied territories, Georgia is not likely to be the first country to consider for holidays this year, especially in Europe. However, an overall increase in recovery compared to 2019 is still estimated due to expected recovery of visitors from the neighboring countries, mostly via land, as well as resilience of those coming from the Gulf countries.

Migration to Georgia from Ukraine, Russia and Belarus is another factor worth considering when talking about tourism. While these migrants are not tourists in a traditional sense, majority of them may stay in hotels and other accommodations, eat at restaurants, and overall, spend money. Given they remain in the country for an extended period, a boost of travel receipts is expected. On the

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<sup>8</sup> Please see the detailed overview of the developments in the Georgian tourism sector in 2020 in the first analytical report, page #25.

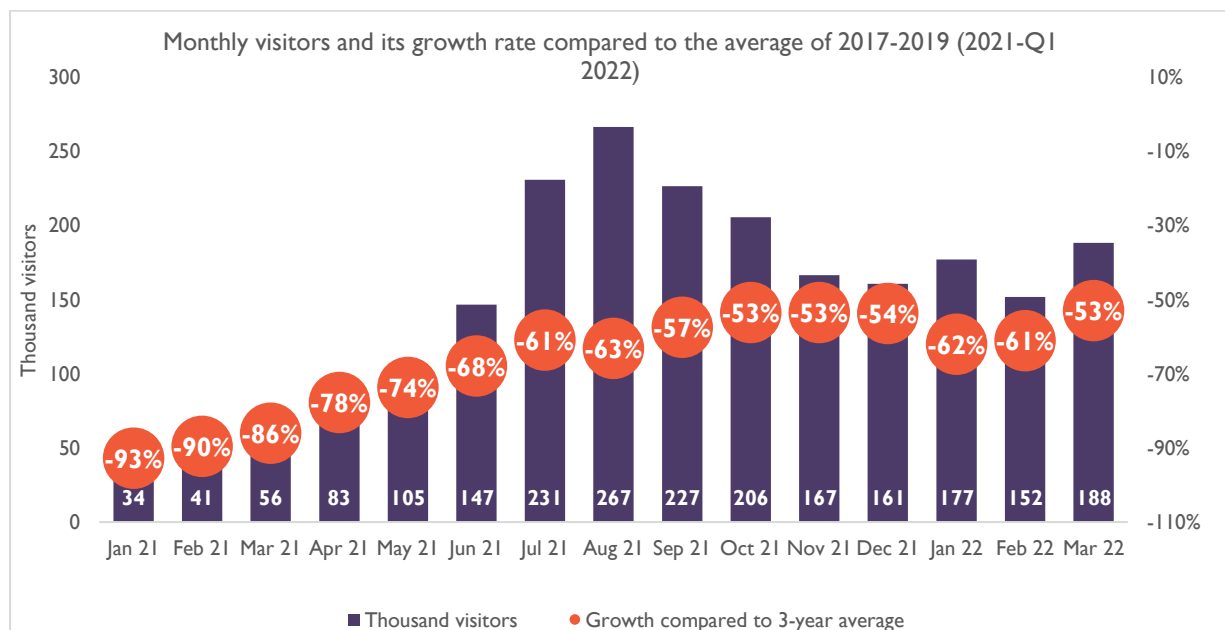
other hand, a potential large inflow of Russians into the country is seen as a risk for majority of the tourism sector in Georgia, call for 9 (at least) temporary removal of VISA-free regime with Russia.

### Number of visitors in 2021

As already mentioned, COVID-19 and the related restrictions on mobility in and between countries have had a tremendously negative impact on the number of international visitors to the country. When compared to the average for the corresponding months of 2017-2019, Georgia saw a drop of more than 90% in the number of foreign arrivals in January and February 2021. Since March 2021, with the gradual alleviation of COVID-19-related safety measures, the number of visitors started to grow each month, reaching the maximum of 267 thousand visitors in August 2021. However, this can be attributed to the seasonality of visits as the number of visitors still was 63% lower compared to the pre-pandemic average of 2017-2019 years. Since August 2021 until the end of the year, the prices were showing a significant recovery, on average counting drop of 54% compared to pre-pandemic average. Thus, indicating the positive trend in recovery of international visitors throughout 2021. In absolute numbers, 1,721,242 international visitors entered the country in 2021, which is 13.7% higher compared to 2020 and amounts to 24.1% of the average number of annual international visits of 2017-2019 years.

In the first quarter of 2022, the magnitude of the recovery declined slightly in the first two months of 2022 compared to the fourth quarter of 2021, however in March 2022 the number of visitors amounted to 47% of the pre-pandemic average. In absolute values, in the first quarter of 2022 the number of visitors reached 517,296, in comparison this figure was equal to 120,188 in the first quarter of 2021, while the average 2017-2019 value for the first quarter was 1,252,415. As for the future flows of visitors, the GNTA forecasts that the number of visitors will not return to 2019 levels until 2024, which is in line with international expectations.

Chart 1.1 Monthly visitors and its growth rate compared to the average of 2017-2019 (2021-Q1 2022)



Source: Georgian National Tourism Administration

<sup>9</sup> <https://bm.ge/ka/article/turizmis-industria-rusetan-moklevadiani-savijo-rejimis-amoqmedebas-itxovs/103757/>

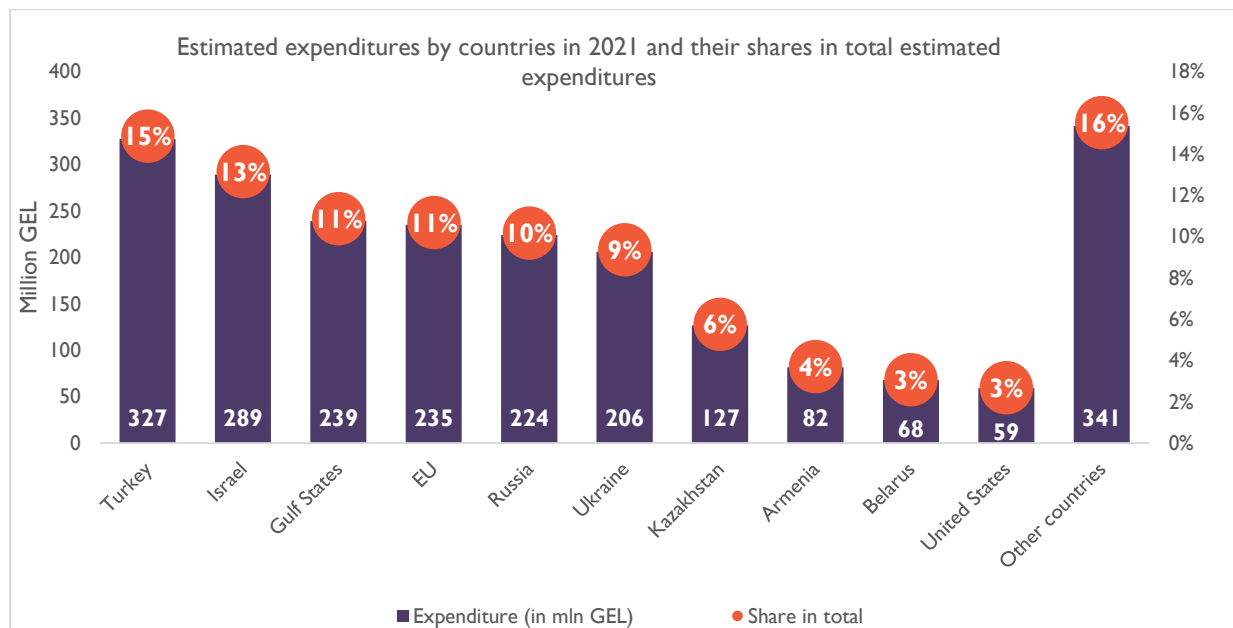
It is worth noting that the pandemic has also modified the patterns of border crossing types. In particular, 51% of visitors in 2021 came by air, while 48% came by land. In 2020, the corresponding figures were 17.8% for air and 80.5% for land arrivals (most of these visiting Georgia in first 3 months of the year, before the start of COVID-19 pandemic). To compare with pre-pandemic level of 2019, the proportion of visitors coming by land was equal to 74.8%, while air travelers amounted 23.7% of total visitors. Meanwhile, in the first quarter of 2022, 52.6% of visitors came by land, while 46.5% of visitors came by air, for comparison these figures were 72% by land and 26% by air in 2019.

#### Estimated revenues by country in 2021

In the second analytical report, we estimated the average expenditure per visit by country of origin based on the expenditure data provided by the GNTA. By multiplying this number for each country by the number of visitors from that country, revenues by country in 2021 have been estimated. We estimate that expenditures by visitors to Georgia in 2021 amounted to GEL 2.2 billion, which amounts to 26% of international visitor expenditures in 2019 based on Geostat. The biggest shares of this expenditure were attributed to visitors from Turkey (15%), followed by Israel (13%), Gulf States (11%) and EU (11%).

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

Chart 1.2 Estimated expenditures by countries in 2021 and their shares in total estimated expenditures



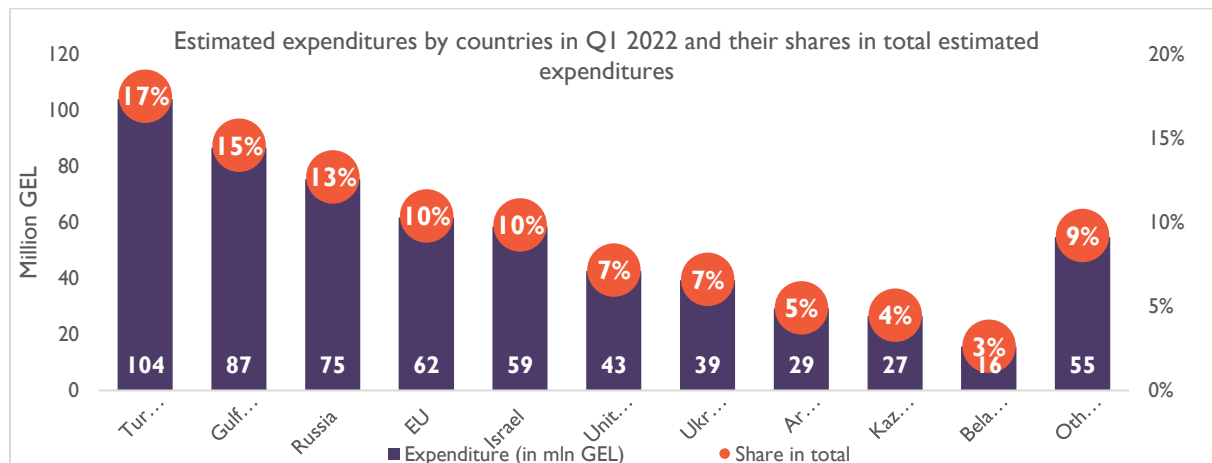
Source: Georgian National Tourism Administration, author's calculations

It must be noted that there has been a significant recovery in terms of number of visitors from some of the major inbound tourist markets of Georgia, contributing to the higher share of those countries in visitor expenditures. In particular, the number of visitors amounted more than 60% of their 2019 levels from Saudi Arabia (84% of the number of international visitors from Saudi Arabia in 2019), Belarus (81%), Ukraine (70%), United Arab Emirates (67%), Kazakhstan (64%), Kuwait (63%). However, in 2021 the recovery figures of the number of visitors from the following countries remain

relatively low – Armenia (12% of the number of international visitors from Armenia in 2019, Russia (15%), Turkey (28%), EU (29%) and Israel (49%).

In the first quarter of 2022, we estimate the expenditures of international visitors to be GEL 594 mln. The biggest shares of the expenditures were attributed to visitors from Turkey (17% of total estimated expenditures of international visitors), Gulf States (15%), Russia (13%), EU (10%) and Israel (10%)

Chart 1.3 Estimated expenditures by countries in Q1 2022 and their shares in total estimated expenditures



Source: Georgian National Tourism Administration, author's calculations

In terms of number of visitors from some of the major inbound tourist markets of Georgia, in the first quarter of 2022, for the selected countries the number of international visitor trips exceeded the pre-pandemic level, in particular, Saudi Arabia (with 134% increase compared to 2019), Belarus (89%), Uzbekistan (76%), Kazakhstan (30%) and Israel (17.3%). However, visitors from some major inbound tourist markets are still staying well below the pre-pandemic value. Those countries include Azerbaijan (with 90% decline compared to 2019), Armenia (-75%), Russia (-71%) and Iran (-52.6%)<sup>10</sup>.

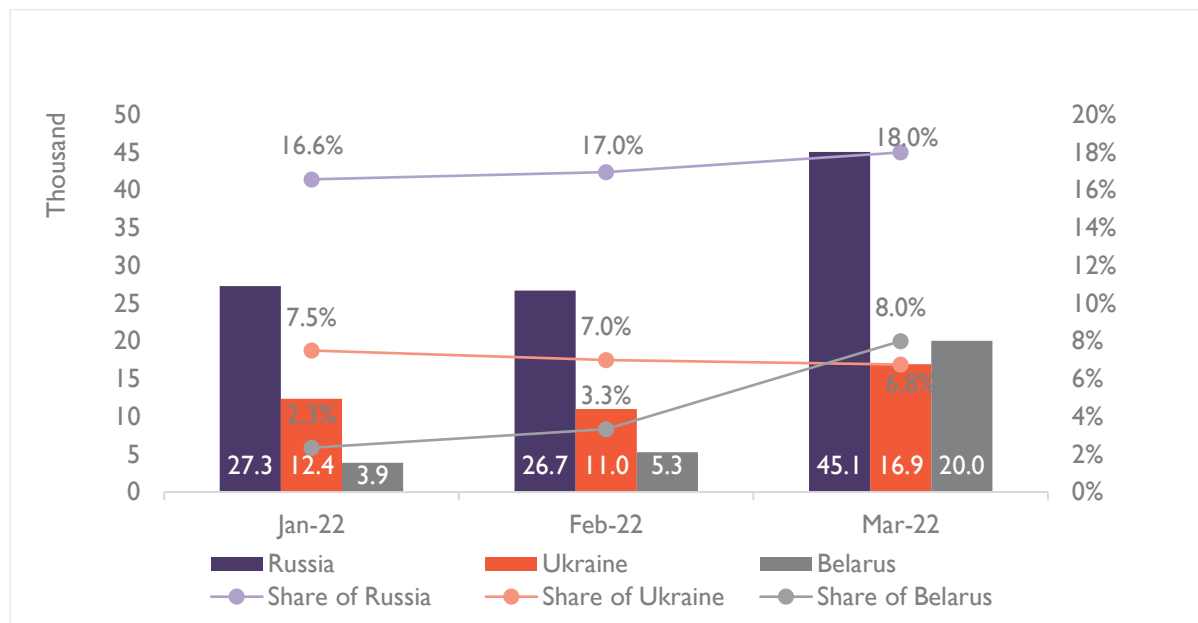
### Latest trends of international travelers from Russia, Ukraine and Belarus

At the onset of Russian invasion of Ukraine on 24<sup>th</sup> of February and consequently imposed sanctions on Russia and Belarus, the rapid inflow of international travelers in Georgia from Russia, Belarus and Ukraine is already evident.

According to data collected by the Ministry of Internal Affairs, in March 2022 the number of Russian travelers, that entered Georgia reached 45.1 thousand, which amounted 18% of total entries in Georgia. To compare to the previous month, the number of entries by Russian Travelers increased by 68.8%. Meanwhile, the entries by Belarusian citizens have shown a drastic 281.1% monthly increase reaching 20 thousand, amounting to 8% of total entries in Georgia. The entries by Ukrainians increased by 53.5% when comparing to February 2022 and reached 16.9 thousand, accounting for 6.8% of total entries. However, note that the provided data does not take into consideration how many of the citizens of given countries have crossed the border to leave the country for another one (transit).

<sup>10</sup> Note, that international visitor statistics are counted as the number of visitors leaving the country, thus the data does not represent the total inflow of visitors in the given period.

Chart I.4 Border crossing (entry) by Russian, Ukrainian and Belarusian citizens (Q1 2021)

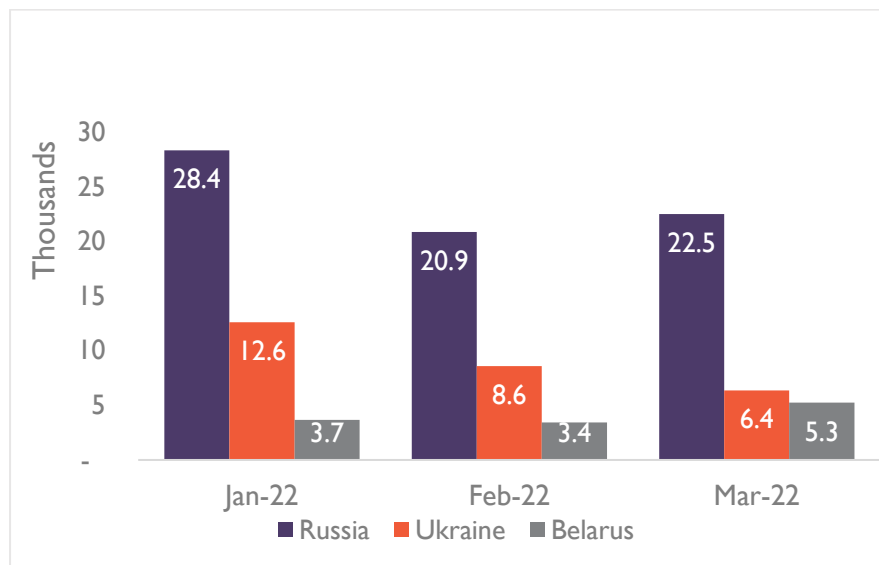


Source: Ministry of Internal Affairs

For the further analysis, the number of international visitors throughout the first quarter of 2021 should also be taken into consideration, as the statistics from the National Statistics Office of Georgia are counted as international visitors leaving the country. From the beginning of 2021, the number of international visitors from Russia, Ukraine and Belarus has shown a significant recovery. In particular, in January 2021, the visitors from Russia reached 33% of pre-pandemic (2019) value of the same period, while for Ukraine and Belarus this figure was equal to 60%. However, recovery figures dropped in February 2022 - for Russia the recovery figure was 5% of the number of visitors from Russia in February 2019, Ukraine - 24% and Belarus 27%. However, in March 2022 the number of visitors from Belarus has shown 86% increase compared to 2019, reaching 5.3 thousand visits, while the number of international visitors from Ukraine reached 6.4 thousand (which is 51% lower compared to 2019 number). Meanwhile, the visitors from Russia reached 22.5 thousand, seeing a 77% decline compared to 2019.



Chart I.5 Number of International visitors from Russia, Ukraine, Belarus (Q1 2022)



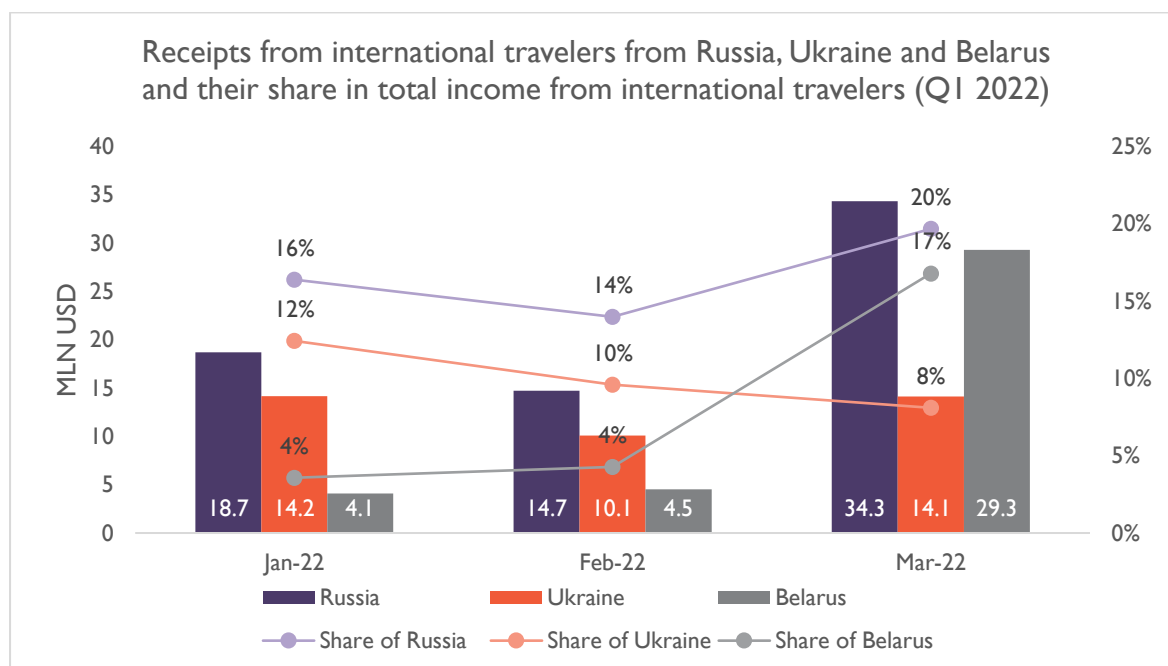
Source: National Statistics Office of Georgia

The observation of monthly dynamics revealed that the number of international visitors from Ukraine leaving Georgia in March 2022 declined significantly by 26%, compared to February 2022. Meanwhile, this figure saw a 53% increase for Belarus and 8% increase for Russia.

After the beginning of war between Russia and Ukraine, the comparison of the border crossing statistics to the number of international visitors from Russia, Belarus and Ukraine revealed the significant differences between those two statistics. Still, even when considering the possible statistical discrepancies, the number of entries in March 2022 from the selected countries is considerably higher compared to the number of international visitors leaving the country in the given month. The difference is especially high for Russia, followed by Belarus and Ukraine. It must also be noted that March 2022 is the only month in Q1 of 2022, where those substantial differences could be noticed.

Another indicator, which can be used to determine the volume of the rapid inflow from the selected countries is the receipts from international travelers. In March 2022, the receipts from international travelers from Russia has shown a significant increase (133%) compared to previous month, reaching USD 34.3 mln. For Belarus, the increase was even higher (551%), with receipts reaching USD 29.3 mln. It must be noted that the share of receipts from Russia (6 pp) and Belarus (13%) has also shown a significant monthly increase. In total, those two countries amounted 37% of total receipts from international travelers. Thus, despite the increased (by 40%) receipts from Ukrainian travelers, the share of Ukraine in total receipts declined to 8%.

Chart 1.6 Receipts from international travelers from Russia, Ukraine and Belarus and their share in total revenues from international travelers (Q1 2022)



Source: National Bank of Georgia

To sum up, the analysis of the above-mentioned major indicators revealed that remarkable differences can be noticed between the number of entries and the number of international visitors leaving the country. Those differences are especially vivid for Russia and Belarus, while for Ukraine the difference is relatively small. This observation is strengthened by trends of receipts from international travelers in the last months, with significant monthly increases for Belarus and Russia, followed by Ukraine.

#### Key macroeconomic indicators in 2021

According to the analysis of annual FDI patterns in the hotels, restaurants, and cafes (HORECA) sector, in 2021 investment level turned positive, when compared to disinvestment of USD 249.5 million in 2020 and reached USD 7.7 million, contributing to 0.7% of total FDI. For comparison, it must also be mentioned that in 2019 the FDI in HORECA sector amounted USD 123.4 mln, which is 15.9 times larger compared to the investment value of 2021. To compare the share of FDI in HORECA sector in total foreign direct investment, in 2021 this figure was equal to 0.7%, while in 2019 it reached 9.2% of total FDI.

The analysis of GDP patterns in HORECA sector revealed that it contributed GEL 1724.4 million in 2021, which is 43.2% higher compared to 2020 (GEL 1,204.5 mln) and 22.4% lower when compared to 2019 (GEL 2,223 mln). The share of the HORECA sector's contribution to total GDP of 2021 was 2.9%, which is 0.5 pp higher when compared to 2020 and 1.7 pp lower when compared to pre-pandemic 2019 value.

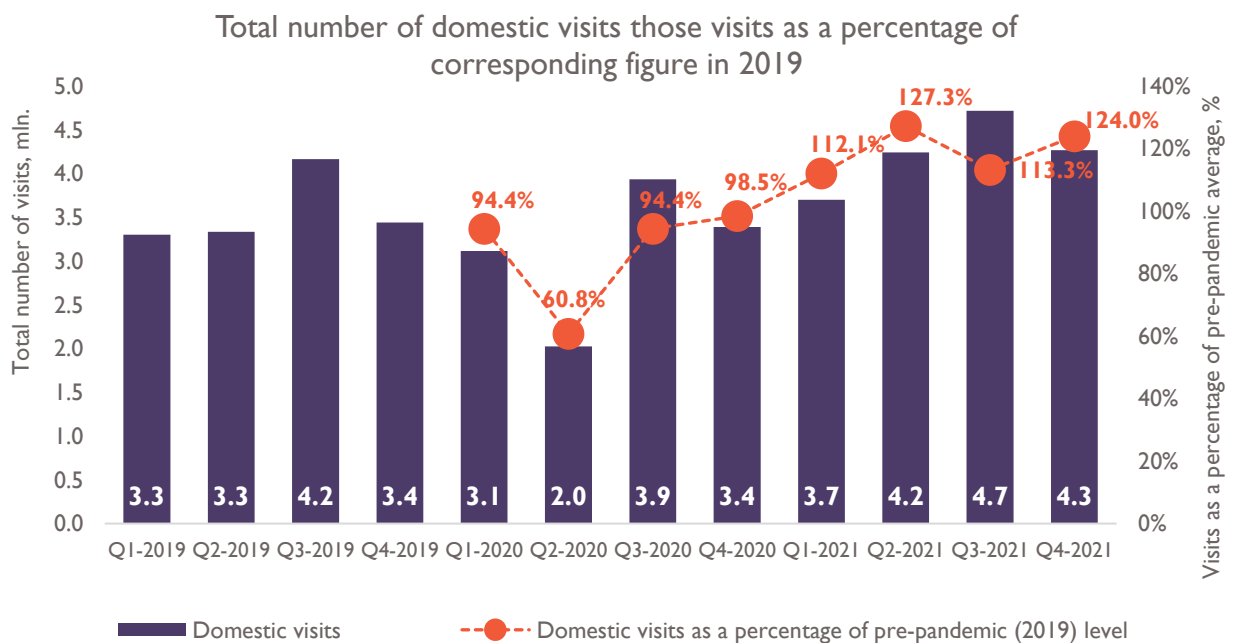
#### Domestic tourism in 2021

According to United Nations World Tourism Organization (UNWTO), domestic tourism is set to recover faster towards pre-pandemic levels than international travel in selected markets<sup>11</sup>. The

<sup>11</sup> <https://www.e-unwto.org/doi/epdf/10.18111/9789284422111>

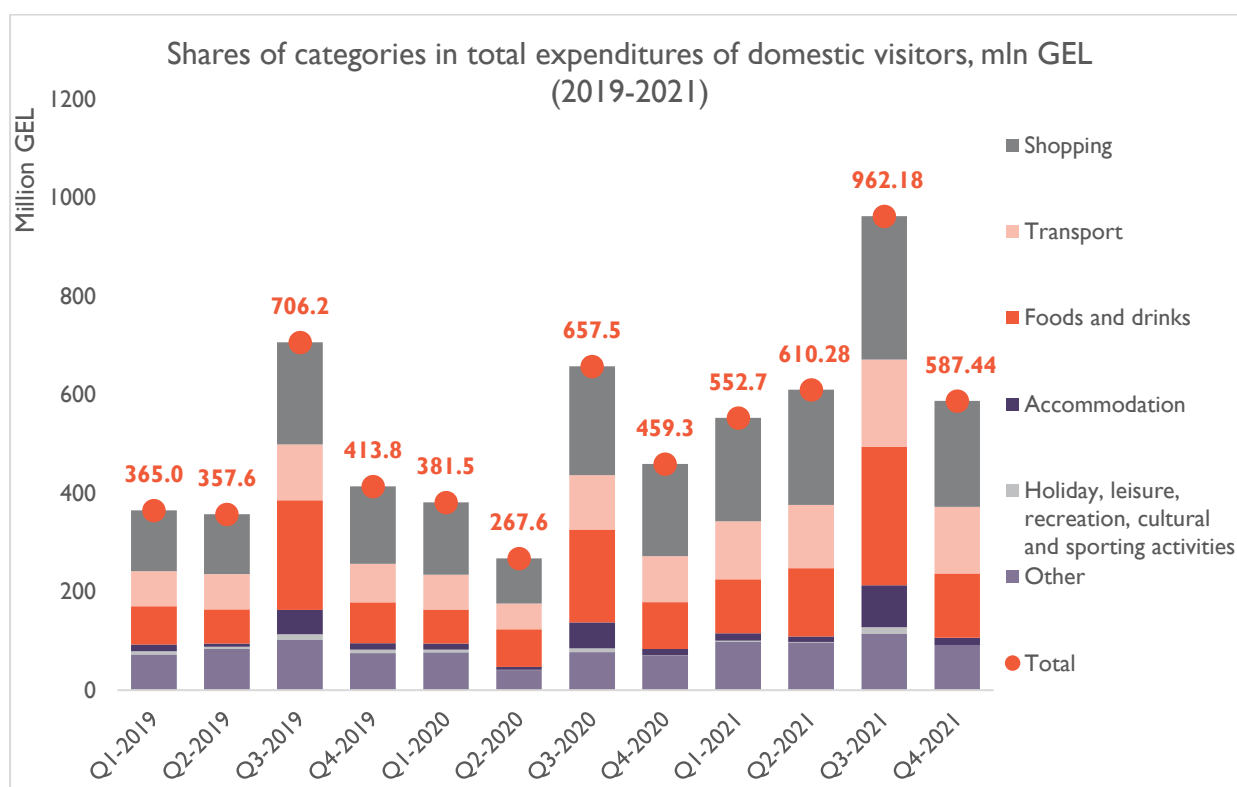
observation of the total number of domestic visits before (2019) and throughout the pandemic revealed that in 2021 the number of domestic visits in Georgia not only reached pre-pandemic level but there has been a significant increase. In particular, in 2021 the number of domestic visits increased by 18.9% when compared to 2019 and by 35.8% when compared to 2020. It must also be noted that in all quarters of 2021, the number of domestic visits was higher compared both to 2019 (pre-pandemic) and 2020 numbers.

Chart 1.7 Total number of domestic visits and those visits as a percentage of corresponding figure in 2019



The expenses of domestic visitors throughout the 2021 reached GEL 2.7 bln, which is 53.6% higher compared to 2020 and 47.2% higher compared to 2019. The increase in expenditures of domestic visitors can partly be explained by the inflationary trends, considering that the top categories include shopping, foods and drinks, and transport in the total structure of expenses. Throughout 2021, the share of shopping in total expenditure was the highest reaching 35% of total expenditure, followed by expenditure on foods and drinks (24%) and transport (21%). It must also be noted that the expenditure structure of domestic visitors has been consistent throughout 2019-2021 years with the accommodation (on average 4.6% of total expenditure throughout 2019-2021 years) and recreational activities (1.1%) being the lowest spending categories.

Chart I.8 Shares of categories in total expenses of domestic visitors, mln GEL (2019-2021)



Source: National Statistics Office of Georgia

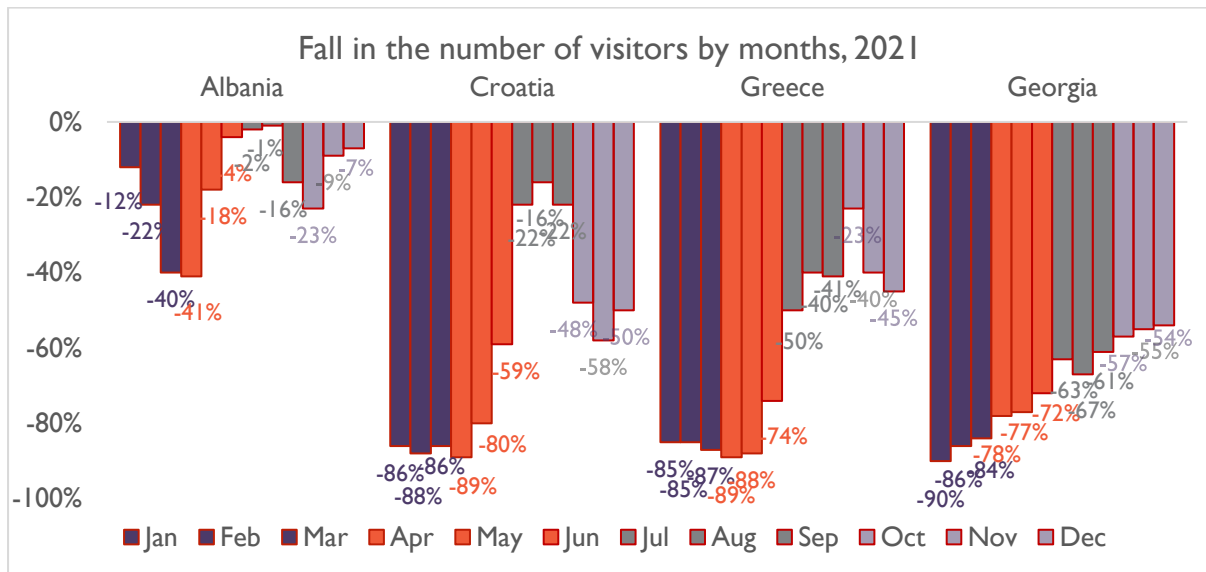
### International Benchmarking

In this and following reports, we will track the performance of the Georgian tourism sector in comparison with three selected benchmark countries: Albania, Croatia, and Greece<sup>12</sup>.

In 2021, the recovery in number of visitors was evident in each of the four countries, with Albania experiencing the most impressive one, almost recovering to 2019 levels (just 11% below its level, thus, a recovery of 89%). Croatia also had relatively impressive recovery, registering 61% of 2019 levels. Greece recovered approximately half (47%) of 2019 levels, while Georgia performed the worst of the bunch, with its number of visitors recovering to just 31% of 2019 levels. Worth noting that for the other three countries, recovery was mostly strongest in Q3 of 2021, while for Georgia the recovery happened gradually, with just 10% recovered in January, and 46% in December.

<sup>12</sup> Please see the details about the selection process in second analytical report, page 23

Chart I.9 Dynamics of the fall in the number of visitors in benchmark countries by the months of 2021 (compared to 2019)

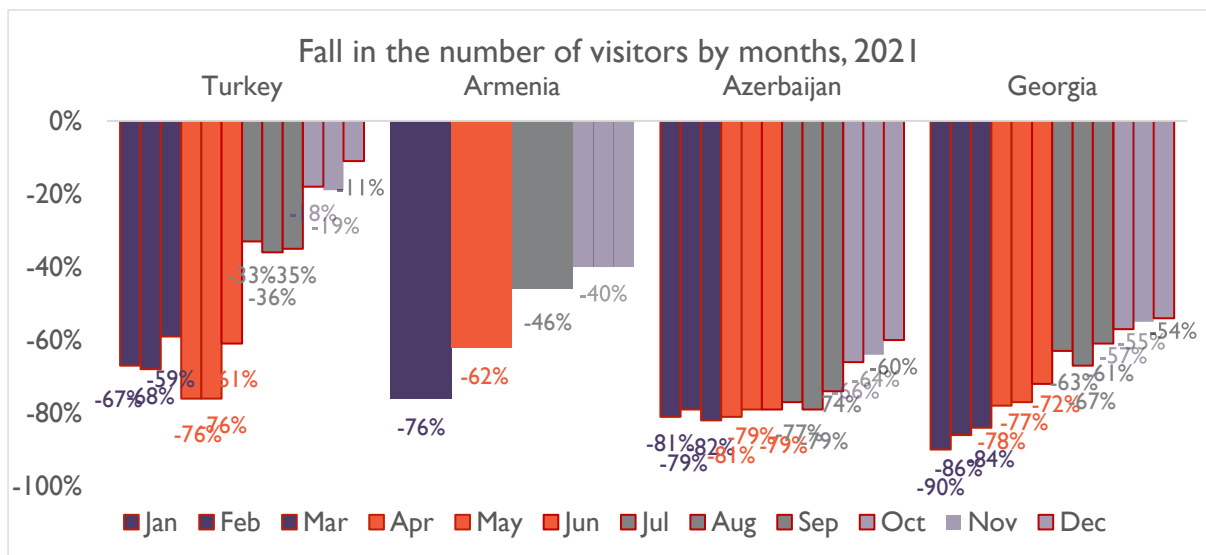


Source: UNWTO

### Regional Benchmarking

Within the regional context, Azerbaijan has not experienced a major recovery of tourism, recovering only 25% of the number of visitors compared to 2019 levels. Georgian dynamics has been quite similar to Azerbaijan however, the magnitude of recovery has been higher, standing at 31%. As for Armenia, it performed better than Georgia and managed to recover 46% of visitors in 2021. Turkey has experienced the highest recovery in 2021, having recovered more than half (55%) of 2019 levels.

Chart I.10 Fall in the number of visitors in 2021 in the countries of the region



Source: UNWTO

## ACCOMMODATION

### Value chain trends<sup>13</sup>

The quarterly analysis of turnover of the accommodation value chain and comparing it to the corresponding aggregated sector reveals that the value chain has experienced a significant recovery in 2021<sup>14</sup>. In particular, turnover of the accommodation value chain reached GEL 658.8 mln in 2021, which amounted to 70.5% of the corresponding value of 2019. Compared to 2020, the value chain turnover increased significantly by 61.9% in 2021, partially attributed to low base effect due to more stringent lockdown measures in 2020. It must also be noted that the VC has shown a stronger rebound in 2021 compared to the aggregated sector of accommodation facilities and food service facilities, however, note that the decline in turnover was also higher for the VC in 2020.

Chart 1.11 Turnover of the accommodation value chain and the corresponding aggregated sector

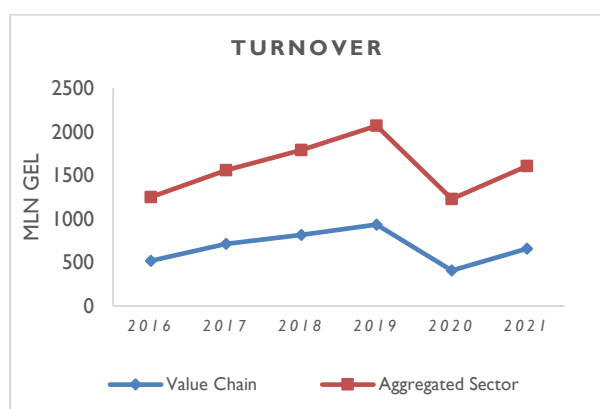
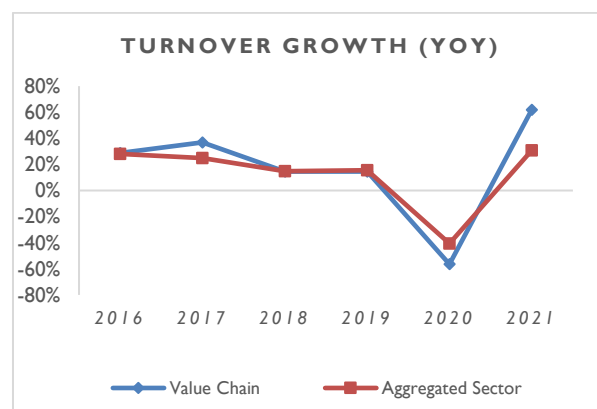


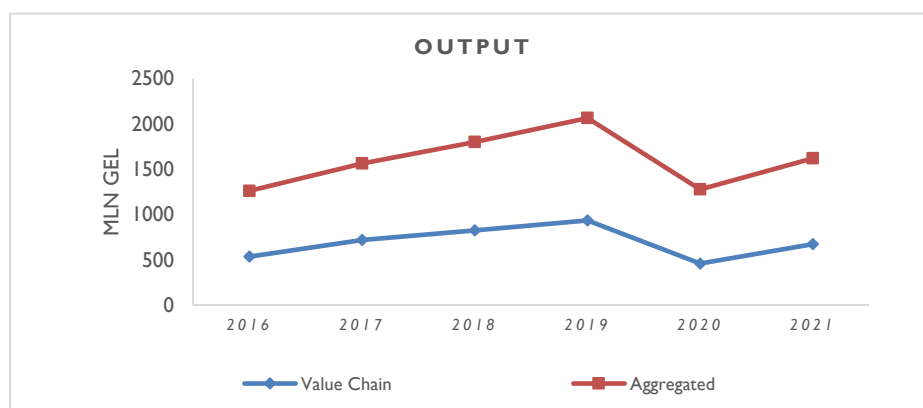
Chart 1.12 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Output in the accommodation value chain has shared the dynamics of its turnover, having increased by 47.1% in 2021 compared to 2020 and having declined by 27.9% compared to 2019. As in the case of turnover, the aggregated sector registered declines of slightly less magnitude, but demonstrated lower output growth rate (27.2%) in 2021.

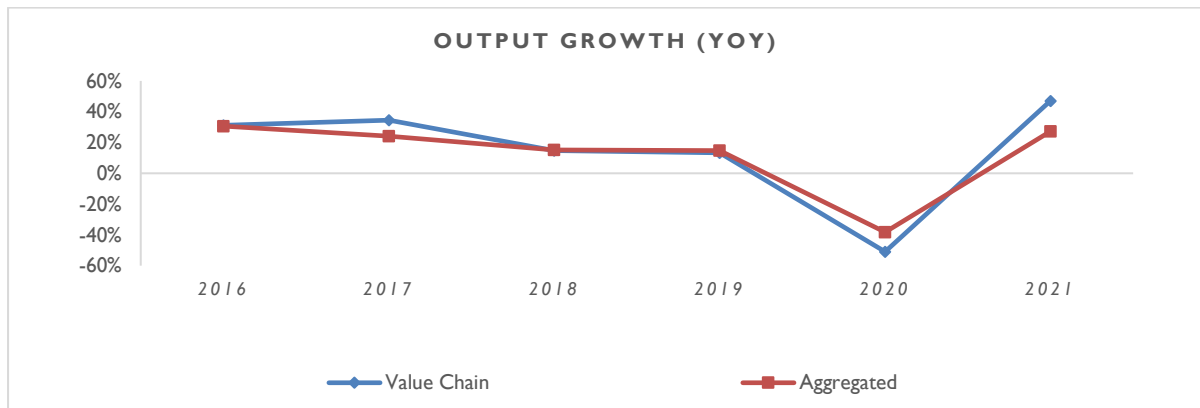
Chart 1.13 Output of the accommodation value chain and the corresponding aggregated sector



<sup>13</sup> In the first analytical report, we also analyzed Hotel Price Index for 3, 4 and 5-star hotels in Georgia over time. For details, please see page #34 in the first report

<sup>14</sup> Note, that the values of 2021 are calculated through aggregating the quarterly data of 2021.

Chart I.14 Annual growth rate of output for the accommodation value chain and the aggregated sector



Source: National Statistics Office of Georgia

Employment<sup>15</sup> in the accommodation value chain seemed to be more resilient to the shock in 2020, compared to abovementioned indicators, having decreased by 18.6% compared to 2019. The figures were slightly better for the aggregated sector (decline of 18.6%). In 2021, decline continued in the employment for both VC and aggregated sector with the similar, however, the magnitude was significantly lower compared to 2020. In particular, the number of employees in VCA declined by 6% reaching 11,432 employees, however employment still stayed well below the pre-pandemic value showing a 23.8% decrease compared to 2019. Employment in the aggregate sector shared similar dynamic

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

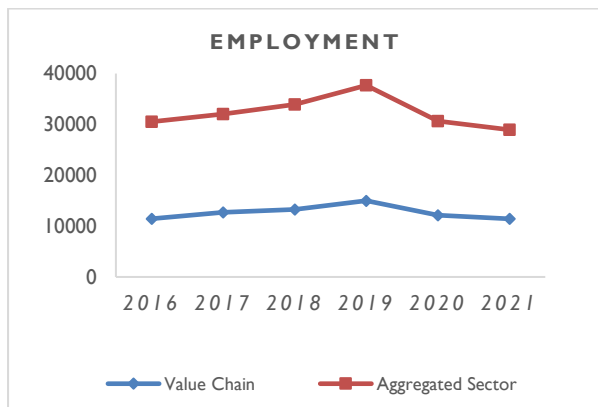
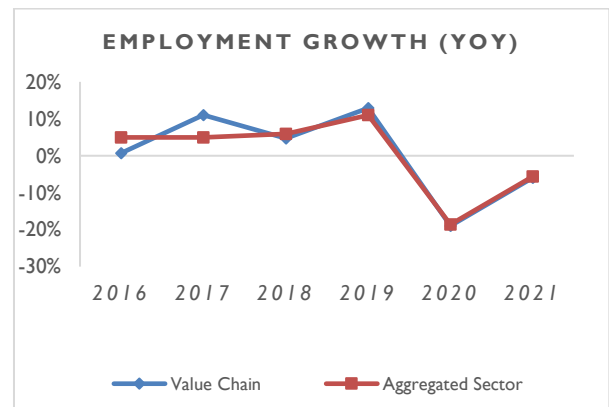


Chart I.16 Annual growth rate of employment in the accommodation value chain and its aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the accommodation value chain experienced a decline in 2020, albeit, less substantial (15% YoY decline) than other key indicators. The decline in the aggregated sector was less significant (9.2% YoY decline). However, in 2021 the average monthly salary in VC has shown a significant recovery with a 23% YoY increase, reaching GEL 1,278. Moreover, in 2021 the average monthly salary of VC exceeded compared to pre-pandemic (2019) level by 4.5%. This increase could possibly be explained by raised costs due to the rising inflation, as reported by various respondents.

<sup>15</sup> It has to be noted that a substantial amount of value chain employment is unobserved, as many accommodation facilities are not officially registered.; thus, the impact of the pandemic on the VC's employment is not fully reflected by the official statistics presented above.

Additionally, total salary fund of VC has shown a significant 20.4% decline compared to 2019, while it has shown a 15.7% increase compared to 2020.

Productivity of the VC, as measured by output divided by the number of employed people, also suffered significantly in 2020 and recovered considerably in 2021, with the slightly less significant decline (2020) and recovery (2021) in the aggregated sector. In 2020, labor productivity of VC has shown a 39.5% decline, while in 2021 productivity increased by 56%, which could partially be attributed to low base effect. However, it must also be noted that when compared to 2019, labor productivity decreased slightly by 5.3% in 2021. The rise in the productivity could be attributed to a higher increase of output compared to the increase in employment. This is consistent with our qualitative findings that the sector suffers from labor shortage, thus, it can be concluded that more output was produced by less people when compared to previous years. Changes in the productivity of the aggregate sector had slightly lower magnitude.

Chart 1.17 Average monthly salary in the accommodation value chain and the corresponding aggregated sector

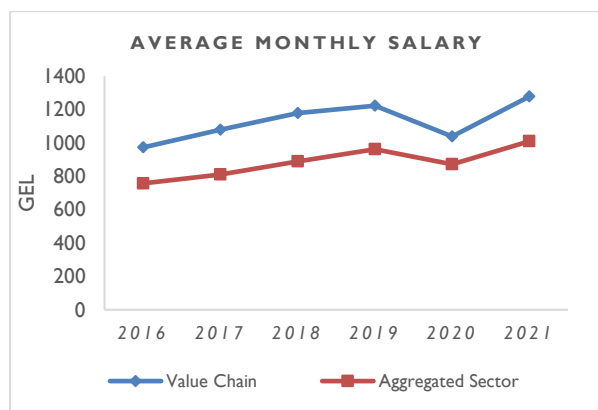
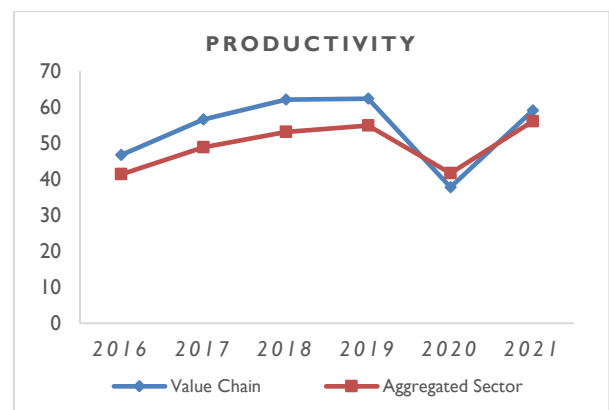


Chart 1.18 Productivity in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

### Hotel price dynamics in Georgia

PMC Research Center conducts monthly research on accommodation prices<sup>16</sup> based on [www.booking.com](http://www.booking.com) and publishes the Hotel Price Index, which serves as an indicator of average price changes in hotels<sup>17</sup> and guesthouses. Meanwhile, the Yearly Hotel Price Index shows how the average prices change compared to the corresponding months of the previous year.

The average prices<sup>18</sup> within each category peaked in the summer season (Jun-Sep) of 2018. Due to abrupt shocks in 2019 (Russian flight ban) and 2020 (the outbreak of the COVID-19 pandemic), prices have been experiencing a negative trend since June 2019. The prices in 2020 and early 2021 were the lowest in the analyzed period. However, since May 2021 the prices within each category have been rising, highlighting the recovery of prices towards 2019 levels.

<sup>16</sup> Note that the collected average prices and calculated HPI index does not take into account inflation and USD/GEL exchange rate volatility.

<sup>17</sup> 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](http://www.booking.com). The stars were assigned to the hotels due to the booking.com category and does not correspond to international classification of hotels. The calculation of the Hotel Price Index is based on the recommendations given by the International Monetary Fund (IMF). The elementary aggregate price index is calculated according to the Jevons Index (Consumer Price Index Manual-Theory and Practice (2004), Practical Guide to Producing Consumer Price Indices (2009)).

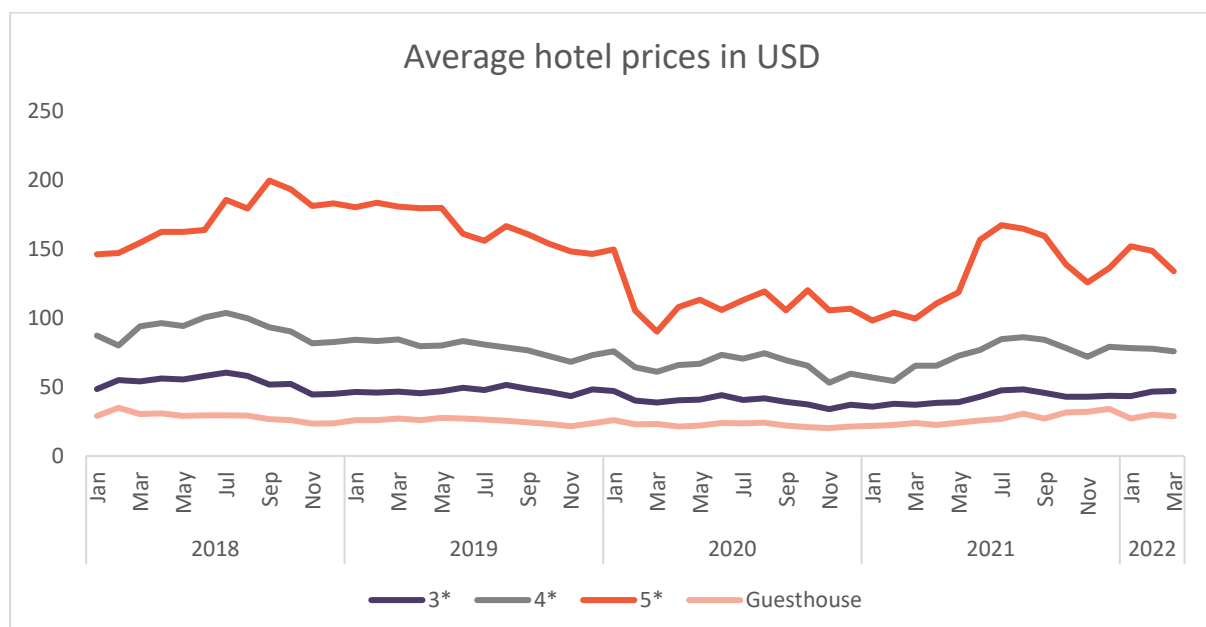
<sup>18</sup> Price is calculated for 2-person room per night



Looking category by category, 5-star hotels, which are the most reliant on international tourists, experienced the highest price volatility during the covered period. It must also be noted that the recovery of the prices towards pre-pandemic levels was most explicit for 5-star hotels from the second quarter of 2021, however, since then prices declined significantly and showed a rising trend only in February 2022. On the other hand, among the categories, prices for the guesthouses have been relatively stable with a slight increasing trend throughout the 2021, followed with a minor decline in the first quarter of 2022. Meanwhile, 3- and 4-star hotels shared the similar recovery dynamics throughout the 2021 and the beginning of 2022.

In total, the average hotel price in 2021 was equal to USD 49.6, which is 48.5% higher compared to 2020 and 8.3% higher when compared to pre-pandemic 2019 value, thus indicating the recovery of average prices for hotels and hotel-type enterprises. Looking at specific categories, the price increase throughout 2021 has been most significant for 5-star hotels (by 12.1% compared to 2019 and by 51.4% compared to 2020), while for 3-star hotels the price increase has been least significant (by 4.8% compared to 2019 and by 20.1% compared to 2020).

Chart 1.19 Average hotel prices calculated in USD for 3, 4, and 5-star hotels



Source: PMC Research Center

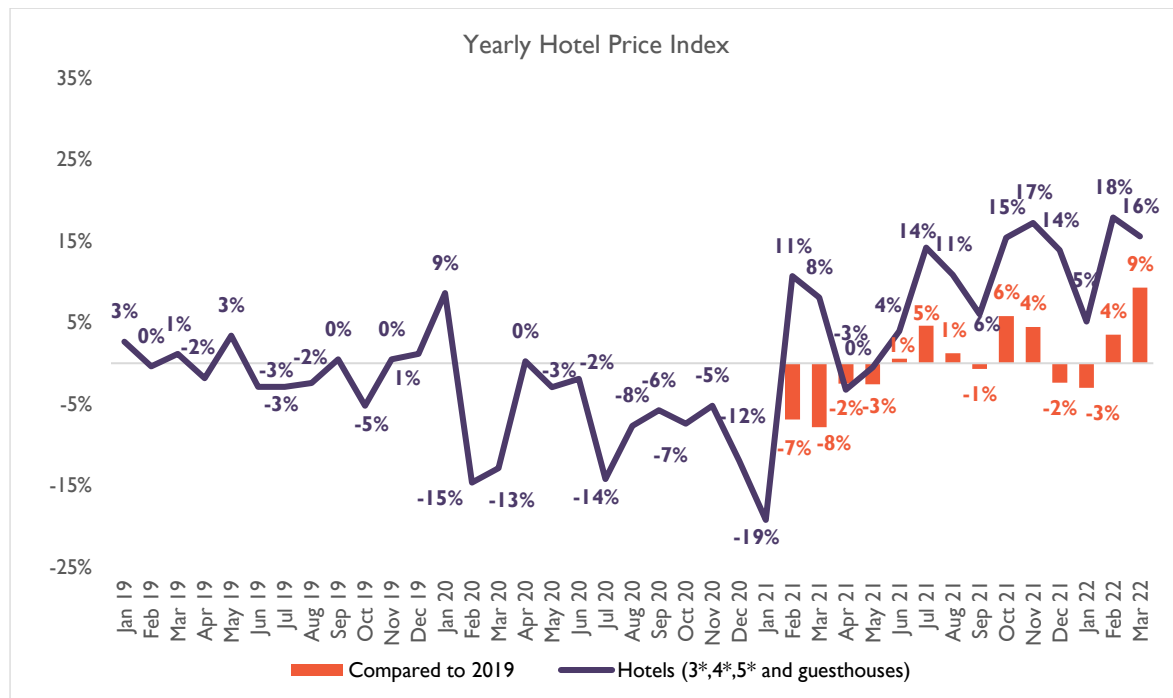
Apart from analyzing the average prices of hotels/guesthouses, PMC Research Center also calculates the Hotel Price Index (HPI) each month. The yearly HPI shows how the prices for hotels have changed compared to previous years, allowing for month-on-month comparison (e.g. Dec 2020 v. Dec 2021). As mentioned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

In 2021 significant price increase can be noticed both compared to 2020 and 2019 figures. However, it must also be noted that in January 2021, the yearly HPI was -19%, which could be explained by the lockdown being enforced at the time, as well as the high base effect (in January 2020 the prices were relatively high as the restrictions against COVID-19 were not in force). Since February 2021, we have

started to produce an alternative yearly HPI, which measures changes in 2021 in relation to 2019 instead of 2020, as 2019 prices are much more relevant when it comes to tracking the recovery of hotel prices. Since February 2021 to May 2021 the HPI index was still negative when comparing to 2019, however some positive trends could be observed in the beginning of the year too. Since June 2021, the HPI has been positive both in comparison to the corresponding month of 2020 and 2019 for the first time since January 2020. Throughout 2021, the highest HPI compared to 2019 was recorded in October reaching 6%. However, it must also be mentioned that in September, and December of 2021 the hotel prices were slightly lower compared to corresponding months of 2019, still compared to 2020 the prices were showing significant yearly increase.

In the first quarter of 2022, the yearly HPI index was positive, reaching the highest value (18%) in February 2022. When comparing to 2019, the hotel prices were slightly lower than 2019 figure in January 2022, however, in March 2022 the HPI index (when comparing to the pre-pandemic figure) has reached the maximum of 9% since the beginning of the pandemic.

Chart I.20 Yearly Hotel Price Index for 3, 4 and 5-star hotels



Source: PMC Research Center

### ADVENTURE TOURISM<sup>19</sup>

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

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

<sup>19</sup> Please see the detailed analysis of activities related to program’s 3 priority VCs discussed below in the first analytical report, page #37

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<sup>20</sup>.

In 2021, based on the data provided by Agency of Protected Areas, Martvili Canyon and Prometheus Cave led the way in number of visitors, with 116,420 and 104,112 visitors, respectively. Those were followed by Kazbegi National Park (67,419), Mtirala National Park (51,128) and Okatse Canyon (51,047). In total, the number of visitors in National parks and protected areas reached 559,711 in 2021. For comparison, total number of visitors in National parks and protected areas in 2019 was equal to 1,173,916 visitors, thus in 2021 the number of visitors recovered to 47.7% of pre-pandemic value.

### **Overview of the existing challenges and opportunities**

Below we review and summarize the most significant thematic topics, opportunities, and challenges discussed throughout the qualitative study of adventure tourism VC.

The core contributors in carrying out annual qualitative analysis of adventure tourism have been representatives from the private sector, DMOs, as well as business associations, sector, linked organizations, including the Georgian Mountain Guides Association (GMGA), Georgian Incoming Tour Operators Association (GITO) the Adventure Tourism School.

#### ***Adventure tourism – the country’s potential for enhancing the quality***

To recap the opinions expressed by the majority of stakeholders during the qualitative study of adventure tourism VC, along with the emergence of mass tourism in Georgia, resulted in a gradual decline in the quality of goods and services, as well as, negatively impacting a level of competence and qualification in the tourism sector, adventure tourism is believed to have substantial potential for improving the quality, giving it a competitive advantage. Mostly three main aspects have been named that could contribute to such an advantage being realized: security, quality of services, and the country’s authentic values (such as regional diversity, nature, and ethnography). Referring to the interviewed responders, if Georgia manages to bring these factors up to an international level and standard, then international tourists (including the ones from HVMs) will feel calm and comfortable enough to visit Georgia.

Besides, they think that in the post-pandemic period the country holds an opportunity to make substantial changes in the tourism sector strategy, aiming at more sustainable directions: experiential tourism, adventure tourism, ecotourism, geo-tourism – that are considered to have significant potential when it comes to enhancing quality. In line with the majority of respondents’ opinions, interruption in mass tourism during the pandemic can be applied as an opportunity to reconsider the tourism sector development strategy.

#### ***Insufficient quality from the supply side and sluggish domestic demand***

Firstly, as part of our respondents discussed, the country is not yet successful to follow a suitable strategy to ensure the adventure tourism value chain’s readiness for international demand. Again, there have been inconsistencies and contradictions in terms of quality between the adventure tourism value chain’s supply and the expectations of international tourists. With regards to domestic tourists, during

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<sup>20</sup> In addition, adventure tourism included skiing and winter sports as well. Please, see the analysis of Georgia’s mountain resorts in the first analytical report, page #39.

the COVID-19 pandemic, besides the halt in demand from international visitors, domestic demand remained lukewarm. This opinion is backed up by the figures given in quantitative analysis, showing a decrease in 2020 domestic tourism by 12.5% compared to 2019.

### ***The unorganized labor market for non-resident guides***

A part of adventure tourism interviewed respondents' concerns were related to the retained trend of foreign guides both amateur and professionals, entering the country are not registered, do not follow the regulations, and courtesy of the country's liberal economic and labor policy, have no restrictions nor limits affecting their economic activities. Referring to the opinions shared by part of respondents, after the law on tourism is in force, the sector will have a legal basis to request foreign guides for adherence to the law. A different view was also expressed that, although this trend carries undesirable influences, it may to some extent have a positive impact on improving the quality and competitiveness in the value chain.

### ***GMGA's international recognition***

In November 2021, after up to 30 years of waiting, Georgian Mountain Guides Association (GMGA) officially became the 25th member of the International Federation of Mountain Guides Associations (IFMGA). This occasion was preceded by an intense and result-oriented work of a number of stakeholders in the VC (the business sector, VC associations, and professional guides). Based on VC actors' common opinion, the recognition means that a professional diploma issued by Adventure Tourism School (established jointly by GMGA, Mta LLC, and Ministry of Education and Science of Georgia) gains accreditation according to international standards, which means: a mountain guide obtaining such diploma is eligible to work in IFMGA's 25 member countries, as he/she becomes an internationally accredited professional. Secondly, Georgia gains regional functionality - ATS can already accept international students and grant them an international diploma. Thirdly, this will result in an increased attractiveness of Georgia on the global map of adventure tourism.

Thus, referring to the vast majority of respondents, this occasion is an important step put forward in the process of positioning the country internationally. According to the majority of respondents, this fact should become one of the most significant elements in the development of the country's promotion strategy.

### ***Country's international positioning, VC's vision:***

As reported by the majority of respondents from the value chain associations, the country's potential is yet underestimated, international positioning still not being clear and specific, and in need of amendments. Following their viewpoint, such revisions initially have to be addressed towards so-called destination marketing, an approach that promotes a specific location and destination and its attractiveness and benefits, rather than a country-wide approach. Reviewing high-performing countries applying the same tool, Turkey's case was brought that uses destination marketing to promote specific destinations and performs rather effectively. Hence, instead of wide-ranging promotion, a necessity of placing explicit services, products, and packages in the country's promotion strategy was revealed.

### ***Need for improved quality of tourism services in the regions:***

In pursuit of respondents' opinion, the quality of services, particularly in the regions, is underdeveloped and in need of enhancement. The local community is being involved in social and cultural integration by having international tourists at their doorstep, who visit their own families. Such small entrepreneurs employ relatives and their close community in the process and thus get more and more

engaged in the business. Therefore, improving the skills of such entrepreneurs, and sharing international best practices, would further increase the quality of services and increase their efficiency. To accomplish this, Adventure Tourism School representatives recommend the creation of educational spots in the regions providing theoretical and more importantly work-based learning opportunities.

### ***The opportunity of developing mountain tourism in Georgia:***

The importance of mountain tourism development in Georgia (a tourism activity in a limited geographical area (hills or mountains) with specific characteristics inseparable from its landscape, climate, people, and other attributes) has been mentioned rather frequently during our fieldwork. According to GMGA, the conceptual development of mountain tourism represents a great perspective on the tourism industry in Georgia. In line with shared opinions, the concept of mountain tourism development should include a systemic development of four interconnected, key components: Huts, Routes, Guides, Rescuers - Huts, Routs, Guides, Rescue (HuRoGuRe). According to respondents, there have been initiated several projects involving the sector associations, the GoG, and the donor organizations, however, the importance of coordinating such initiatives has been marked.

### ***Business associations' role during and post-crisis***

During earlier studies, VC's associations reported on increased demand for membership from private sector representatives, explained by increased understanding and awareness about sector associations' role during the COVID-19 pandemic. However, part of the respondent's opinions is opposite, and, in their view, the associations did not advance during the crisis. Their members have realized the associations' role as being important for the dialogue with the public sector, and it has been applied mostly for communication purposes during a discussion about the anti-crisis supportive programs introduced by the GoG. However, as emphasized, this short-term practice might still have a positive influence. Worth to note, that the members still find it hard to pay membership fees but despite this they stay in the association, and nobody forces them to leave the association.

### ***The law on the tourism sector and VC's engagement***

Overall, the adventure tourism stakeholders seemed content with the extent of their engagement in the discussions of the new law on tourism since the beginning of the process (organized within the USAID Economic Governance Program framework). According to the interviewed respondents, the law on tourism incorporates a separate chapter, and one of the few remarks from the stakeholders, the GMGA recommended that the law should regulate the professions' licensing process, as being a high-risk occupation, instead of regulating businesses involved in adventure tourism. It is the Georgian Tourism Industry Alliance being most actively involved in the process and working on the framework, with whom the VC's actors have active communication.

## **ECOTOURISM**

### ***Georgian Ecotourism strategy approved***

By the end of 2021, a 10-year ecotourism strategy and action plan has been approved. The objective of the ecotourism strategy is to make Georgia a leading ecotourism country in the Caucasus region by 2030, which, through its rich living culture, nature, and high-quality services, will provide ecotourism offers for all four seasons. According to the interviewed respondents, the strategy is a crucially

important document, as ecotourism in Georgia provides an authentic experience for tourists, benefits local communities, and contributes significantly to the country's economic well-being.

In particular, the strategy envisages 5 main goals:

1. Developing authentic, high quality, four-season-tourism products and services, based on the country's diverse nature and rich living culture
2. Locals actively provide ecotourism services and gain benefits from them. Ecotourism resources are maintained through the involvement of local communities in the development of ecotourism.
3. Marketing and communication meet the requirements of ecotourism target markets and increases the ecological awareness of visitors.
4. The development of ecotourism contributes to the long-term preservation of its main resources - the diverse nature of the country and the rich living culture.
5. Management of ecotourism at all levels provides a multi-sectoral, interdisciplinary, and participatory approach based on national legislation.

Starting in 2020, the preparation of the strategy incorporated the diverse stakeholders: the GNTA, the LEPL National Forest Agency, the LEPL Agency of Protected Areas, and the Georgian Ecotourism Association. The strategy was developed with a support of the German government through the German Society for International Cooperation (GIZ).

## **CULTURAL TOURISM**

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

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

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

Travelers interested in cultural tourism, apart from visiting museum-reserves, tend to visit museums. Based on the data from the Georgian National Museum, total of 114,738 visitors explored all museums managed by Georgian National Museum in 2021, which amount to just 34.2% of 2019 value (total of 335,630 visits). Also note that the museums managed by Georgian National Museum continued their operations in March of 2021, since the alleviation of COVID-19 restrictions on cultural destinations. Out of those, the most popular one was the Simon Janashia Georgian National Museum in Tbilisi visited by 35,823 visitors in 2021. The second most popular museum destination among travelers was Dimitri Shevardnadze National Gallery in Tbilisi (18,553 visits), Svanetian History Museum in Mestia (16,667) and Tbilisi Open Air Museum of Ethnography (16,045).

Overview of the existing challenges and opportunities

The annual qualitative study on cultural tourism was aimed at gathering stakeholders' opinions which have been gleaned from focus groups and individual meetings attended by the private and public sectors, business associations, and sector experts.

The following represent the most important challenges and opportunities identified, as well as the main thematic topics covered during discussions among cultural tourism value chain stakeholders:

### ***The competitive advantage of Georgian Cultural Tourism***

Cultural tourism has been assessed as country's one of the most important value chains, the development of which includes the promotion of the country's cultural values, art, material, and immaterial heritage. Following the interviewed stakeholders' opinion, the country's competitive advantage primarily lies in its authentic culture and secondly in its regional diversity. Demand for unique and long-lasting impressions from authentic cultural features has been growing recently and, importantly, among HVM tourists. In this respect, among the country's cultural attractions, are cultural heritage monuments and elements, which are inscribed in UNESCO's world heritage and intangible cultural heritage lists. Besides, presently, in UNESCO's list of the intangible cultural heritage of humanity there are four Georgian elements: Chidaoba, a type of wrestling (2018); the living culture of the three writing systems of the Georgian alphabet (2016); the ancient Georgian traditional Qvevri wine-making method (2013); and 'Georgian polyphonic singing (2001);

With regards to geographical proximity, Georgia's main cultural tourism attractions were identified as a strength, since, within a radius of 300-350 km from the second-largest city Kutaisi, almost all categories of cultural attractions can be reached.

### ***Cultural Tourism VC in need of improved services***

The majority of stakeholders have been discussing the issue relating to the low level of services provided by the cultural tourism value chain, today, in Georgia. According to them, such services are directly associated with the consumer satisfaction, inspiration, and attitudes of the tourists interested in cultural tourism in Georgia. Therefore, a crucial need for leveling up such services has been highlighted, as the combination of high-quality services with the unique museum-reserves of Georgia is an outstanding precondition for the VC's efficient and rapid development.

Besides, there has been made emphasis on obstacles on the supply side. Mostly the discussions were related to a need for further diversification of features and enhancement of existing attractions in Georgia: for instance, the existing short tours in museum-reserves have been underlined as being not enough to fully meet the visitors' expectations and thus a necessity of adding multimedia and other entertainment elements at attractions have been declared that will increase consumers satiation. Moreover, if such entertainment elements and related services are combined into a specific package and offered to the tourists, this would eventually bring more benefits. Numerous examples of similar successful practices in the world have been shared.

### ***The need to establish a promotion strategy for cultural tourism:***

The majority of respondents during the individual and focus group interviews highlighted the importance of cultural tourism strategy incorporating a clear vision for positioning the country at in international markets. Among other factors, the respondents pointed out the need for such a strategy document in line with the emergence of mass tourism in Georgia, which suppresses cultural attractions and their authenticity, as well as discourages HVM tourists interested in visiting Georgia for its cultural values. According to the majority of cultural tourism value chain representatives, Georgia's material

and immaterial cultural heritage represents a unique occasion that needs to be properly exploited on the international market.

### ***Decreased visitors and increased revenues of the museum-reserves of Georgia***

Due to the pandemic, there was a substantial decrease in a number of visitors of Georgian museum-reserves in 2021, however, the annual revenues during the same period were only 10% behind the similar figures in 2019. As highlighted, the increase in revenues was caused by the decisions made by the National Agency for Cultural Heritage Preservation before the pandemic, through which tariffs for tickets, guides, and other services, have been doubled. Worth to remark that the target of the initial plan was to double total revenues from GEL 3.4 mln in 2019 to GEL 7mln in 2020, with an objective to upgrade the museum-reserves' infrastructure, introduce multimedia visuals and new features with an ultimate goal to attract more visitors and increase their length of stay at museum-reserves of Georgia. However, because of the pandemic, the agency was not able to reach the goal. Importantly, as the practice revealed, that substantial price increase didn't have an impact on the demand, thus on visitor's behavior - meaning that the consumers were ready for an increased fee for this service. When asked to differentiate between local and foreign tourists, the answer was approximate, around 60-70% being foreign tourists, the rest locals.

### ***Enguri Hydro Power Dam – a certified member of ERIH***

Representing one of the most captivating examples of civil engineering achievements of the 20th century Georgia, the Enguri HPP arch dam has become a certified member of (and the first attraction from Georgia to join) European Route of Industrial Heritage (ERIH) of the Cultural Routes Program of Council of Europe. Worth noting that the existing route of the Enguri Dam is up to 2 hours long and provides spectacular attraction of dam bridge, reservoir section, tunnel, and other places. Overall, the route covers almost the whole portion of the territory covered by the de facto administration of Georgia. As discussed by the stakeholders of cultural tourism VC, the attraction's recognition will have a positive influence on attracting local and international tourists. GNTA's further objectives include the development of Enguri HPP dam tourist zone infrastructure which will include the construction of overlooking grounds, a ropeway, a science and discovery center, an open-air concert space, and the world's tallest elevator to the dam.

### ***Nokalakevi – a fast-growing museum- reserve in Georgia***

As the conducted qualitative study revealed, recently, a historical-architectural museum-reserve Nokalakevi has become one of the fastest-growing and most attractive directions in Georgia. With an area of 37 hectares, Nokalakevi is a fortress city village located in Senaki municipality, Samegelo-Zemo Svaneti region. The museum-reserve was exposed to the visitors in 2020, and the results exceeded the forecasts made by the Agency earlier and there are bigger expectations for this site in the future. Though, worth underlining, that the accompanying service enablers, gastronomy, hospitality, entertainment, and other infrastructure, are incompatible with the site, particularly considering the increased flow of tourists. Thus, interviewed respondents indicated the need for the private sector's active engagement to increase the quality of services at the site.

### ***The untapped potential of Mutso museum-reserve***

Located in the historic province of Khevsureti, Mtskheta-Mtianeti region, Mutso - an architectural complex and a fortress- represents one of the most unique museum-reserves in Georgia. Important to emphasize international recognition of this site - Mutso fortress was a winner of the 2019 European



Heritage Awards / Europa Nostra Awards, in two nominations: Restoration and a Public Choice Award. However, this place is in constant need of rehabilitation-conservation activities. Since 2014, in collaboration with GoG and support of private funding, the National Agency for Cultural Heritage Preservation of Georgia (NACHP) has launched the Mutso rehabilitation project. One of the main goals of the project was a re-migration of the mountain population, which the efforts have been successful as three families have already returned to Ardot valley.

However, unfortunately, Mutso museum-reserve is yet a sluggish tourist destination in Georgia and there is a need for consolidation of more efforts from different stakeholders for promoting the tourism potential of the internationally recognized site.

### ***A need for the Private sector's increased engagement in cultural tourism***

During the qualitative study, the majority of VC stakeholders have been emphasizing the importance and urgency of expanding information campaigns to stimulate private sector engagement and attract more investments at local touristic sites. In their opinion, providing targeted business actors evidence-based information about the tourism potential of specific museum-reserves (for instance Nokalakevi), could become the main stimulator for their involvement in tourism infrastructure development projects. including the expansion of entertainment, gastronomic, accommodation, and logistics infrastructure at different cultural tourism sites in Georgia. Importantly, in order to acquire functional load and increase the quality of services, the respondents underlined the importance of improving business skills and increasing entrepreneurial spirit at the local communities' level.

## **GASTRONOMIC TOURISM**

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

Overview of the existing challenges and opportunities

A qualitative analysis of gastronomic tourism was conducted based on in-depth interviews and focus group meetings with representatives from the private sector, the DMOs, and business associations, including the Gastronomic Association of Georgia; the Natural Wine Association; the Georgian Restaurateurs Association, and Georgian Tourism Association.

The primary challenges, existing opportunities, and the most important topics covered throughout the qualitative study of the gastronomic tourism value chain are summarized below:

### ***The competitive advantage of Georgian Gastronomy Tourism***

According to the opinions expressed by the interviewed respondents, a current global trend in gastronomy goes back to the past looking for authentic and simple tastes, most of them believe that Georgian taste and flavors represent a competitive advantage of the country internationally. Besides, in line with these tendencies, restoring and preserving authentic wine varieties is of vital importance, Worth to note that there is an increased interest from small wine cellars in the regions of Georgia in this direction, however, as reported by part of our respondents, they lack relevant know-how and experience in the business. Most of the respondents think that HVW tourists could be attracted by

such authentic tastes and flavors of Georgian gastronomy, which eventually can position the country well on the international market.

The following countries were stated among HVW countries, as significant 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.

Despite the majority of respondents highlighting the need to promote adventure tourism, the gastronomic tourism value chain representatives underlined the importance of attracting HVM tourists through marketing the abovementioned simple flavors and tastes of Georgian cuisine.

### ***Gaps in Local supply linkages***

Analyzing the findings shared by the interviewed DMOs, despite the fact that their surveys show sound links between culinary businesses and the local farmers, after long-term observations examining the available information, there have been found gaps in local supply chain linkages, as the consumption of locally produced products was found to be insignificant.

This, on the one hand, hinders the possibility of approaching the local authentic tastes and uniqueness of this destination, as well as hampers the development of local agriculture. Nevertheless, several success stories have also been told. For instance, Nikvi's Communa' has come to specialize in mushroom-foraging; Georgian tea, grown and made in Martvili, has partially substituted imports in the Samegrelo hospitality sector, as shared by Samegrelo-Zemo Svaneti DMO,

### ***Labor Shortage***

Huge complications relating to the recruitment of a labor force turn out to be a globally unresolved issue and thus a major influence on the Gastronomic tourism value chain (and hospitality, in general).

As claimed by the relevant stakeholders, after reopening, they found it hard to bring former employees back as most of them have already been occupied in other sectors (for example food delivery services and the retail sector). As opined by part of the respondents, there have been cases, when employees chose to work in low-paying but stable jobs than working in the unpredictable tourism industry.

Besides, attracting new staff was hard for VC business actors also, as the average level of demanded salaries has been very high both high and professional, as well as at lower positions. Thus, the employers in gastronomic and hospitality VC couldn't afford to meet the new requirements. The problem was reported to be much more severe in the regions. The new reality and circumstances have jeopardized service quality as well.

According to part of interviewed respondents, recently, the practice of migrating personnel from the country has become more frequent. Part of the workforce is heading to and started working in Qatar. As the country is a host country for FIFA World Cup 2022 tournament, it spends large resources for achieving high-level hospitality services and thus the recruitment process from Qatar is being managed in a very intensive way. With one thought in mind, this could eventually be beneficial for Georgia, since high-class and intensive hospitality training sessions are already underway and, hence, already well experienced qualified staff could return back home. However, the probability is also high that this staff stays and continues working in Qatar as salaries are 6-7 times higher compared to what they get here in Georgia.

## **Quality of Services**

The majority of respondents complained that the lack of labor force led to a more serious problem - a decline in service quality and, in some cases, this drop in quality is already evident. Due to labor shortage, it has become a common practice for managers to take over waiter duties themselves. The interviewed stakeholders are afraid that the consequences will be more disruptive in the medium term. If, for instance, the summer of 2022 will be the same as it was during the travel boom in the summer of 2020, and the gastronomic and hospitality sectors won't be able to be prepared adequately in this regard, they will fail to meet the demand (as it happened so in July 2020, when demand significantly exceeded the available supply, eventually reflected in the low ratings at hotel rental platforms).

## **Fluctuations in the hospitality industry due to the COVID-19 pandemic**

As reported by the majority of respondents, the global pandemic has led to changes in the hospitality industry, not only in Georgia but globally. If earlier bookings were confirmed 2-3 months in advance, after the pandemic crisis, final confirmation will take place a few days before the visit. As such, this poses a major challenge for private sector players as they are unable to undertake medium-term corporate planning. Besides, as highlighted, hotel occupancy rates were 45-50% in September and October, 30% in November; and 35% in December (2021). During this period, the average daily rate (ADR) has been decreasing. Also, the recent trend has been an increase in demand for 5-star branded hotels, whereas, before the pandemic, there was an opposite trend, with guests preferring to go to smaller hotels and guesthouses for local and authentic hotels. This shift in this trend is logically related to prioritizing safety against COVID-19.

## **Market discipline**

According to the value chain stakeholders, as well as opinions expressed by the HOREKA federation, one of the challenges is related to the economic activities of the guesthouses with up to 6 available rooms (so-called rural houses). As noted, 95% of such companies today operate in the shadow market as the vast majority of them do not declare their business, thereby avoiding paying utility costs levied on corporate clients, rates of which are much higher than that for individual households.

In respondents' opinion, one of the solutions could be an alignment of the utility costs of the guesthouses to that of individual households by a regulator, otherwise, such shadow guesthouses will always exist and hamper market transparency.

## **Increased input costs**

The challenge of increased input costs has been one of the most frequently discussed and mentioned during the qualitative study. Recall, that since the beginning of January 2021, gas and electricity tariffs for corporate customers have increased by 28% and 50-70%, respectively (except for the bread bakers). In addition, according to the business actors, input costs for intermediate goods and operational costs are gradually increasing.

According to them, such shifts have been particularly harmful as they arose during the crisis, and part of the private sector actors, especially smaller businesses, could not endure such conditions and went bankrupt.

## **Tourism industry stakeholders in need of improved coordination**

The representatives of the Destination Management Organizations (DMOs) of Kakheti, Samegrelo, and Samtskhe-Javakheti discussed the necessity for improved coordination among stakeholders in the tourism industry, which in the medium and long haul could prompt diminished efficiency. Such stakeholders include the private sector, the GoG, the DMOs, all tourism-sector-related programs supported by donor organizations, and every actor who is involved in the sector’s development. As highlighted by DMOs, there are rather many stakeholders and supporting programs with the same objectives and goals, however, few are informed about each other and there is a need for consolidating efforts and better coordination.

### Trends in food services

The turnover of enterprises in the food services value chain declined considerably by 22.6% in 2020, compared to 2019, however this decline was significantly higher for the aggregated sector (40.6% YoY decline). In 2021 with the reopening of the economy and alleviation of the restrictions, the turnover of value chain has shown a 18.2% increase compared to 2020 reaching GEL 824.5 mln. However, considering that some of the restrictions were at place in 2021, the rebound was not strong enough for the VC turnover to return to levels of 2019 still being 8.5% lower. Despite the aggregate sector showing the higher YoY increase of 30.8%, it fared worse when comparing to pre-pandemic value (22.3% decline), explained by the fact that the aggregate sector of accommodation and food services was more heavily impacted by the pandemic than the food services VC alone.

Chart I.21 Turnover of the food services value chain and the corresponding aggregated sector

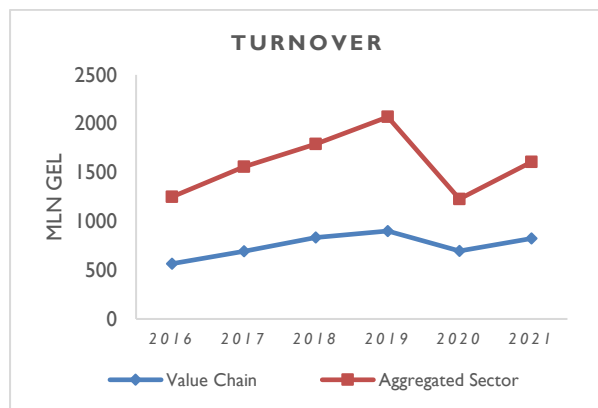
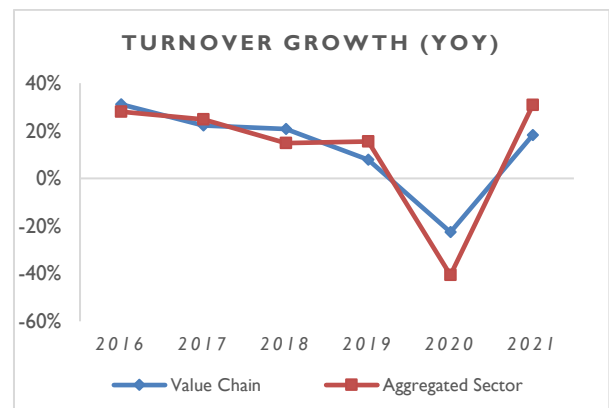


Chart I.22 Annual growth rate of turnover for the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

Output in the food services value chain mirrored the dynamics of the value chain’s turnover in 2020 and 2021. In 2021 output reached GEL 823.6 mln. growing by 19% compared to 2020 and declining by 8.1% compared to 2019. As in the case of turnover, the aggregated sector registered higher YoY growth (27.2%) and a decline (-21.5%) when compared to 2019.

Chart I.23 Output of the food services value chain and the corresponding aggregated sector

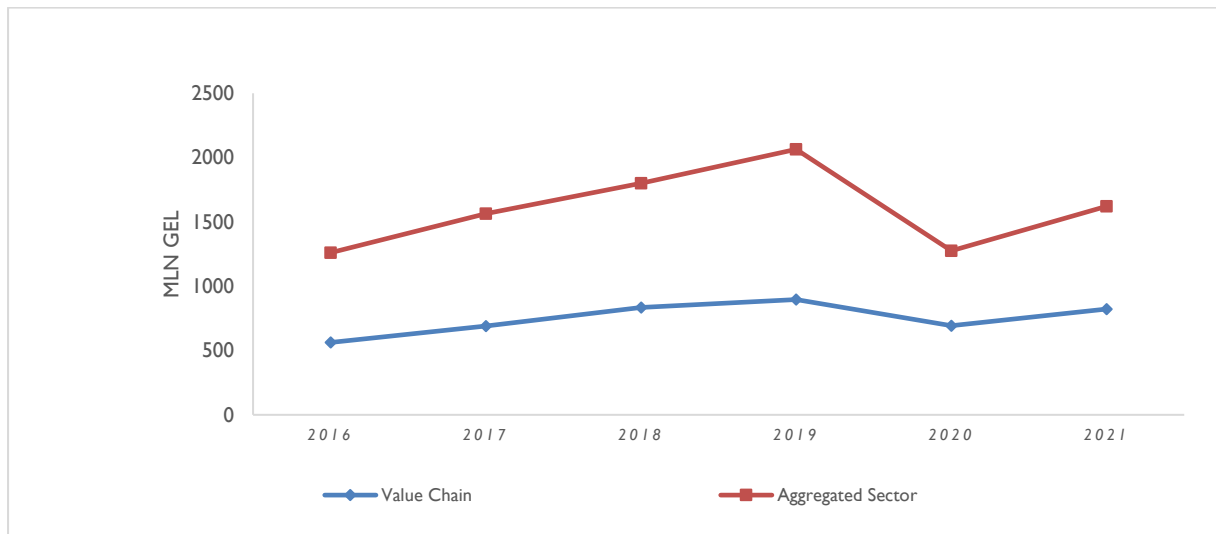
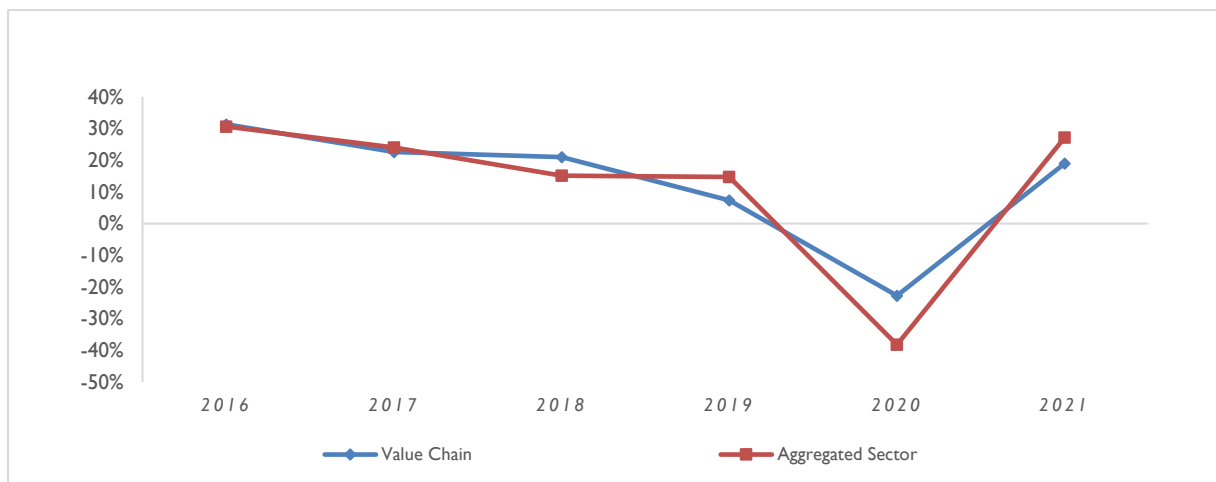


Chart I.24 Annual growth rate of output for the food services value chain and the aggregated sector

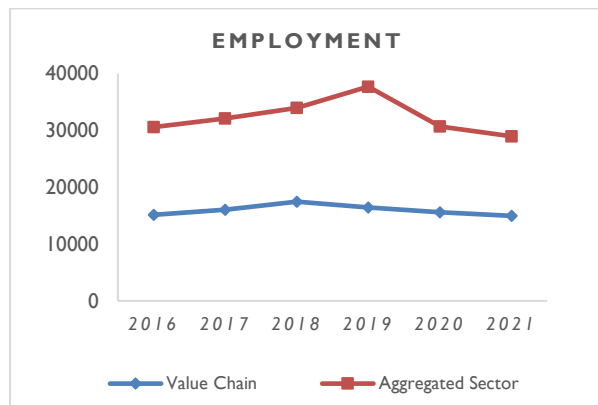


Source: National Statistics Office of Georgia

Employment<sup>21</sup> in food services value chain has been declining steadily from 2019 to 2021. In 2021 the employment has shown a 4% YoY decline reaching 14,959 average quarterly employees. Meanwhile, in 2021 a YoY decline in aggregated sector was much higher reaching 18.6%. When comparing to 2019, the decline in employment of VC was 9.1%, which is significantly lower compared to the aggregated sector, which has shown a 23.2% decline.

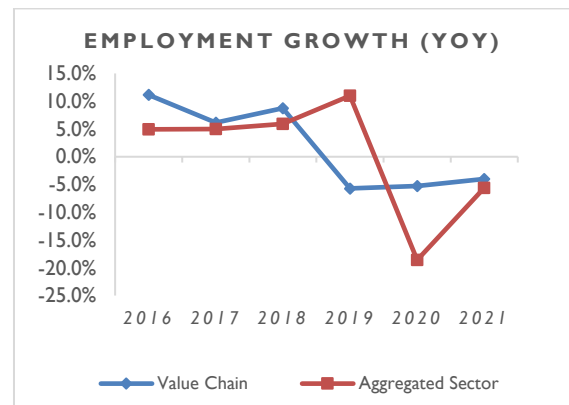
<sup>21</sup> It has to be noted that a substantial amount of value chain employment is unobserved, as many food service facilities are not officially registered.; thus, the impact of the pandemic on the VC's employment is not fully reflected by the official statistics presented above.

Chart I.25 Employment in the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

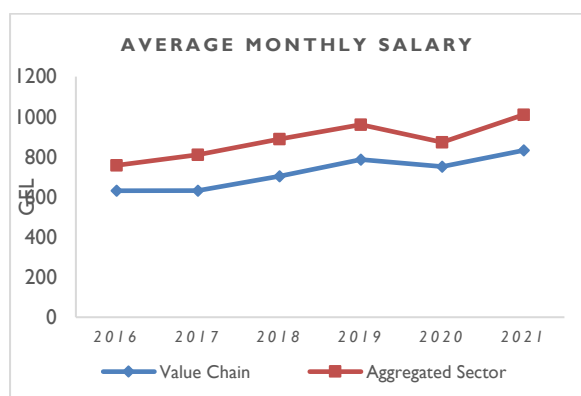
Chart I.26 Annual growth rate of employment in the food services value chain and the aggregated sector



In 2020 average monthly salary declined similarly for VC (4.4% YoY decline) and aggregated sector (9.2% YoY decline). In 2021 increase in monthly average salary was higher in aggregated sector (15.8%), compared to food services value chain, where the average salary has shown 10.7% YoY increase, reaching GEL 832. When comparing to 2019, the average salary in VC has shown an increase of 5.8%, while for aggregated sector this figure was equal to 5.1%. Notably, the total salary fund of the value chain increased by 6.2% in 2021 compared to 2020 and declined by 3.8% when compared to 2019.

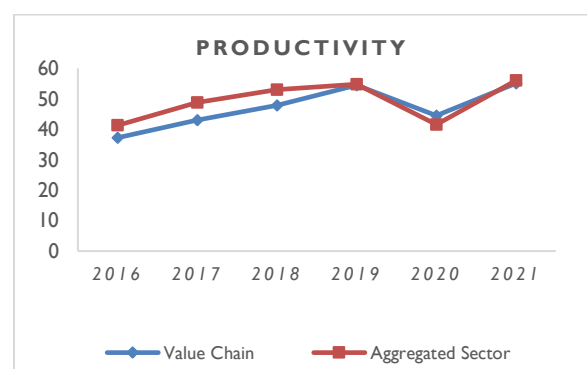
In 2020, productivity of the VC, as measured by output divided by the number of employed people of suffered significantly declining by 18.4%, however, note, that the decline was higher for the aggregated sector (24.1% YoY decline). In 2021, the productivity in VC increased by 23.9% compared to 2020 and by 1.1% when compared to 2019. The increase in productivity was higher for the aggregated sector both compared to 2020 (34.7% YoY increase) and 2019 (2.2% increase). This sharp increase in productivity could be directly attributed to higher magnitude increase in output of VC and aggregated sector compared to the number of the employed in 2021.

Chart I.27 Average monthly salary in the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart I.28 Annual growth rate of productivity in the food services value chain and the corresponding aggregated sector



## **CATERING**

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

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

With the restrictions on events easing since Q2 of 2021, the VC has seen the first signs of the recovery. Each of the surveyed firms which have not halted operations have reported growth in terms of all, turnover, employment, and average gross monthly salary, when compared to corresponding quarters of 2020. Albeit this growth can directly be attributed to the base effect.

Finally, the number of firms operating in the catering VC have decreased as some operators decided to not reopen their catering divisions even after eased restrictions in 2021.

## 2. CREATIVE INDUSTRIES

### SECTOR SUMMARY

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

After being heavily hit by COVID-19, the media content production and post-production value chain has started its recovery from record-low numbers, recording its first growth in Q2 2021 after the start of the pandemic. The VC's turnover and productivity expanded in 2021 when compared to the previous year, but those indicators are yet to recover to pre-pandemic levels. Meanwhile, the VC's other key indicators including employment and average salary have continued to grow in 2020, but declined in 2021, suggesting that the labor market of the media content production and post-production value chain was slow to reflect the pandemic crisis.

The overall performance of the artisan VC in 2021 can be described as the first signs of the recovery, with more than half of the firms increasing their turnover. However, the recovery is still quite limited, with a third of companies decreasing their turnover in 2021, even when compared to 2020.

### MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

Media content and production used to be a consistently expanding value chain before 2020, growing much faster than its aggregated sector (ICT sector). The VC was heavily damaged by the pandemic in 2020, though in 2021, while the pandemic was still ongoing, the media content and post-production value chain conditions started to show the first signs of recovery.

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

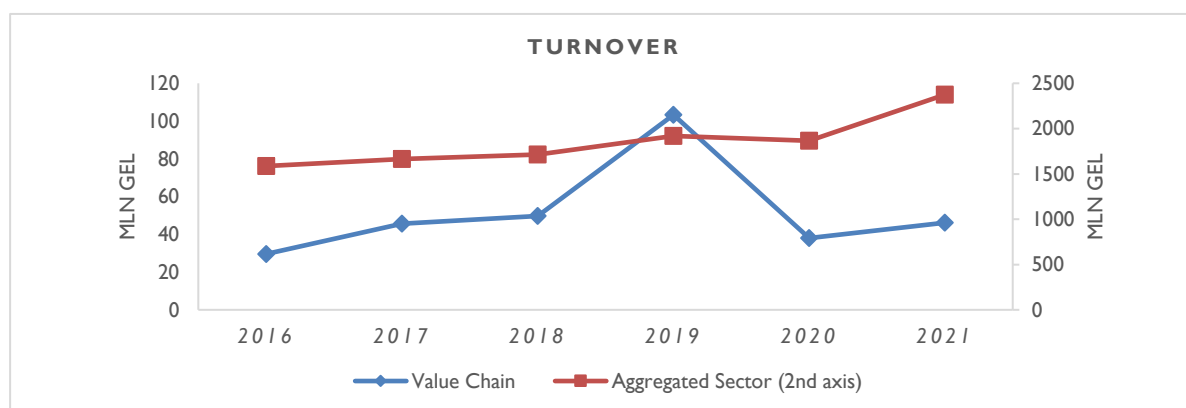
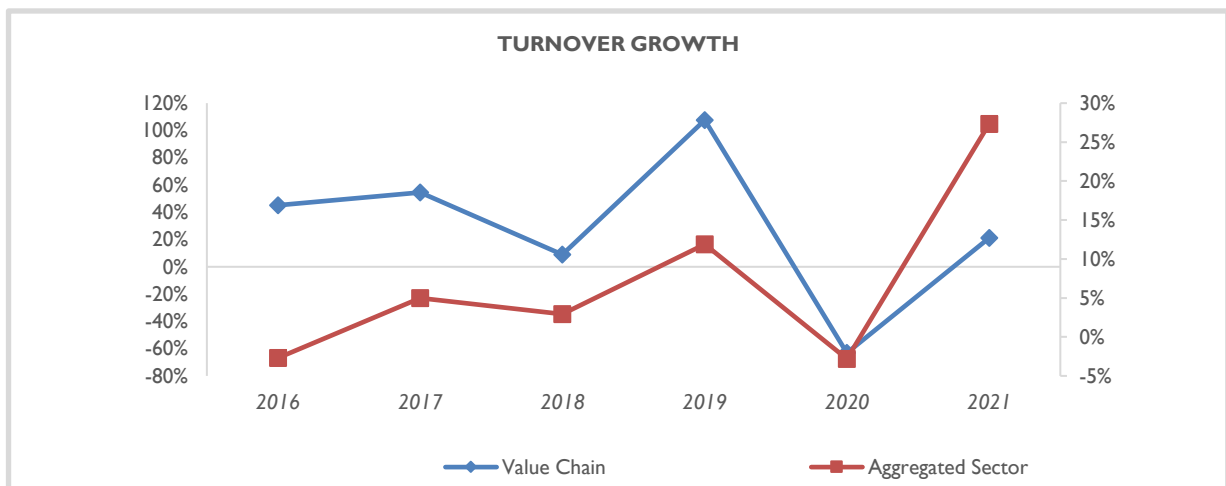




Chart 2.2 Changes in turnover for the media content production and post-production value chain and the aggregated corresponding aggregated sector



Source: National Statistics Office of Georgia

Turnover of media content and production was showing the trend of positive growth before the pandemic, recording an especially high growth of 107.6% in 2019, while for the ICT sector (the aggregated sector) the number was only 11.9%. However, due to the pandemic, the value chain experienced a rough transition to a sharp contraction (-63.2%), dropping from GEL 103.3 mln to GEL 38.0 mln in 2020. In comparison, the aggregated sector was hit much less and turnover growth declined only by 2.8%.

As the major pandemic-related restrictions were lifted and the economy started to rebound, the VC also started to recover in 2021. Turnover growth of media content and production was 21.2% in 2021, however, in terms of absolute value turnover reaching GEL 46.1 mln has not recovered to the pre-pandemic levels of either 2019 (GEL 103.3 mln), or 2018 (GEL 49.8 mln). This suggests that the growth in 2021 was largely attributed to the low base effect of 2020. Meanwhile, the aggregated sector has even surpassed its pre-pandemic performance by 23.8%.

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

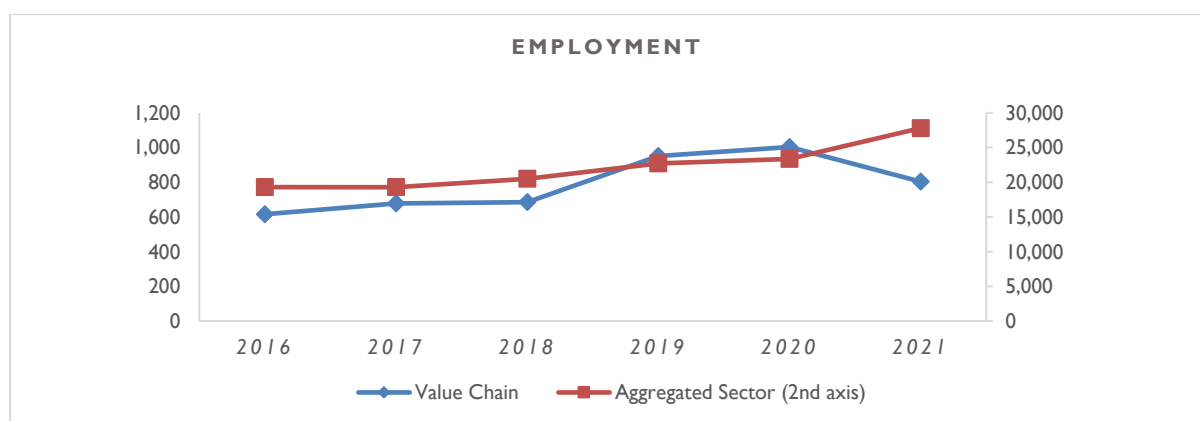
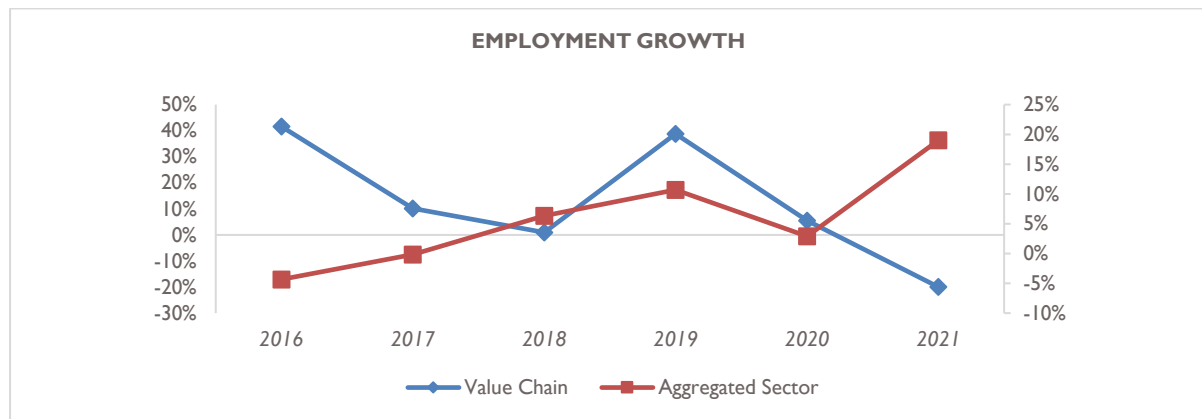


Chart 2.4 Changes in turnover for the media content production and post-production value chain and aggregated the corresponding aggregated sector



Source: National Statistics Office of Georgia

The number of people employed in media content production and post-production value chain was steadily growing before the pandemic while showing high growth in 2019 – 38.8%. The employment continued to grow in 2020 – though only by 5.5%, but substantially declined in 2021(-20.0%). The number of employed people in 2021 was 15.6% lower even compared to the pre-pandemic value in 2019. This could be explained by the hesitance of the companies to let go of their employees at the early stage of the pandemic. Conversely, the aggregate sector expanded its number of laborers not only in 2020(2.9%) but showed high growth of employees in 2021 as well (19.0%).

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

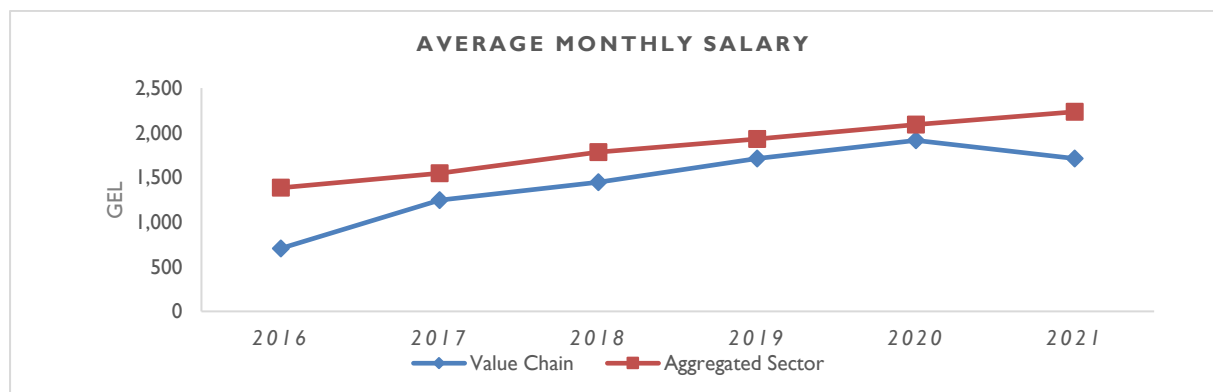
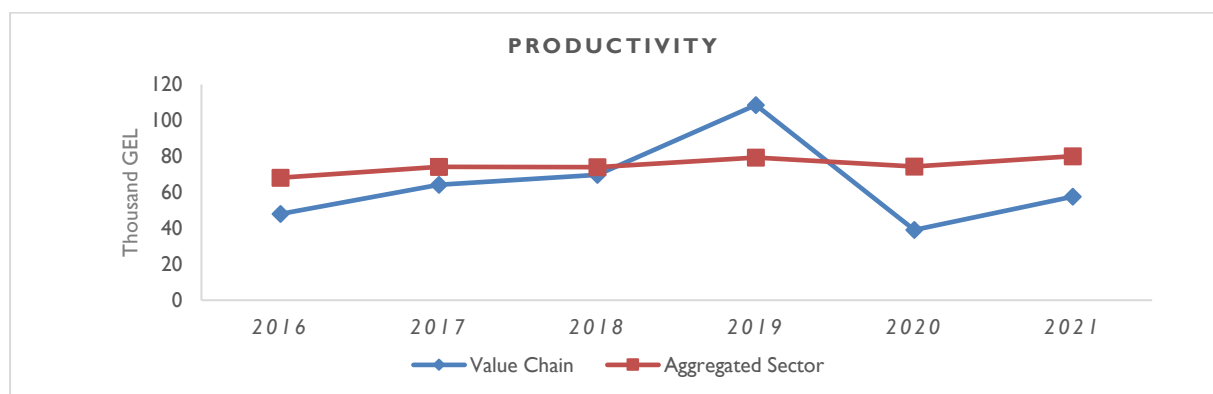


Chart 2.6 Production and post-production value chain and corresponding the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the media production and post-production value chain has not declined in 2020 either and grew by 11.8% compared to 2019. So, the average monthly salary in the VC was steadily growing before but declined by 10.7% from GEL 1914.0 to GEL 1709.4 in 2021, which is almost equal to the average monthly salary recorded in 2019 – GEL 1711.5. Interestingly, there was no high difference in the average monthly salary of the VC and aggregated sector, but as salary in the aggregated sector continued to grow in 2020 and 2021 as well, the difference increased compared to the previous years and reached GEL 524.7. It can be said that overall, average salaries in both, the VC and the aggregate sector, were not heavily impacted by the pandemic, at least compared to the other indicators of the VC.

Productivity of the media production and post-production value chain has been significantly affected by the COVID-19 pandemic, decreasing by 64% in 2020. In 2021, the productivity of the VC has started to recover, increasing by 47.2%. Though the absolute value of productivity in 2021, which was 57.6, has not recovered to the level of 2019, when it peaked to 108.6, and also remained lower compared to the level of 2018 (69.7).

## **ARTISAN**

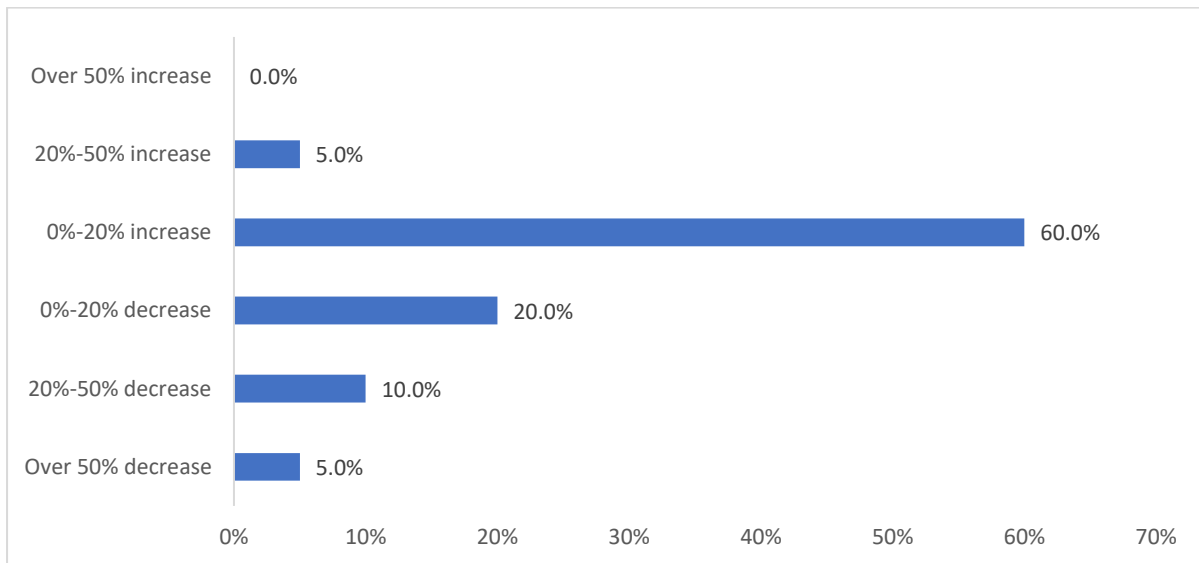
As the data for the artisan VC is not available due to the niche and diverse nature of the field, a survey has been conducted. The majority of the surveyed companies, drawn from the stakeholder's list, are sole entrepreneurs, all of them operating from Tbilisi. The products that the entrepreneurs and LLCs specialize around vary from ceramics to jewelry, out of which custom furniture and miniature figures are the most common.

As mentioned in the previous reports, during the pandemic the artisan VC has been hit the hardest, threatening to completely halt the activities of most of the businesses in the field. High freight costs, insufficient advertisement and lack of foreign customers have been the main issues for most of the artisan representatives. With the relative rebound of tourism in Georgia in 2021, the harsh conditions were eased for the abovementioned businesses.

The size of companies in artisan sector is relatively low. Amongst 21 surveyed companies in 2021, a vast majority of them (17) indicated an average quarterly turnover lower than GEL 0.1 million, while for the remaining 4 companies it was between GEL 0.1 million and 0.5 million.

As chart below shows, 60% of the surveyed companies depicted a moderate average quarterly growth of turnover (0%-20% increase) and 5% indicated a growth between 20% and 50% in 2021 compared to 2020. However, 35% of firms reported that their turnover had decreased in 2021, when compared to 2020.

Chart 2.7 Percentage Distribution of Average Quarterly Turnover Growth Rates in the Artisan Value Chain, 2021



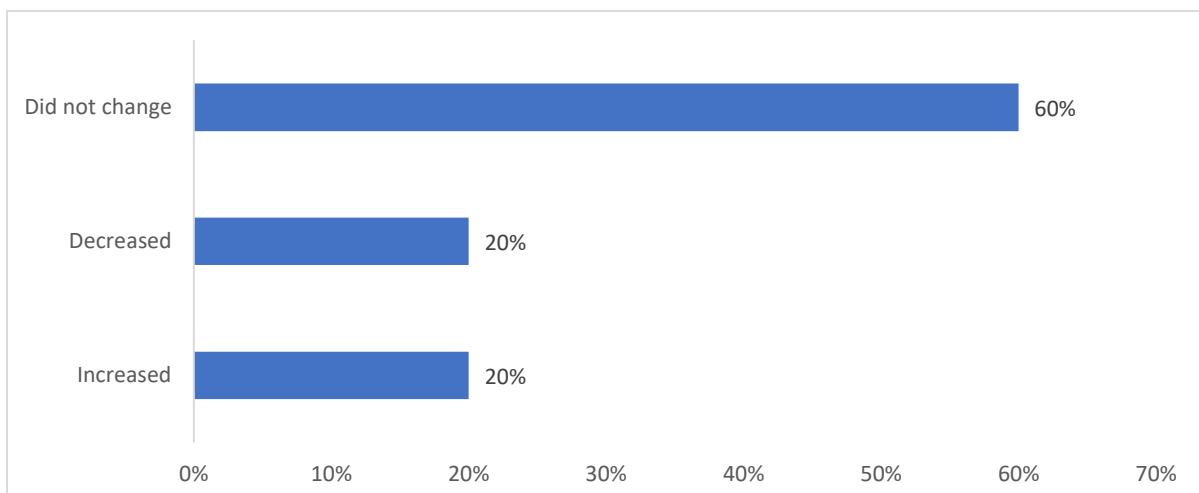
Source: Authors' calculations

Overall, average quarterly turnover of the sample has increased by 1.6% (YoY) on average in 2021 compared to 2020.

In 2021, the average quarterly employment in surveyed Artisan companies varied from 1 to 6, with the median number of 1.75 employed persons. In fact, majority of them are one-person enterprises with no additional employees. Women accounted for 78% of employed individuals on average in 2021, while the share of young people (under 30 years old) made up just 24% of the total employees of the surveyed companies.

Meanwhile, more than half of the companies (60%) indicated no change in the number of employees in 2021 (Chart 2.8). On average, 20% of firms reported a decline in employment, while 21% experienced rise in the number of employed people in 2021 compared to 2020. The average quarterly salary amongst the surveyed companies equaled GEL 418 in 2021.

Chart 2.8 Average Quarterly Change in Employment, 2021.



Source: Authors' calculations

### 3. LIGHT MANUFACTURING

#### SECTOR SUMMARY

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

The following section provides a detailed economic analysis of the furniture, packaging, and construction materials value chains based on quarterly enterprise survey data from Geostat, while for the wooden toys business activity and the PPE value chain, phone surveys were conducted, the result of which are also presented. Data are put in annual perspective to examine the tendencies observed during the year 2021 in the respective VCs.

According to the quarterly data, turnover in all value chains in this sector demonstrated positive nominal growth in 2021 compared to 2020, with the highest growth observed in the furniture inputs value chain (52.7%). Employment has also increased in 2021 in every value chain, with the highest average growth observed in construction materials VC (10.6%). The highest number of hired employees as of 2021 was registered in the construction materials value chain, while the lowest was observed in furniture inputs value chain. Improved performance in 2021 should be partly attributed to the base effect.

The average monthly salary for 2021 ranged between GEL 936 (in the furniture VC) and GEL 1,454 (in packaging VC). Similarly, the furniture VC has been characterized by the lowest productivity<sup>22</sup> (GEL 78,528), while the highest productivity was identified in the packaging value chain (GEL 185,000).

Survey results for the PPE value chain and the wooden toys business activity suggest that about half of the surveyed firms reported increased average quarterly turnover in 2021, compared to 2020. As for employment, 50% of companies in PPE value chain indicated no change in average quarterly employment, whilst 55% of wooden toys manufacturers reported average quarterly rise in their number of employees in 2021, compared to 2020.

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<sup>22</sup> Annual output per hired employee.

## FURNITURE

In the following section we provide quantitative economic indicators for the furniture VC and for its corresponding aggregate sector (manufacturing). Indicators are based on Geostat's quarterly enterprise survey data, which is then aggregated to present annual tendencies.

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

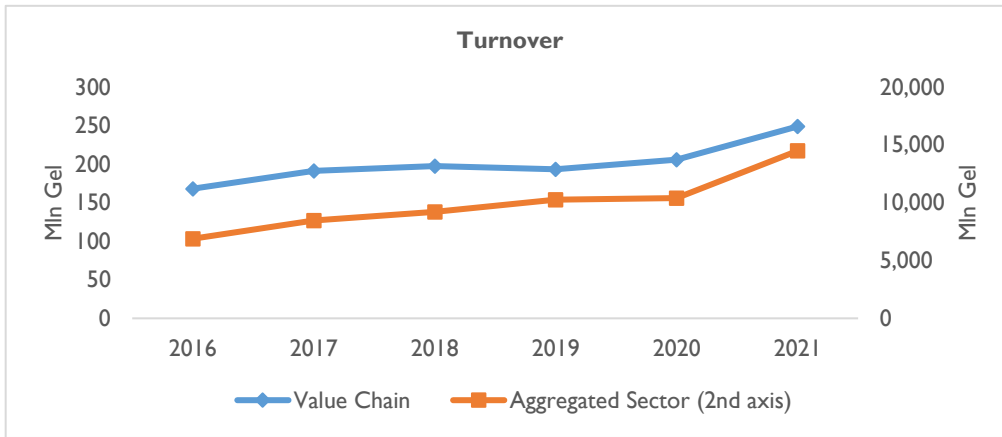
Table 3.1 Economic activities included in furniture value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code in Geostat quarterly survey	Description of Economic Activity	Additional Classification
31	Manufacture of furniture	31	Manufacture of furniture	Furniture Output
16.1	Sawmilling and planing of wood	16.1	Sawmilling and planing of wood	Inputs of Furniture
16.21	Manufacture of veneer sheets and wood-based panels	16.2 <sup>23</sup>	Manufacture of products of wood, cork, straw and plaiting materials	
16.22	Manufacture of assembled parquet floors			
16.29	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials			

Despite the turbulence, caused by the spread of Covid-19 and the abrupt drop in economic growth, turnover for furniture VC has grown to 205 million GEL in 2020 that is approximately 6.5% growth compared to 2019 (GEL 193 million). The rebound in overall economic activity in 2021 accelerated turnover growth for the VC, reaching GEL 248 million (20.9% growth). The identical trend has been observed in the aggregate sector, characterized by 1.3% and 39.2% turnover growth in 2020 and 2021 respectively, reaching GEL 14.5 billion (Chart 3.1 and 3.2).

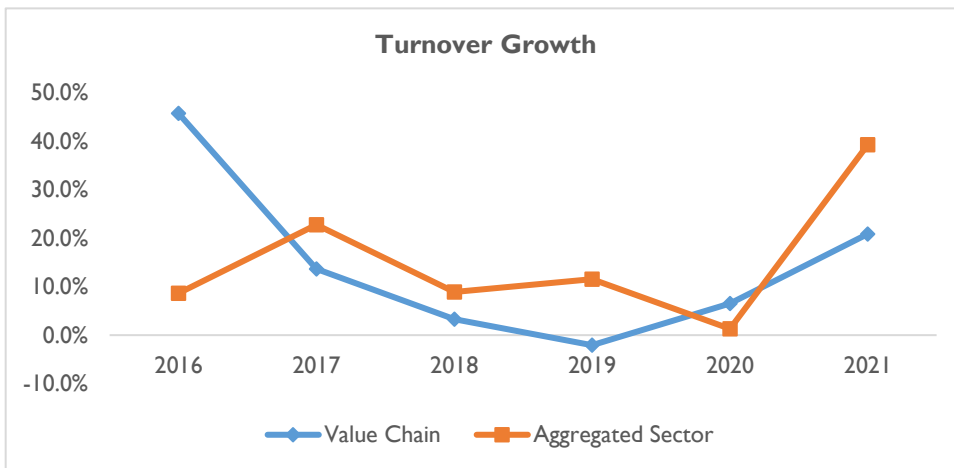
<sup>23</sup> 16.2 group also includes the following activities: 16.23 Manufacture of other builders' carpentry and joinery; and 16.24 Manufacture of wooden containers.

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



Source: National Statistics Office of Georgia

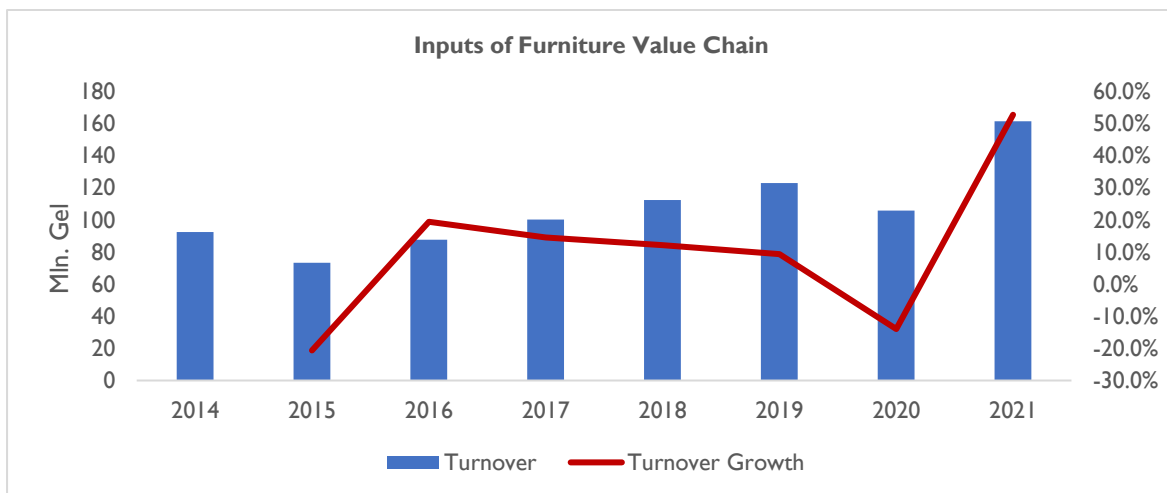
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Turnover of the furniture VC inputs has experienced a moderate decline in 2020 (14%), but the improved economic conditions has contributed to its drastic YoY increase of 52.7% in 2021, reaching GEL 161 million (Chart 3.3).

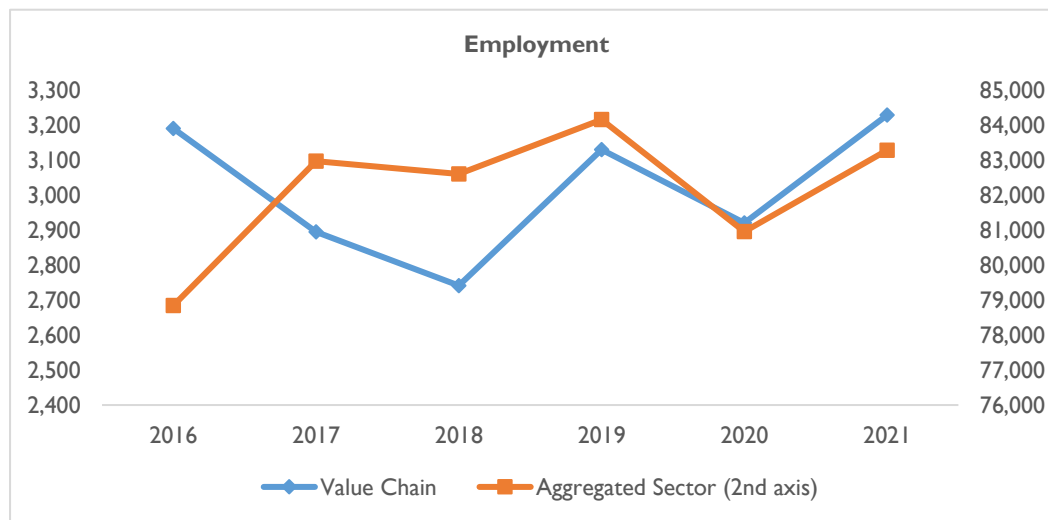
Chart 3.3 Turnover of the furniture value chain inputs and its growth rate



Source: National Statistics Office of Georgia

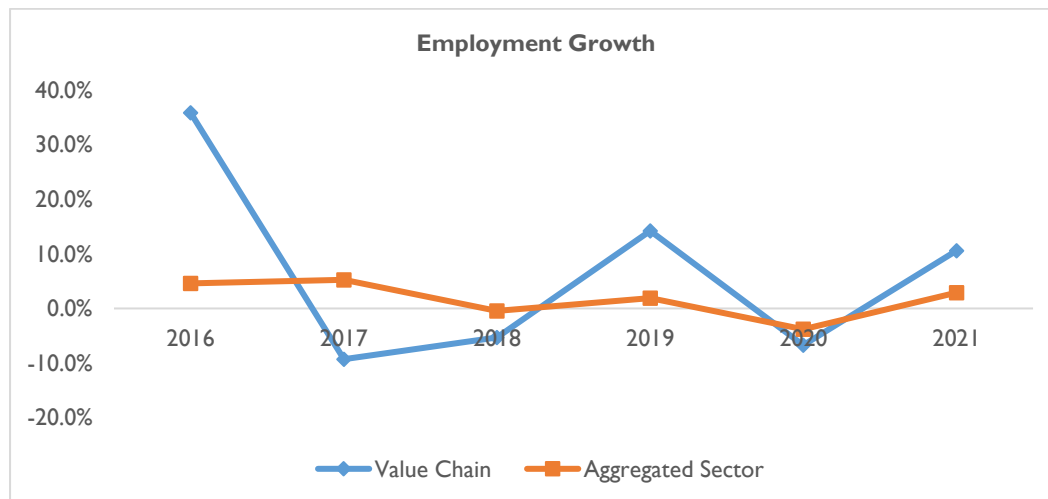
Following the economic crisis, caused by the spread of Covid-19, the employment<sup>24</sup> in the Furniture VC decreased to 2,921 workers, constituting 6.7% decline compared to 2019. After the recovery on the market in 2021, diminishing trend of employment in the furniture VC was reversed and employment grew by 10.6%. Similar rebound is observed in the aggregate sector, where the employment has increased slightly in 2021 (2.9%) after the initial drop in 2020 by 3.8% (Chart 3.4 and 3.5).

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



Source: National Statistics Office of Georgia

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



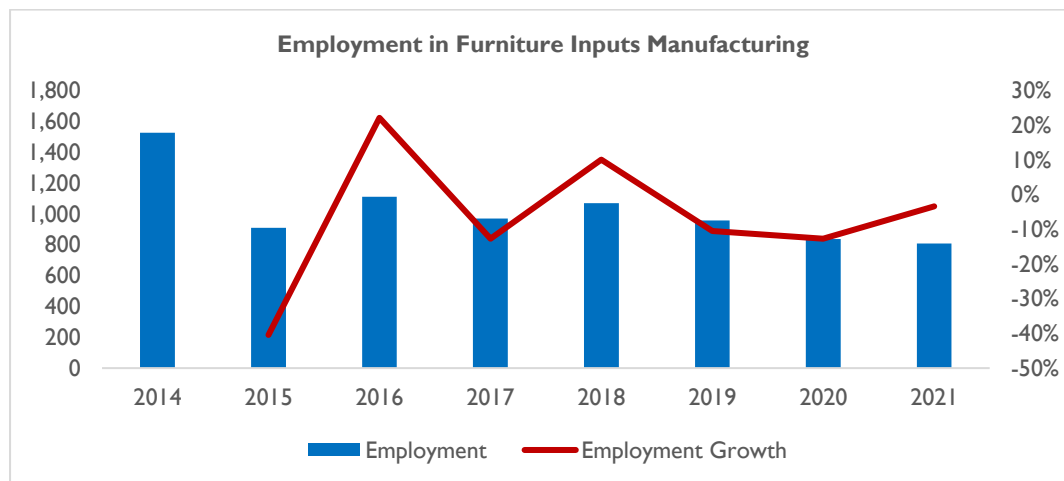
Source: National Statistics Office of Georgia

Employment in the furniture inputs value chain decreased by 12.6 % in 2020 compared to 2019 (Chart 3.6). Despite the economic rebound, the number of hired individuals still diminished in 2021, but at a slower pace (3%), reaching the lowest number of employed people, 810, in the decade.

<sup>24</sup> Annual employment is calculated as average of employment in each quarter.



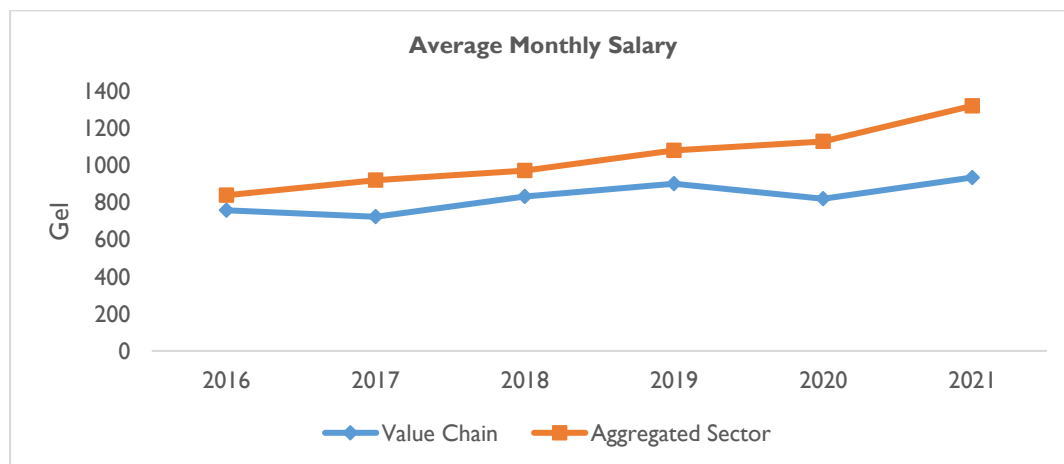
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing



Source: National Statistics Office of Georgia

After the growth of an average monthly salary<sup>25</sup> during 2017-2019, wages in furniture value chain have diminished in 2020, following the spread of pandemic. However, the restart of economic activity influenced positively the indicator, experiencing 13.9% growth in 2021, reaching GEL 936. As for the aggregated sector, the average salary amounted to GEL 1,323 in 2021, which represents a 17% increase compared to 2020 (Chart 3.7).

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

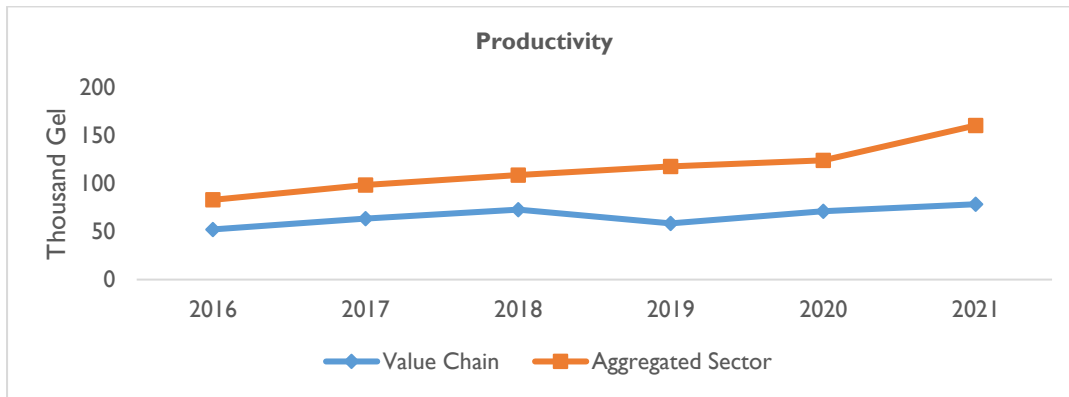


Source: National Statistics Office of Georgia

Similar to average monthly salary, productivity for the furniture value chain increased in 2021 (10.1%) and reached GEL 78,528. As for the aggregate sector, productivity increased significantly (29.2%) and amounted to GEL 161,000 (Chart 3.8).

<sup>25</sup> Average monthly salary is calculated as total monthly salary issued, divided by the annual employment. Total monthly salary issued is calculated as an average of the quarterly total monthly salaries.

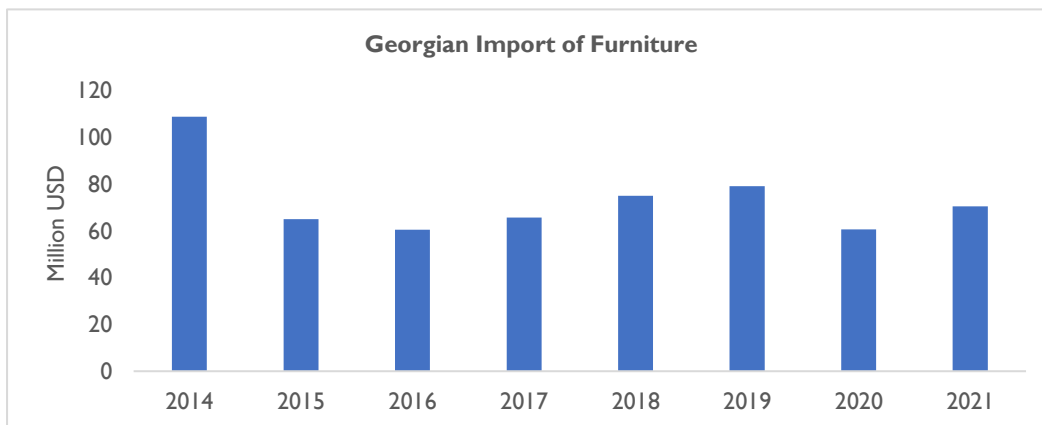
Chart 3.8 Labor productivity (annual output per hired employee) in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

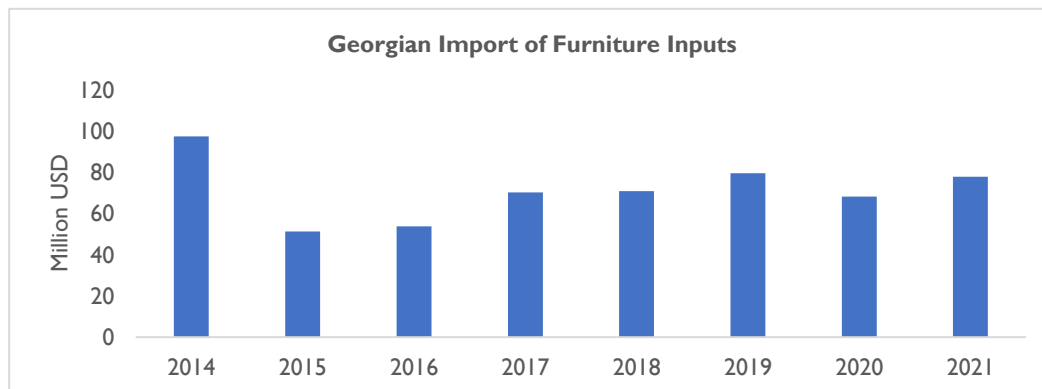
Based on the observed trade tendencies in the furniture value chain, Georgia’s imports of furniture increased in 2021, reaching USD 70.5 million after the decline in 2020. Imports of furniture inputs followed the same trend in 2021, constituting USD 77.8 million. These represent 16.3% and 14% growth compared to 2020, for furniture and furniture inputs, respectively (Charts 3.9 and 3.10).

Chart 3.9 Georgian Imports of Furniture



Source: National Statistics Office of Georgia

Chart 3.10 Georgian Imports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.11 and Chart 3.12 below show the top importing countries of furniture and its inputs in 2021. In the case of furniture import, the main trade partners for Georgia were Turkey (44%) and China

(11%). Meanwhile, the main importing partners for furniture inputs during 2021 were Turkey (58%), Russia (10%), and France (5%).

Chart 3.12 Georgian Imports of Furniture Inputs by Trade Partners (2021)

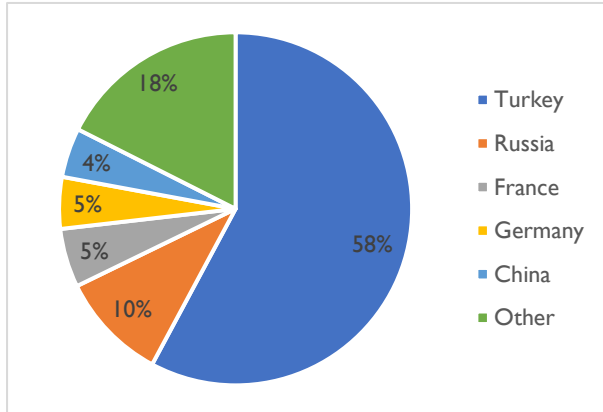
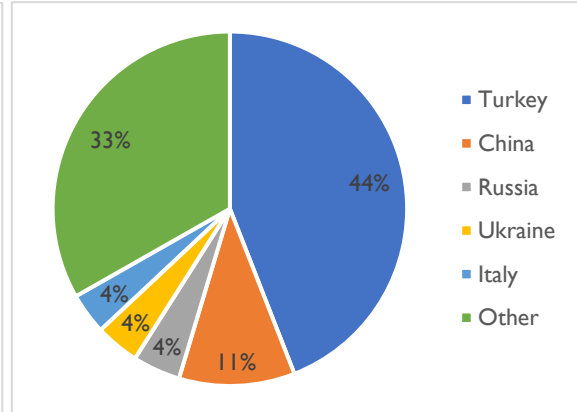


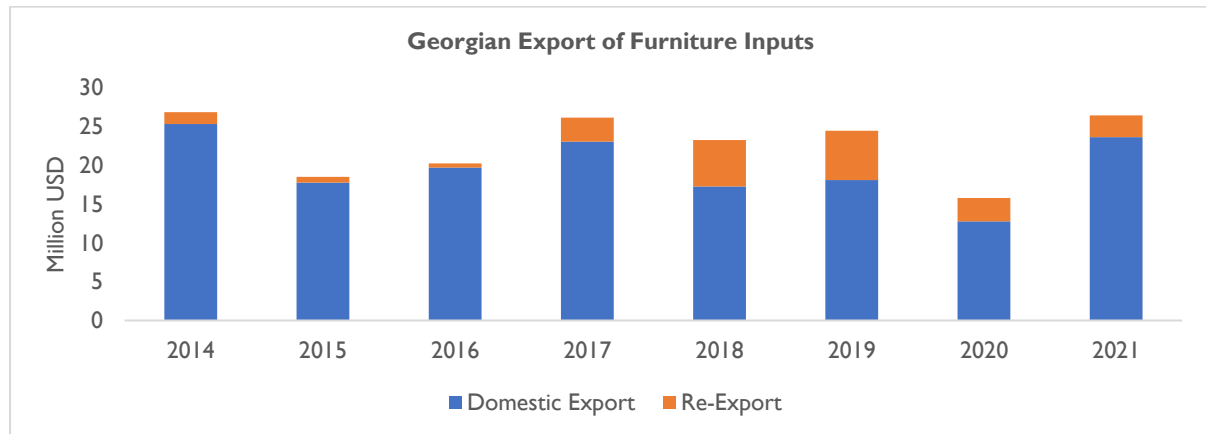
Chart 3.11 Georgian Imports of Furniture by Trade Partners (2021)



Source: National Statistics Office of Georgia

In 2021, domestic exports<sup>26</sup> of furniture inputs expanded, while the re-export has diminished. More specifically, domestic exports and re-exports amounted to USD 23.6 million and USD 2.7 million, which is an increase of 85.2% and drop of 9%, respectively, compared to 2020.

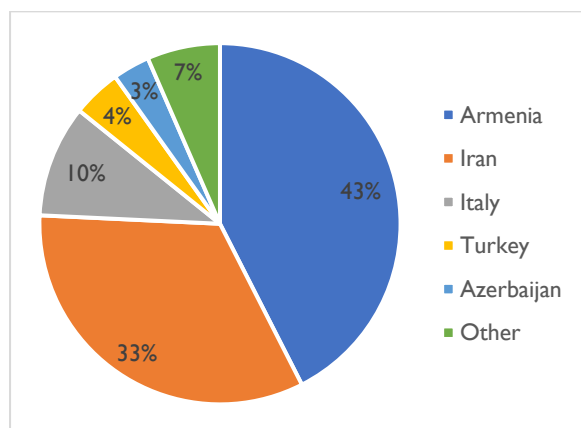
Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.14 shows the top exporting markets for Georgian furniture inputs for 2021. Armenia (43%) and Iran (33%) are the leading export destinations, followed by Italy (10%), Turkey (4%), and Azerbaijan (3%).

Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (2021)

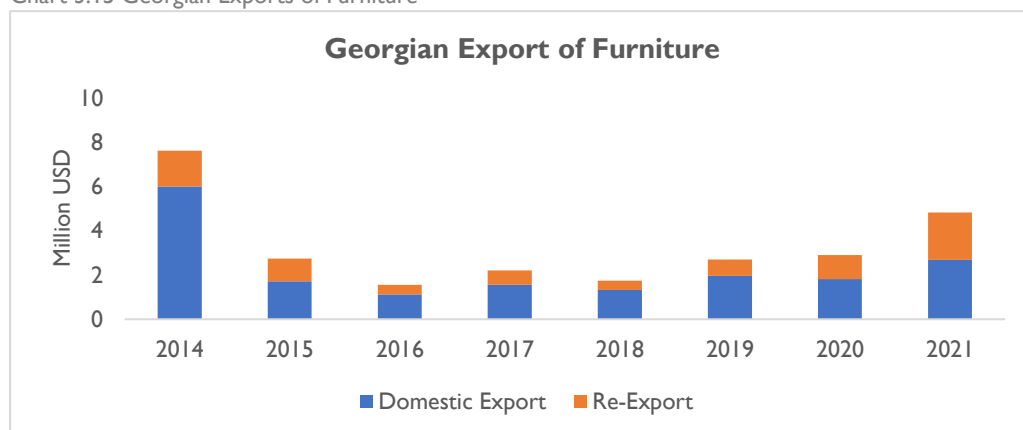


Source: National Statistics Office of Georgia

Even though Georgian exports of furniture experienced a moderate decline in 2020, the loosening of restrictive measures and rebound in economic growth contributed positively to growth of domestic exports, which peaked in 2021, reaching USD 23.6 million (47.7% growth compared to 2020). Similarly, re-exports experienced a sharp increase in 2021, constituting USD 2.7 million (97.8% growth) (Chart 3.15).

<sup>26</sup> Domestic exports are defined as exported goods that are manufactured in Georgia as well as commodities of foreign origin that have been changed, enhanced in value or further improved in condition within the territory of Georgia.

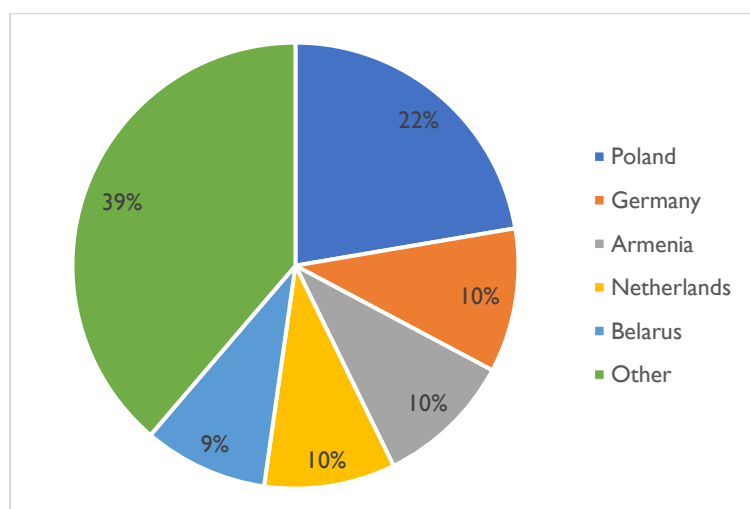
Chart 3.15 Georgian Exports of Furniture



Source: National Statistics Office of Georgia

Chart 3.16 shows the top trading partner countries in 2021 for Georgia’s domestic exports of furniture output. The major export destinations during 2021 were Poland (22%) and Germany (10%), followed by Armenia (10%), Netherlands (10%) and Belarus (9%).

Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (2021)

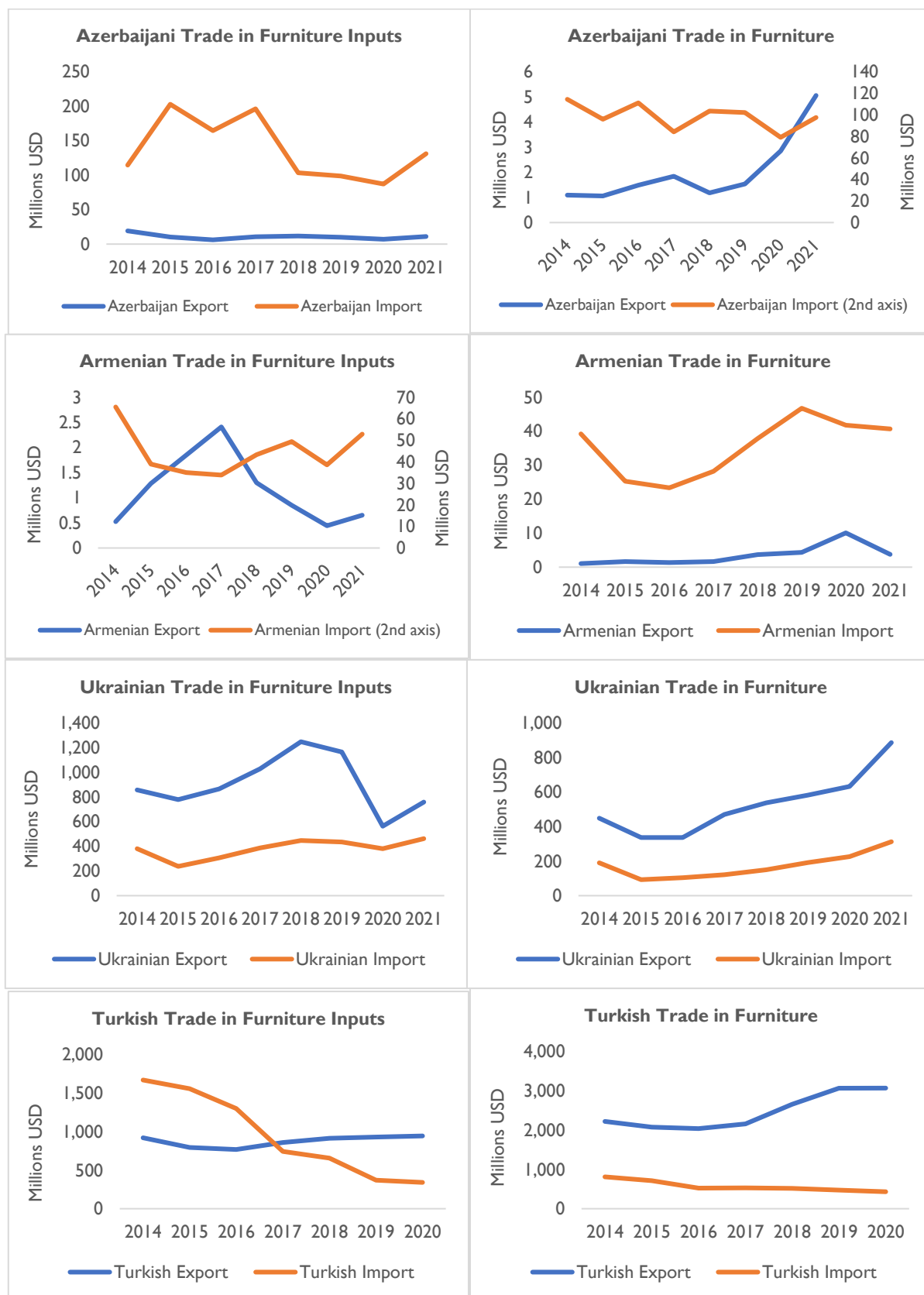


Source: National Statistics Office of Georgia

To analyze regional trade flows, the following countries are considered in the following section: Armenia, Azerbaijan, Turkey, and Ukraine. Exports of furniture have increased for Azerbaijan and Ukraine, while Armenia experienced a sharp decline in 2021 compared to 2020. Likewise, import of furniture expanded in Ukraine and Azerbaijan and diminished in Armenia (Chart 3.17).

Exports of furniture inputs increased for Armenia, Ukraine and Azerbaijan in 2021. The identical trend has been observed for these countries in terms of imports of Furniture inputs.

Chart 3.17 Regional trade patterns in the furniture value chain

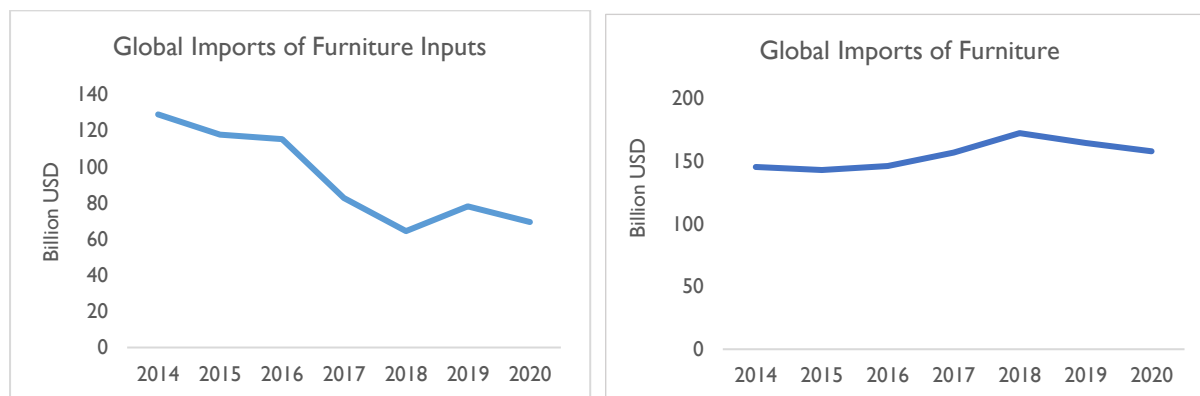


Source: UN Comtrade<sup>27</sup>

<sup>27</sup> 2021 trade data for Turkey is not yet reported on UN Comtrade.

Observing global tendencies in furniture trade, as Chart 3.18 shows, global imports of furniture and its inputs declined in 2020, compared to 2019. It is probably result of spread of Covid-19 and the respective economic crisis. It should be noted that global trade data for the year 2021 is not yet available.

Chart 3.18 Global Imports of Furniture and its inputs



Source: UN Comtrade<sup>28</sup>

## CONSTRUCTION MATERIALS

In the following section of the report, we observe the development of construction materials value chain by providing economic indicators for this VC and its corresponding aggregate sector (manufacturing). Indicators are based on Geostat’s quarterly enterprise survey data, which is then aggregated to present annual tendencies.

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

Table 3.2 Economic activities included in the construction materials value chain

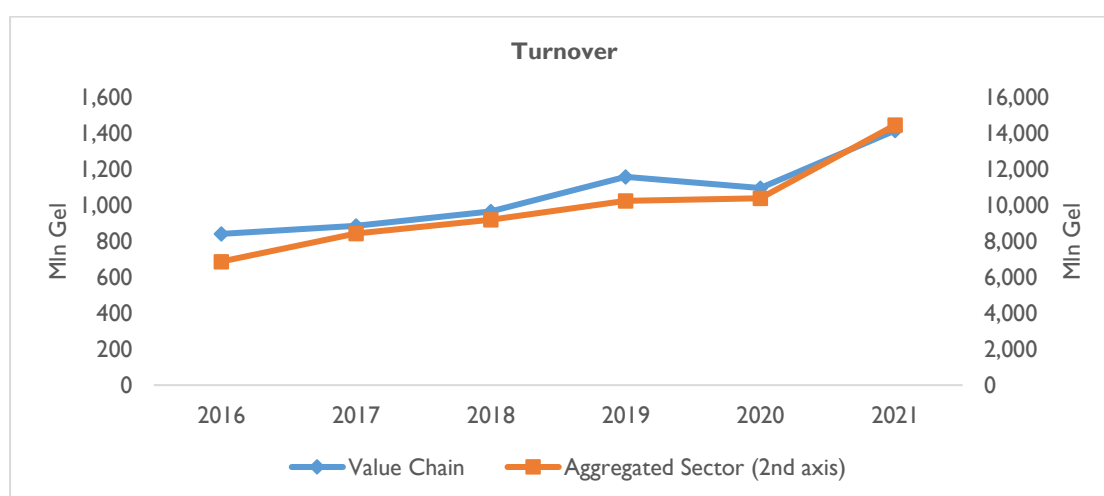
Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code in Geostat quarterly survey	Description of Economic Activity
16.23	Manufacture of other builders’ carpentry and joinery	16.2	Manufacture of products of wood, cork, straw and plaiting materials
23.11	Manufacture of flat glass	23.1	Manufacture of glass and glass products
23.12	Shaping and processing of flat glass		
23.13	Manufacture of hollow glass		
23.32	Manufacture of bricks, tiles and construction products, in baked clay	23.3	Manufacture of clay building materials
23.6	Manufacture of articles of concrete, cement and plaster	23.6	Manufacture of articles of concrete, cement and plaster
23.7	Cutting, shaping and finishing of stone	23.7	Cutting, shaping and finishing of stone

<sup>28</sup> 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.

24.33	Cold forming or folding	<i>Not used in the analysis due to data availability only at a very high-level aggregation</i>	
25.11	Manufacture of metal structures and parts of structures	25.11	Manufacture of metal structures and parts of structures
25.12	Manufacture of doors and windows of metal	25.12	Manufacture of doors and windows of metal

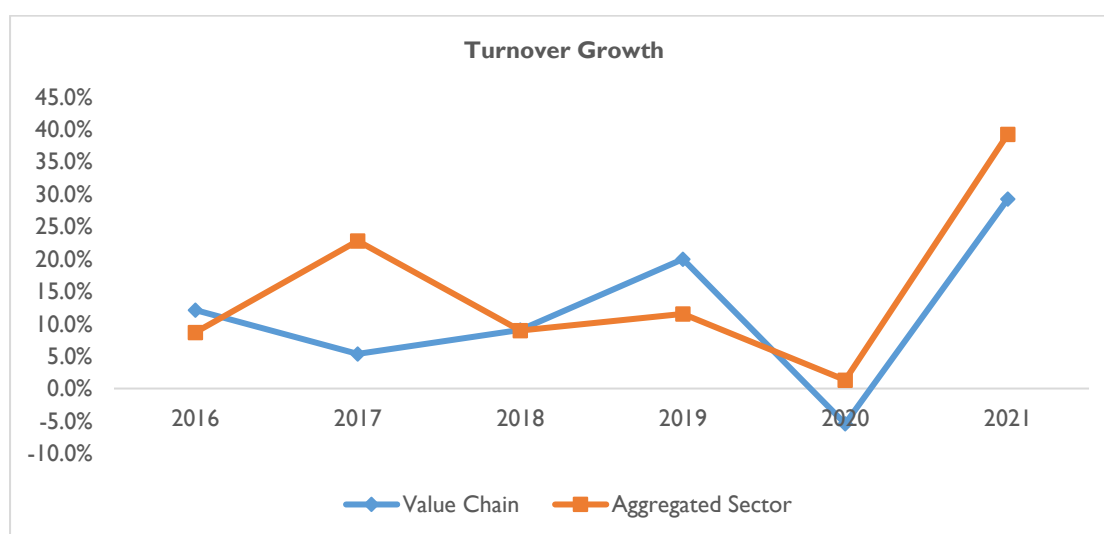
Charts 3.19 and 3.20 present the dynamics of turnover and its annual growth for the construction materials value chain. The turnover experienced a moderate decline in 2020 (5.4%) due to pandemic. However, following the rebound in economic growth, the turnover surged upward (29.2% growth), reaching GEL 1.4 billion in 2021. The turnover of the aggregated sector also increased in 2021 (39.2%) compared to the previous year, amounting to GEL 14.5 billion.

Chart 3.19 Turnover of the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.20 Growth rate of turnover for the construction materials value chain and the corresponding aggregated sector



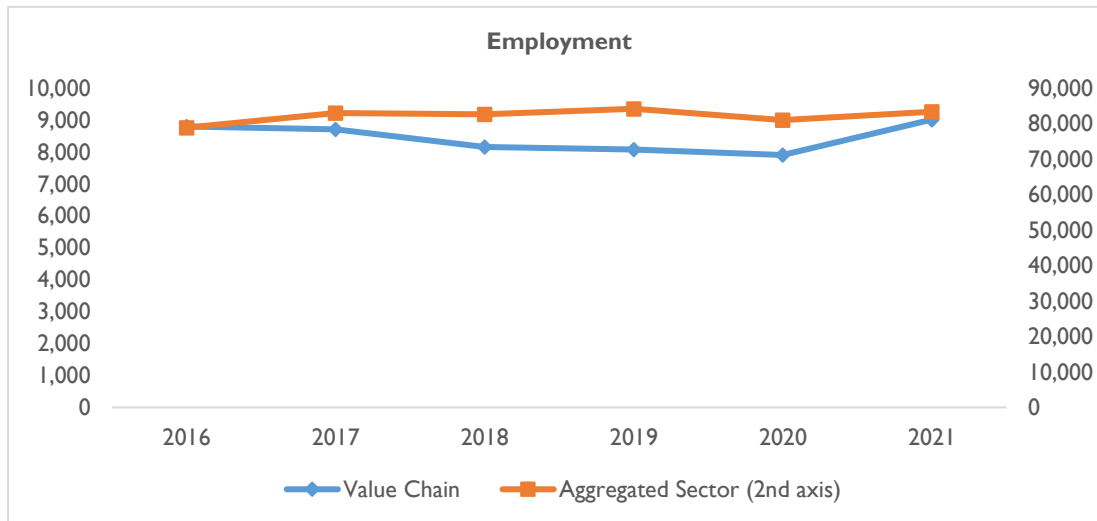
Source: National Statistics Office of Georgia

Charts 3.21 and 3.22 present the number of hired employees and its growth rate in the construction materials value chain and the respective aggregated sector. According to the data, after a YoY decrease in 2020, the number of hired employees in 2021 has increased in the value chain, compared to 2020



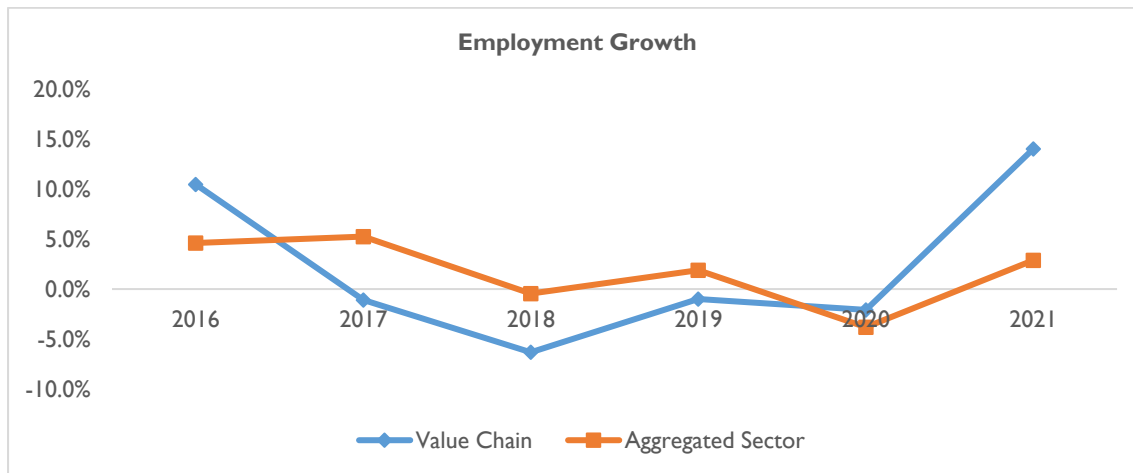
(14%) and amounted to 9,012 individuals. A similar trend has been observed in the aggregated sector as employment rose in 2021, compared to 2020 (2.9%).

Chart 3.21 Employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

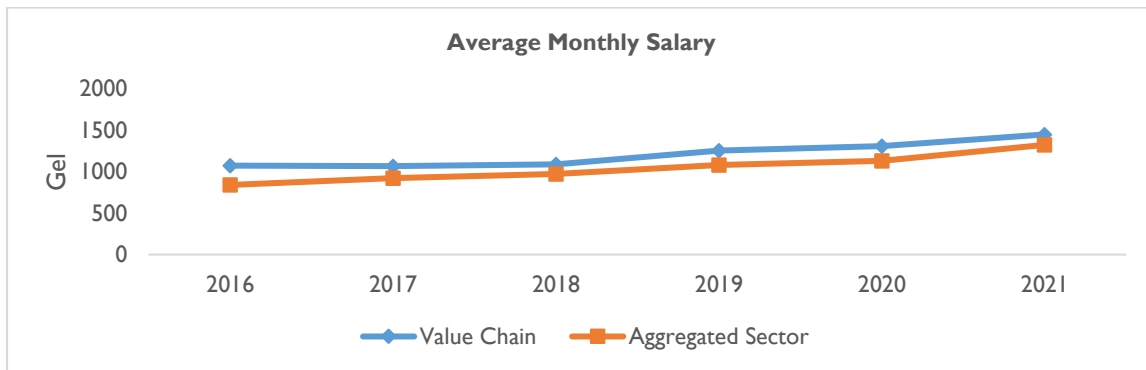
Chart 3.22 YoY growth rate of employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the construction materials value chain increased to GEL 1,449 in 2021, compared to GEL 1,307 in 2020. The aggregated sector presented a lower average monthly salary in 2021 (GEL 1,323), compared to the value chain (Chart 3.23).

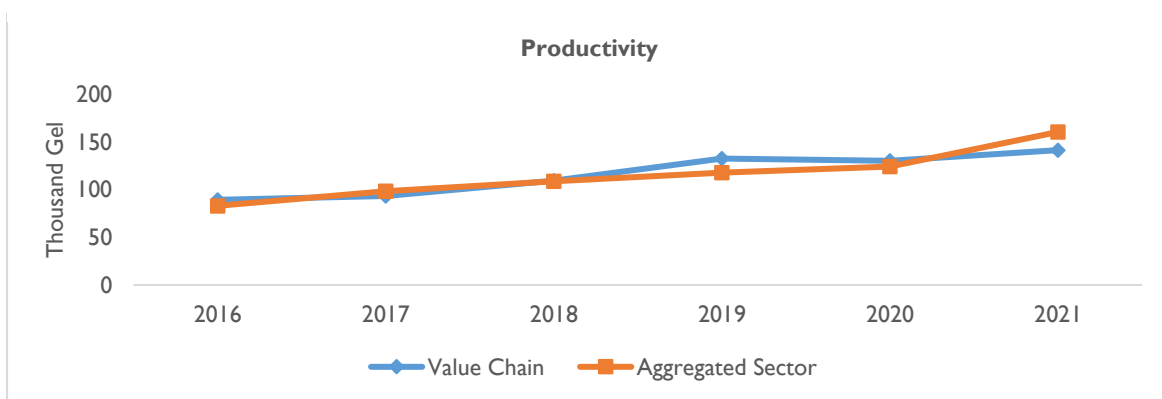
Chart 3.23 Average monthly salary in the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 3.24 shows, labor productivity in the construction materials value chain increased (8.7%) in 2021 as opposed to 2020 and amounted to GEL 141,527. Productivity for the aggregated sector also increased compared to 2020, recording higher YoY growth of 29.2%.

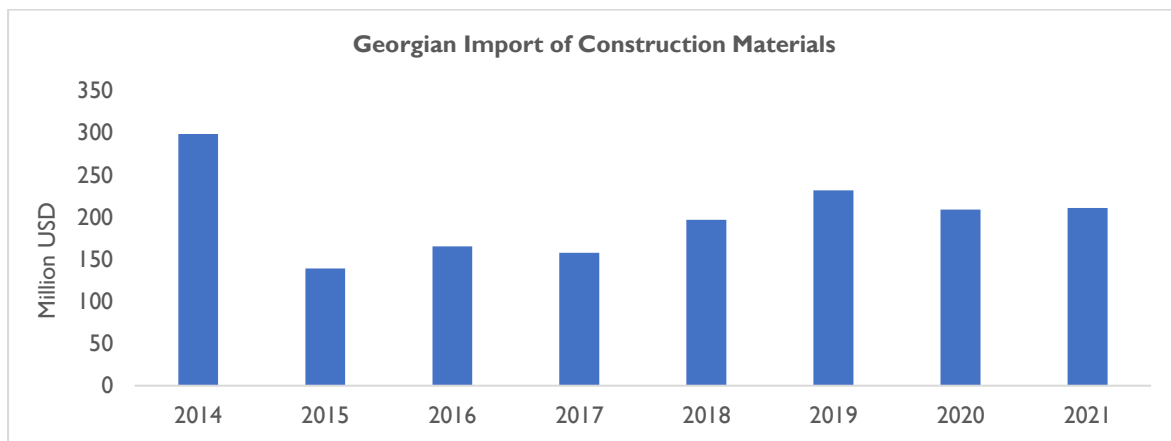
Chart 3.24 Labor productivity (annual output per hired employee) in the construction material value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

In the following charts, the trade dynamics of the construction materials value chain is presented. Chart 3.25 depicts the figures regarding Georgian imports of construction materials. After a decline in imports in 2020, the value of imports increased slightly in 2021 compared to 2020 by 0.8% and amounted to USD 211 million. The expansion of imports follows the rebound in the growth of Georgian economy in 2021.

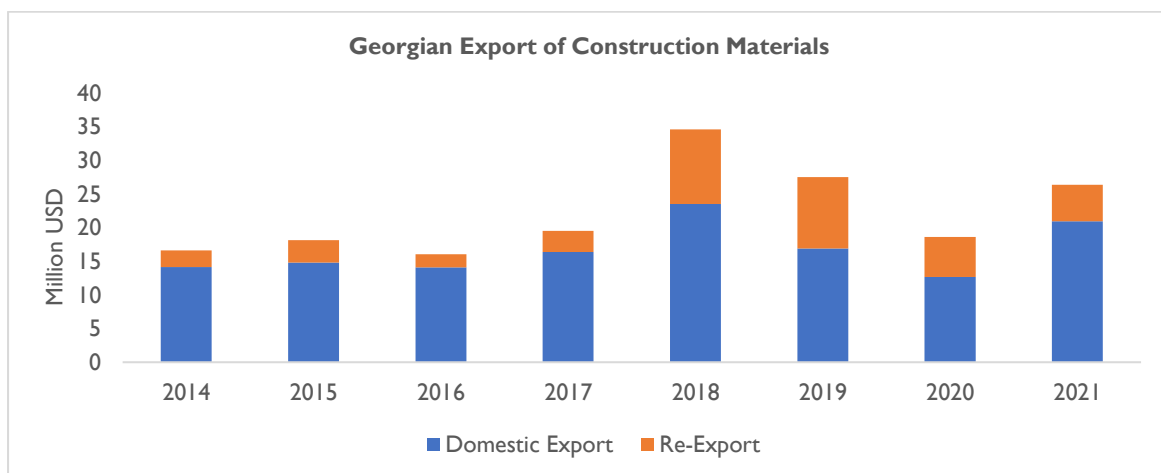
Chart 3.25 Georgian Imports of Construction Materials



Source: National Statistics Office of Georgia

Georgian domestic exports of construction materials surged upward in 2021 (65.3%) and reached USD 20.9 million, while re-exports diminished by 8.6%, amounting to USD 5.4 million (Chart 3.26).

Chart 3.26 Georgian Exports of Construction Materials



Source: National Statistics Office of Georgia

Charts 3.27 and 3.28 below present Georgia's top trading partner countries for construction materials in 2021. The main trade partners for imports were Turkey (37%), Russia (20%), Armenia (12%), Iran (8%), and China (5%) (Chart 3.27). Meanwhile, the main destinations for domestic exports during 2021 were Armenia (51%), Azerbaijan (23%), Kazakhstan (14%), France (6%), and Turkey (2%) (Chart 3.28).

Chart 3.27 Georgian imports of construction materials by trade partner (2021)

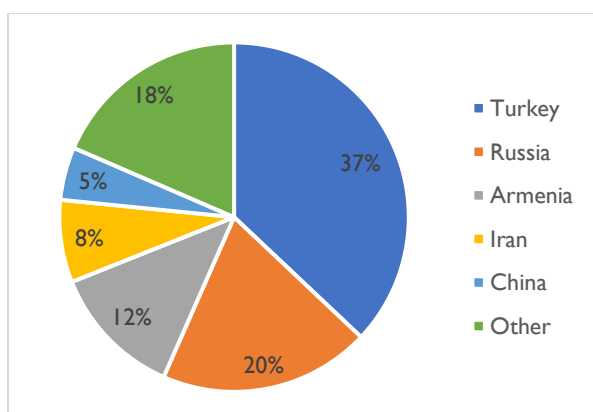
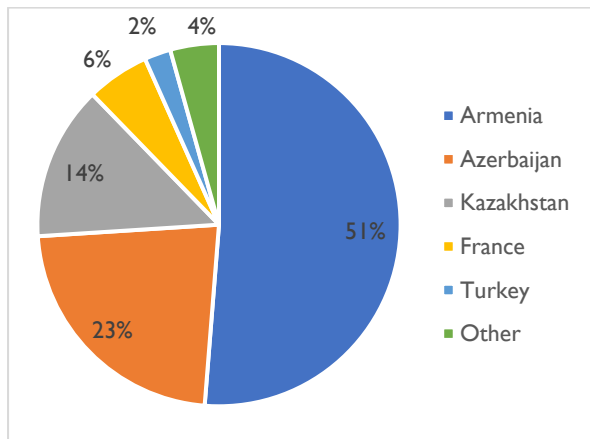


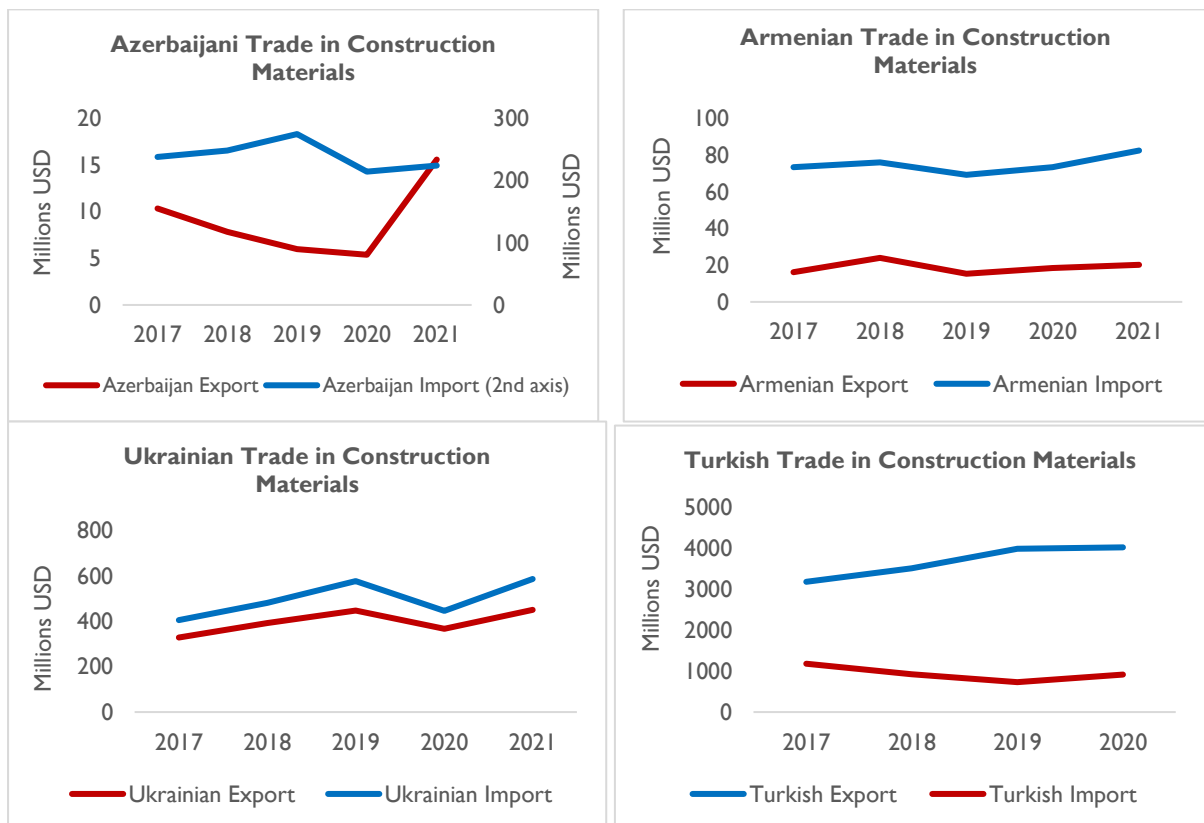
Chart 3.28 Georgian domestic exports of construction materials by trade partner (2021)



Source: National Statistics Office of Georgia

Below (Chart 3.29), we overview the construction materials value chain’s regional trade patterns for Armenia, Azerbaijan, Turkey, and Ukraine. Exports displayed an increase for Ukraine, Azerbaijan, and Armenia in 2021, compared to 2020. Likewise, imports have followed the same pattern for every country in 2021

Chart 3.29 Regional trade patterns of construction materials

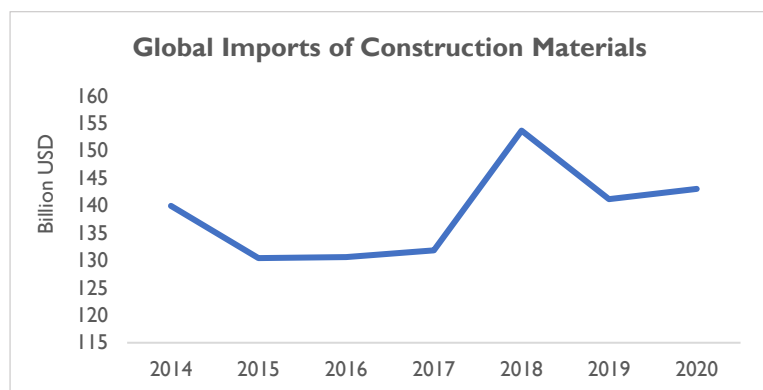


Source: UN Comtrade<sup>29</sup>

<sup>29</sup> 2021 trade data for Turkey is not yet reported on UN Comtrade.

Chart 3.30 presents the global imports of construction materials during 2014-2020. As the data depict, the import dynamics has experienced a slight increase worldwide in 2020, compared to 2019. Unfortunately, global trade data for 2021 is not available at this moment.

Chart 3.30 Regional trade patterns of construction materials



Source: UN Comtrade<sup>30</sup>

## PACKAGING

The analysis below will cover quantitative assessment of the economic tendencies in the packaging value chain and the corresponding aggregated sector (manufacturing). Indicators are based on Geostat’s quarterly enterprise survey data, which is then aggregated to present annual tendencies.

Table 3.3 below presents the available best-matching aggregation level from Geostat.

Table 3.3 Economic activities included in the packaging value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code in Geostat quarterly survey	Description of Economic Activity
16.24	Manufacture of wooden containers	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	17.2 <sup>31</sup>	Manufacture of 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
23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products
25.92	Manufacture of light metal packaging	<i>Not used in the analysis due to data availability only at a very high-level aggregation</i>	

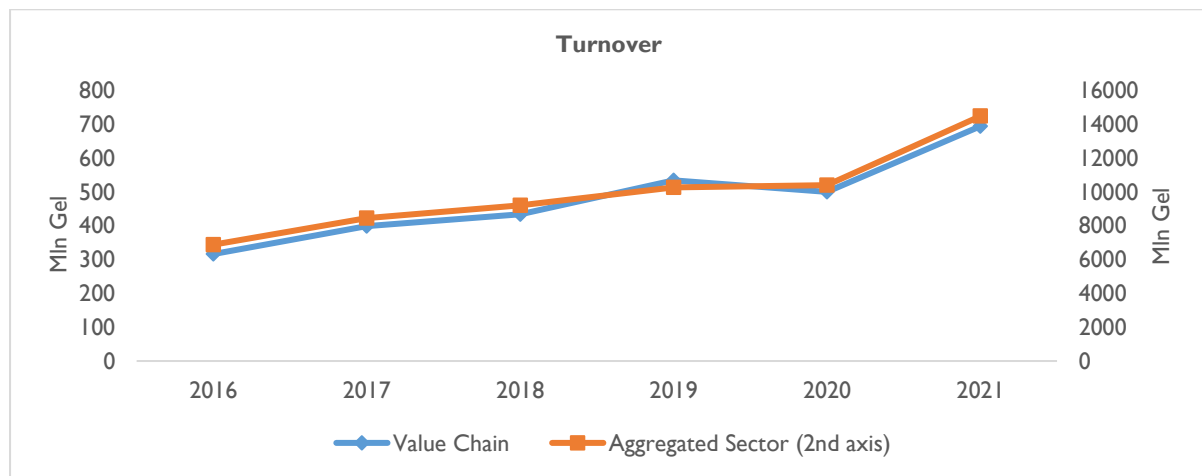
In line with accelerated recovery of the economy, turnover in the packaging value chain amounted to GEL 694 million in 2021 (38.9% growth), after the initial decline in 2020 by 6.4%. It should be

<sup>30</sup> 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.

<sup>31</sup> This group also includes: 17.22 Manufacture of household and sanitary goods and of toilet requisites; 17.23 Manufacture of paper stationery; and 17.24 Manufacture of wallpaper.

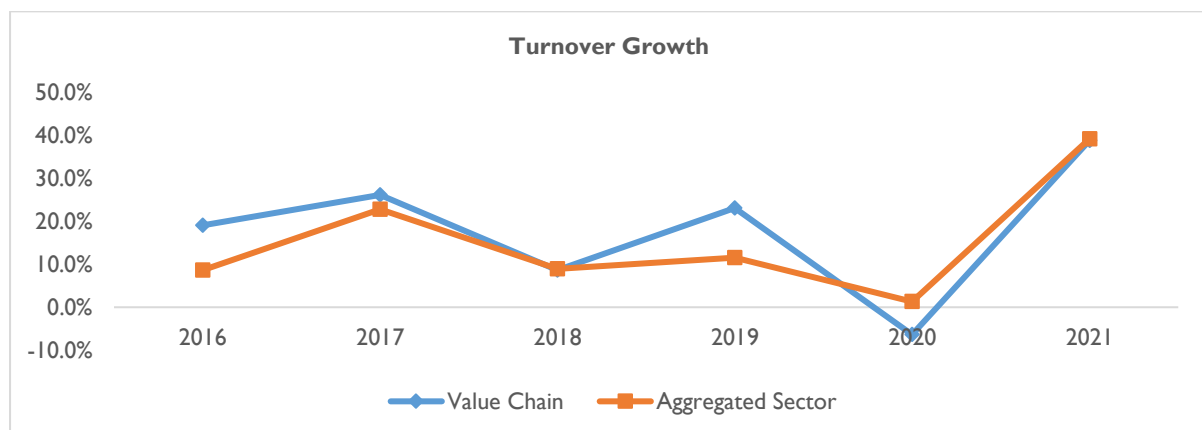
mentioned that the aggregated sector recorded slightly higher turnover growth compared to the packaging materials value chain (39.2% increase), amounting to GEL 14.5 billion (Chart 3.31 and 3.32).

Chart 3.31 Turnover of the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

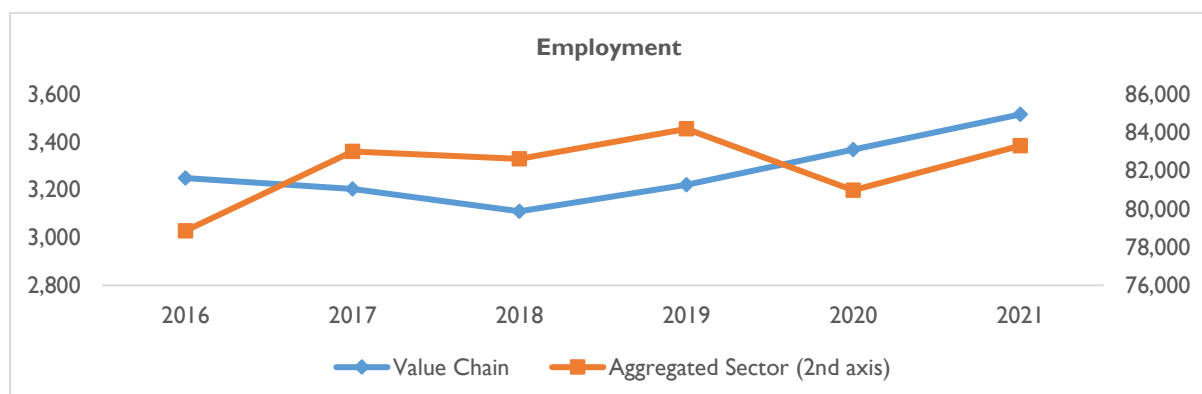
Chart 3.32 Growth rate of turnover for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

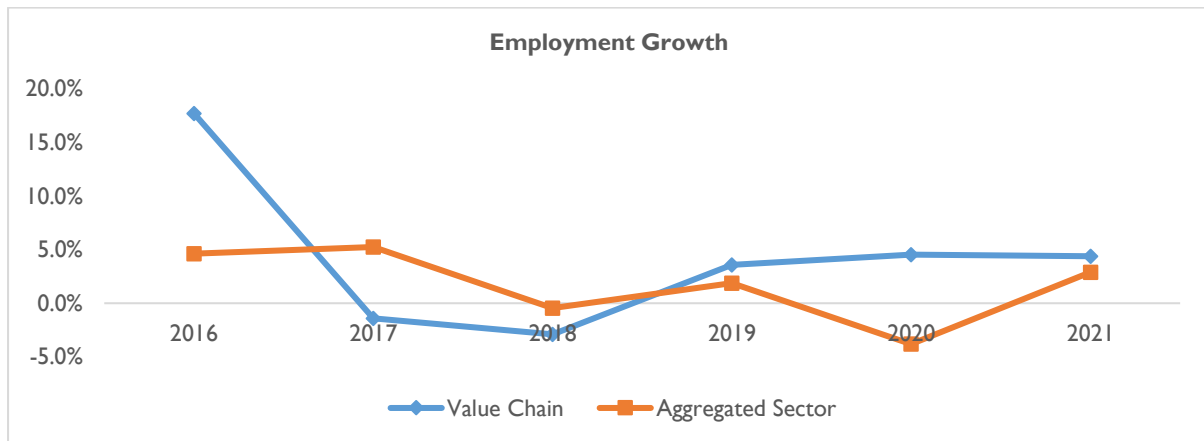
Employment in packaging VC increased in 2020 (4.5% growth). A positive change continued in 2021, and the annual growth rate of employment amounted to 4.4%. The employment constituted 3,514 hired individuals in 2021. Similar trend has been observed in the aggregated sector where employment grew by 2.9% and amounted to 83,298 .

Chart 3.33 Employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

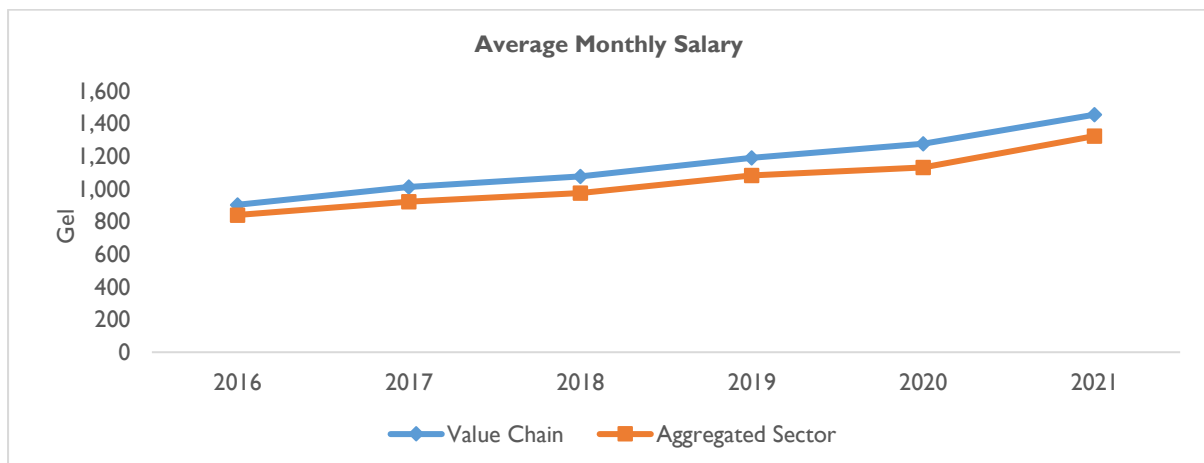
Chart 3.34 YoY growth rate of employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the packaging value chain increased significantly in 2021, compared to 2020 and reached GEL 1,454 (13.9% growth), which is higher than the average salary of the respective aggregated sector (GEL 1,323) (Chart 3.35).

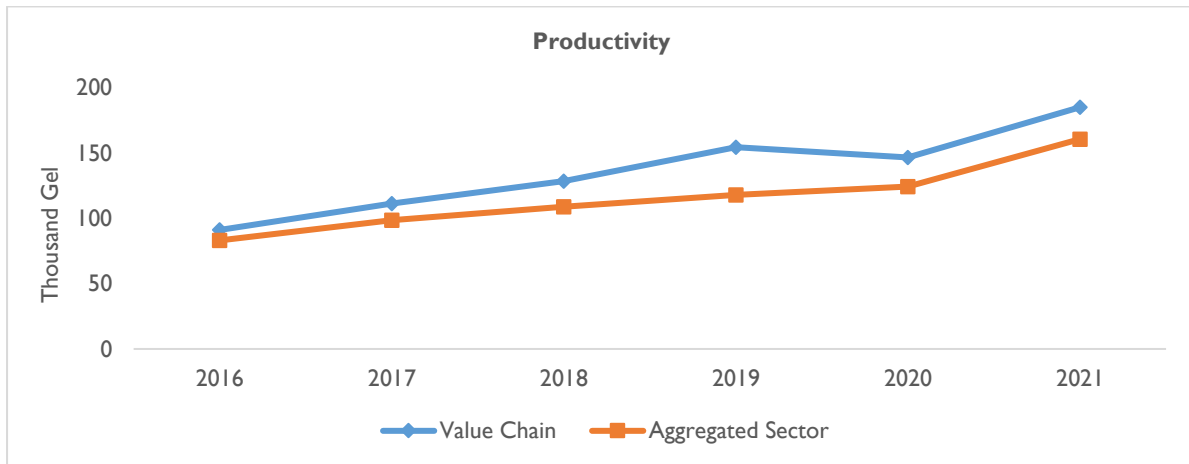
Chart 3.35 Average monthly salary in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.36 demonstrates the dynamics of productivity for both the packaging value chain and the aggregated sector. Productivity for the packaging value chain increased significantly (26.3%) in 2021 compared to 2020 and settled at GEL 185,000, after the initial decline in 2020 by 5.2%. At the same time, productivity for the aggregated sector increased by 29.2% compared to the previous year. Productivity in the packaging value chain still exceeds that of the aggregated sector (GEL 161,000).

Chart 3.36 Labor productivity (annual output per hired employee) in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Charts below provide the analysis of trade tendencies of packaging materials. In 2021, both Georgian domestic export and re-export surged upward, compared to 2020, amounting to USD 15 million and USD 18.2 million, respectively (34.6% and 45.5% growth) (Chart 3.37).

Chart 3.37 Georgian Exports of Packaging Goods 2014-2020

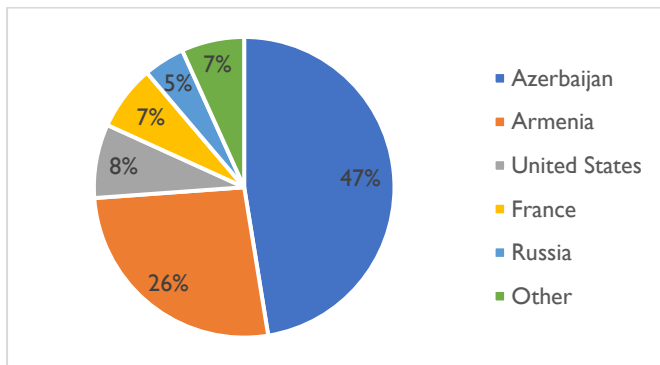


Source: National Statistics Office of Georgia

Of the total exported volume, 47% of Georgian packaging goods were shipped to Azerbaijan, 26% to Armenia and 8% to the US (Chart 3.39). Top three trade partners in exports were followed by France (7%), and Russia (5%).



Chart 3.38 Georgia's Domestic Exports of Packaging Goods by Trade Partner (2021)



Source: National Statistics Office of Georgia

After a slight decline in 2020 due to the spread of the pandemic, Georgian imports of packaging goods increased in 2021 (15.9%) and amounted to USD 181 million (Chart 3.39).

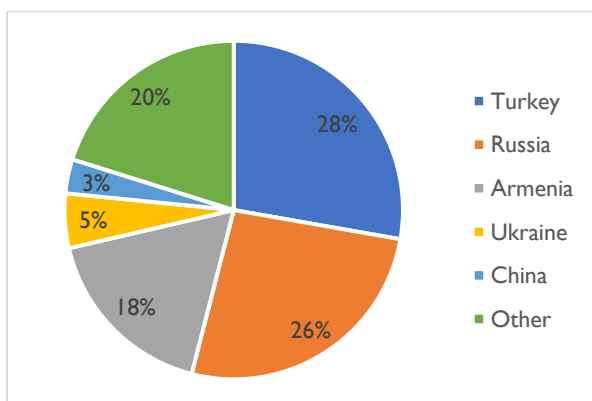
Chart 3.39 Georgian Imports of Packaging Goods 2017-2020



Source: National Statistics Office of Georgia

The profile of trade partners for Georgian packaging goods imports in 2021 was more diversified than for exports. 28% of packaging goods imported in Georgia in the previous year were produced in Turkey, 26% in Russia and 18% in Armenia, while 5% of imports were shipped to Georgia from Ukraine and 3% from China (Chart 3.40).

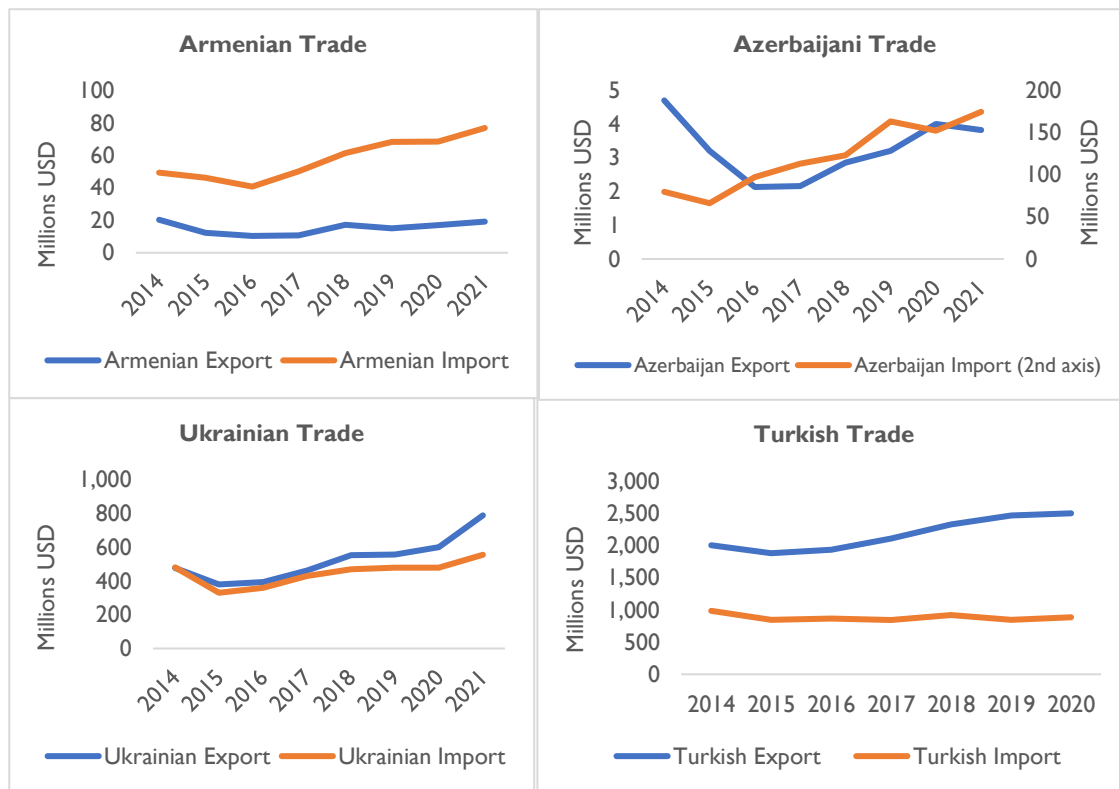
Chart 3.40 Georgian Imports of Packaging Goods by Trade Partner (2021)



Source: National Statistics Office of Georgia

Trade flows for Georgia’s regional partners are analyzed below. The results show that exports increased for Armenia and Ukraine and declined for Azerbaijan. On the other hand, imports of packaging commodities increased for Ukraine, Armenia, and Azerbaijan in 2021 compared to 2020 (Chart 3.41).

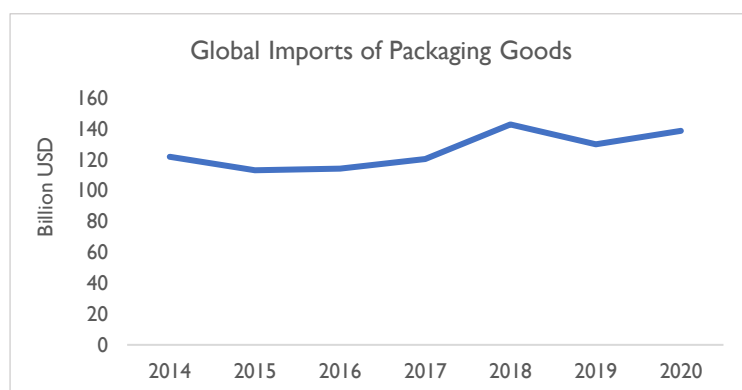
Chart 3.41 Regional trade dynamics in the packaging value chain



Source: UN Comtrade<sup>32</sup>

Global trade in packaging goods showed a moderate increase in import dynamics in 2020, after the initial decline in 2019, reaching USD 138 billion (Chart 3.42). Global trade data for 2021 is not available at this moment.

Chart 3.42 Global Imports of packaging goods



Source: UN Comtrade

<sup>32</sup> 2021 trade data for Turkey is not yet reported on UN Comtrade.

## PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

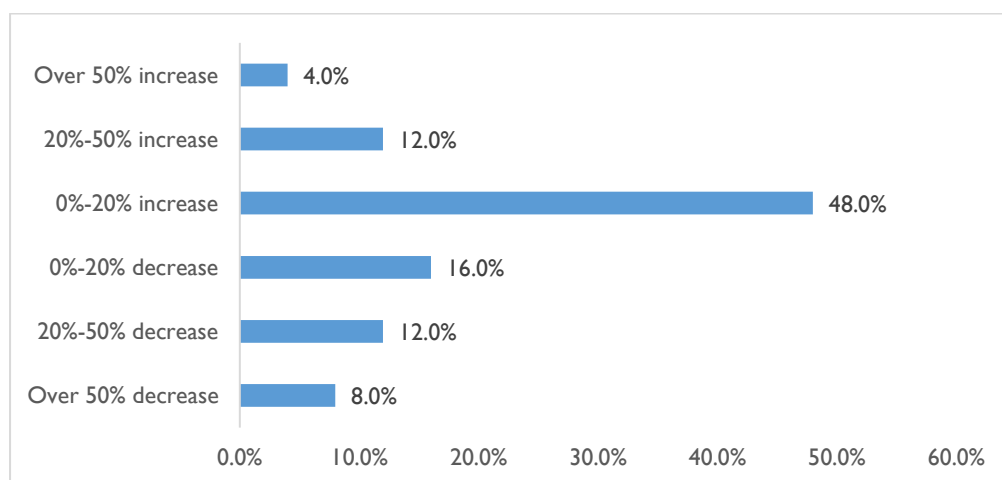
### Quantitative Survey Results

Due to data limitations, the key business indicators describing the development in this business activity were obtained through quarterly quantitative surveys. Quarterly data were put in annual perspective to examine the 2021-year tendencies in the VC. The sample of respondents constituted 32 businesses involved in the production of PPE, registered with the NACE 14.12 (manufacture of workwear) and NACE 32.99 (other manufacturing) codes.

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

Amongst the surveyed companies, 14 had the average quarterly turnover below GEL 0.1 million in 2021. The turnover of 12 companies ranged from GEL 0.1 million to GEL 0.5 million. The average quarterly turnover of the remaining 5 firms ranged from GEL 0.5 million to GEL 6 million. As Chart 3.44 shows, 48% of the companies depicted a moderate average quarterly growth of turnover (0%-20% increase) in 2021 compared to 2020, 16% of firms reported that their turnover expanded more than 20% on average in 2021. Average quarterly turnover of the remaining 36% of the companies declined in 2021 compared to 2020.

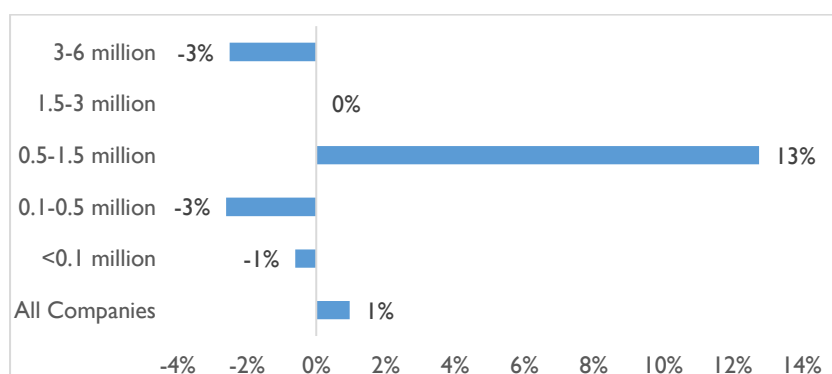
Chart 3.43 Percentage Distribution of Average Quarterly Turnover Growth Rates in the PPE Value Chain, 2021



Source: Authors' calculations

In 2021, average quarterly turnover has increased by 1% (YoY) on average in 2021 compared to 2020. Large companies have experienced a moderate decline of 3% (YoY) on average, while the companies with turnover between GEL 0.5 million and GEL 1.5 million had significant positive trend (13% increase, YoY). Firms with the turnover below GEL 0.1 million and between GEL 0.1 million and GEL 0.5 million experienced a slight average quarterly decline in turnover by 1% and 3% respectively (Chart 3.44).

Chart 3.44 Distribution of PPE Companies Growth Rates by Average Quarterly Turnover Range, 2021.

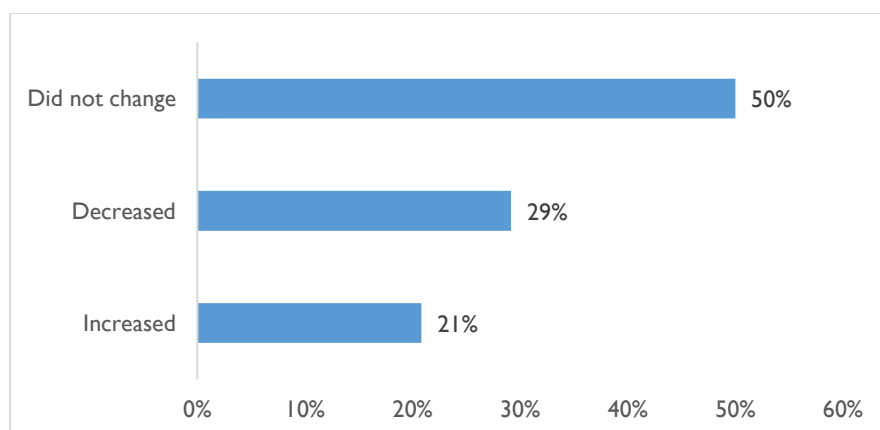


Source: Authors' calculations

In 2021, the average quarterly employment in surveyed PPE companies varied from 1 to 150, with the median number of 16 employed persons. Women accounted for 79% of employed individuals on average in 2021, while the share of young people (under 30 years old) made up close to 7% of the total employees of surveyed companies.

Meanwhile, half of companies (50%) indicated no change in the number of employees in 2021 (Chart 3.45). On average, 29% of firms reported decline in employment, while 21% experienced rise in number of employed people in 2021 compared to 2020. The average quarterly salary amongst the surveyed companies equaled GEL 737 in 2021.

Chart 3.45 Average Quarterly Change in Employment, 2021.



Source: Authors' calculations

The charts below outline Georgian, regional, and global trade patterns of PPE. The categorization of these goods and applicable HS codes were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization and the World Health Organization<sup>33</sup>, HS code classification of PPE based on EU market survey 2004<sup>34</sup>, Commission Implementing Regulation (EU) 2020/402<sup>35</sup> and Order №01-36/№89 of the Ministry of Finance of Georgia on defining the list of goods intended for medical purposes, the supply and/or import of which is exempt from VAT.<sup>36</sup>

<sup>33</sup> HS classification reference for Covid-19 medical supplies 2<sup>nd</sup> Edition. WCO.WHO (2020)

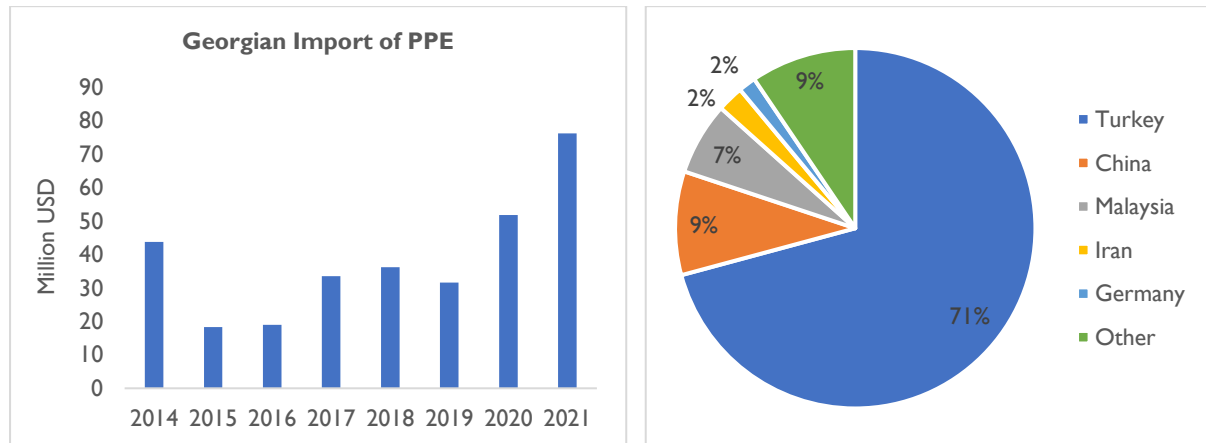
<sup>34</sup> [http://www.exportapymes.com/documentos/productos/Ci1033\\_survey\\_personal\\_protection.pdf](http://www.exportapymes.com/documentos/productos/Ci1033_survey_personal_protection.pdf)

<sup>35</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0402>

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

Chart 3.46 below presents the value of Georgian PPE imports for the period of 2014-2021 along with its top trade partners during 2021. Georgia's import of PPE increased significantly in 2021 by 47.1% compared to 2020, reaching USD 76.3 million. In terms of the equipment's origin, most PPE was imported from Turkey (71%), China (9%), and Malaysia (7%). Imports from other countries constituted 13% of total imports.

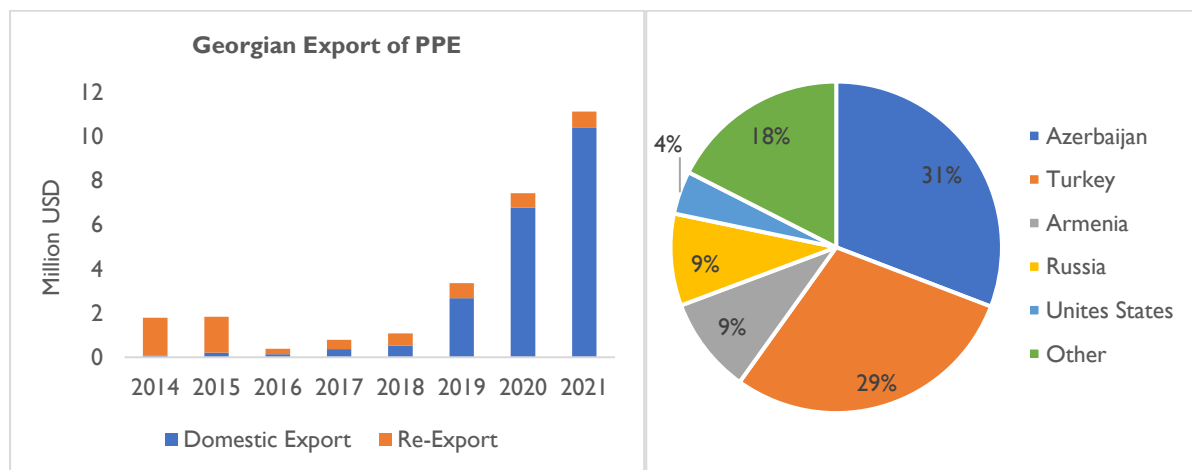
Chart 3.46 Georgia's Imports of Personal and Protective Equipment (2014-2021) and the top trade partners in PPE import (2021)



Source: Geostat; UN Comtrade

Chart 3.47 presents dynamics of Georgian exports and its top trading partners in this regard. Domestic exports of PPE equipment increased by 53.3% in 2021 compared to 2020. During 2021, the majority of Georgian PPE goods were exported to Azerbaijan (31%), Turkey (29%), Armenia (9%), Russia (9%), and the United States (4%).

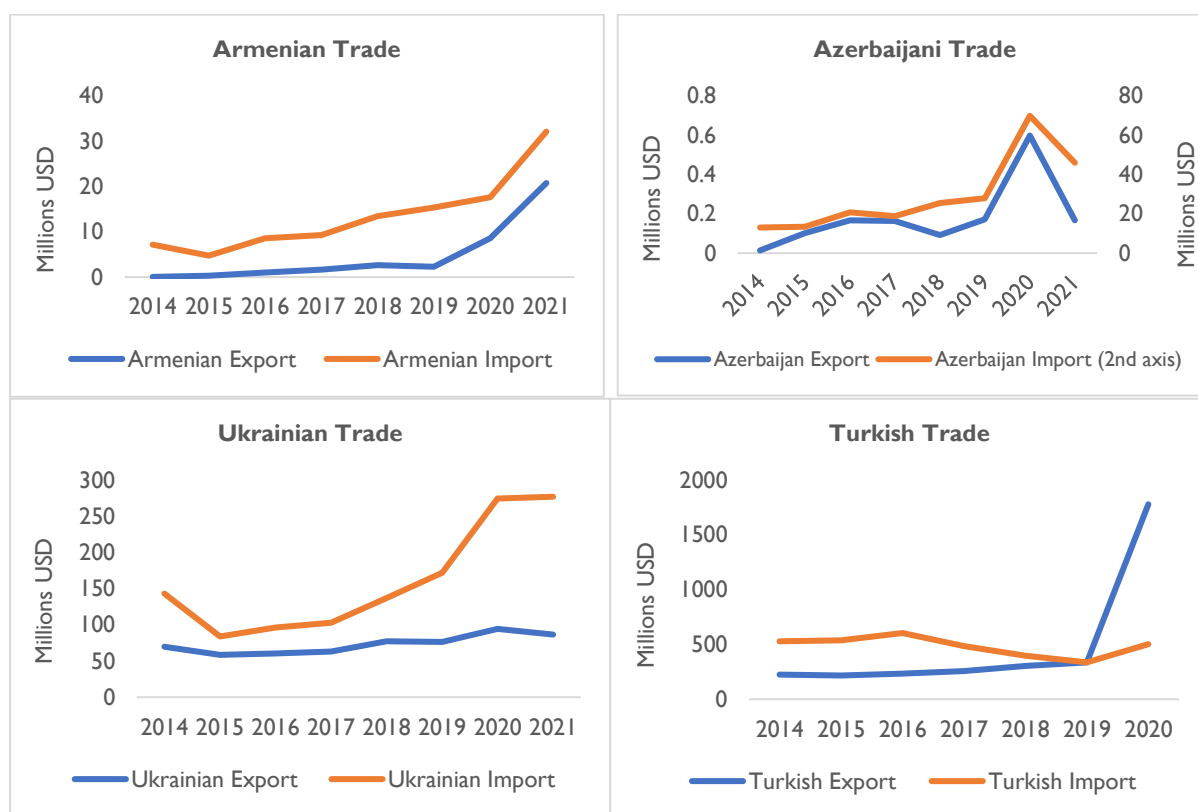
Chart 3.47 Georgia's Exports of Personal and Protective Equipment (2014-2021) and the top trade partners in PPE export (2021)



Source: Geostat; UN Comtrade

As Chart 3.48 presents, Azerbaijan experienced a moderate decline in PPE imports in 2021, compared to 2020. Contrastingly, Armenian and Ukrainian imports increased. On the other hand, exports increased in Armenia and diminished in Ukraine and Azerbaijan in 2021 compared to 2020.

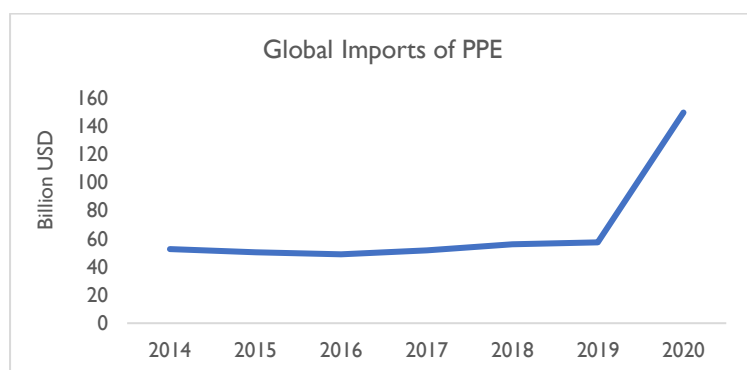
Chart 3.48 Regional Trade in PPE



Source: UN Comtrade<sup>37</sup>

Global trade in PPE showed a significant increase in import dynamics in 2020, probably due to growing demand, following the spread of Covid-19, and amounted to USD 149 billion (Chart 3.49). Due to lack of the available data, we are not able to report the global trade dynamics for the year 2021.

Chart 3.49 Global Imports of PPE



Source: UN Comtrade

## WOODEN TOYS

### Quantitative Survey Results

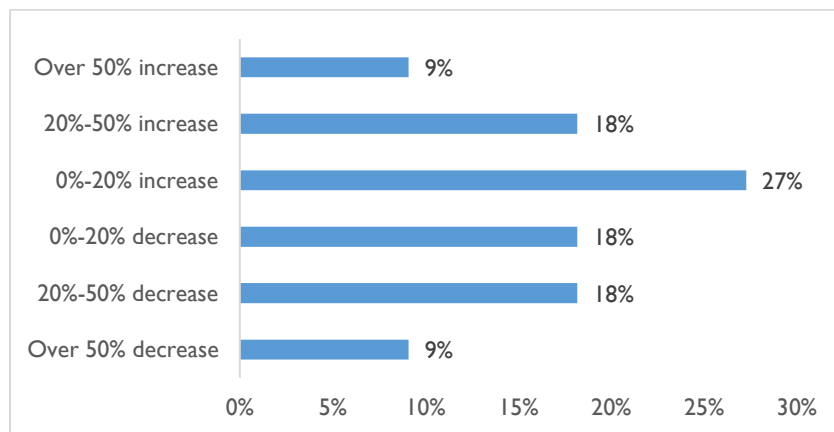
This section of the report is devoted to the analysis of the wooden toys manufacturing business activity based on quarterly quantitative surveys conducted with eleven companies, results of which were put in annual perspective to scrutinize 2021-year tendencies in the business activity.

<sup>37</sup> 2021 trade data for Turkey is not yet reported on UN Comtrade.

Average quarterly turnover in 2021 in this business activity was under GEL 0.1 million for 10 firms. Only one firm reported average quarterly turnover between GEL 0.1 million and GEL 0.5 million. In 2021, 54% of companies reported rise in their average quarterly turnover. Amongst them, 27% indicated a moderate quarterly growth. Consequently, the remaining 46% of surveyed companies indicated a decline in their sales (Chart 3.51).

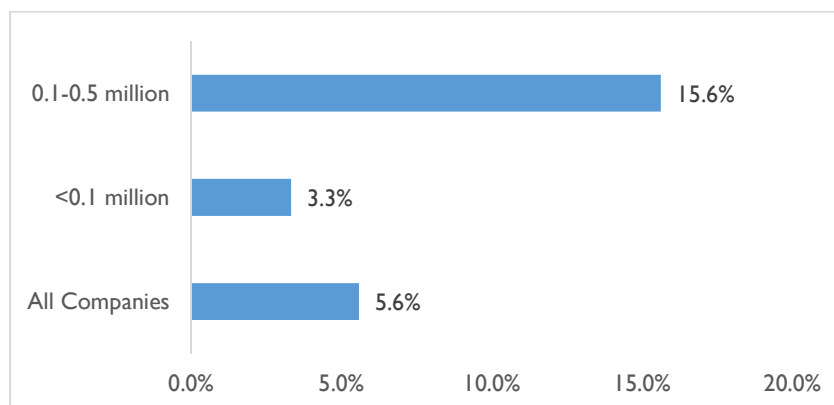
In 2021, the average increase in turnover for all companies was 5.6%. Firms with average quarterly turnover below GEL 0.1 million reported 3.3% average quarterly growth, while companies with turnover between GEL 0.1 million and GEL 0.5 million experienced 15.6% average quarterly growth (Chart 3.50).

Chart 3.50 Percentage Distribution of Average Quarterly Turnover Growth Rates in Wooden Toys Value Chain, 2021



Source: Authors' calculations

Chart 3.51 Distribution of Wooden Toys Companies Average Quarterly Growth Rates by Turnover Range, 2021

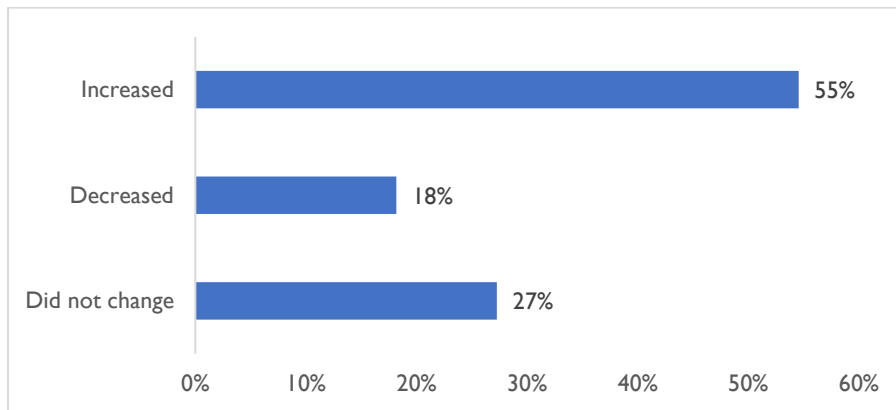


Source: Authors' calculations

The average quarterly employment in the wooden toys value chain varied between 1 and 19, with a median number of 4. Women constituted 30.8% of employed people, while workers aged below 30 accounted for 35% of the employed. In 2021, the average quarterly salary amounted to GEL 667 in the surveyed firms.

Most wooden toy manufacturers (55%) increased their average quarterly employment in 2021, while 27% of respondents declared no change. Only 18% of firms reported that they had reduced the number of persons employed in 2021 (Chart 3.52).

Chart 3.52 Average Quarterly Change in Employment, 2021



Source: Authors' calculations



## 4. SOLID WASTE MANAGEMENT AND RECYCLING

The following section provides an overview of quantitative indicators for the solid waste management and recycling sector along with the corresponding aggregate sector (water supply, sewerage, waste management and remediation activities)<sup>38</sup>.

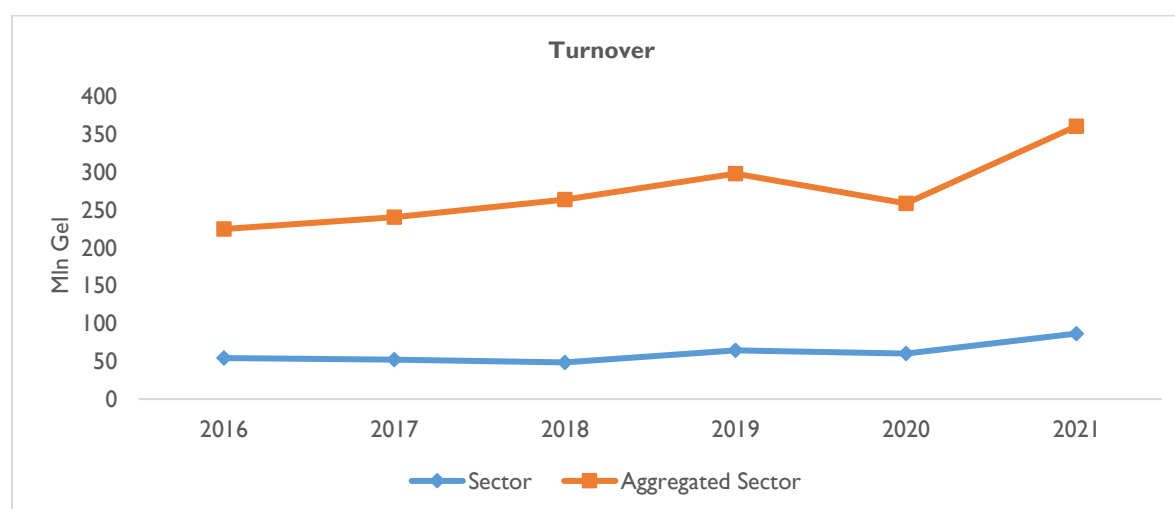
The solid waste management and recycling sector is matched with the following economic activities as classified in NACE Rev. 2 at 2-digit level (Table 4.1).

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

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

In 2021 turnover for the solid waste management and recycling sector has increased by 44.3% (after a decline in 2020 by 6.6%), amounting to GEL 86.6 million. The turnover for the corresponding aggregated sector increased as well in 2021 (39.5%) and reached GEL 361 million (Charts 4.1 and 4.2).

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

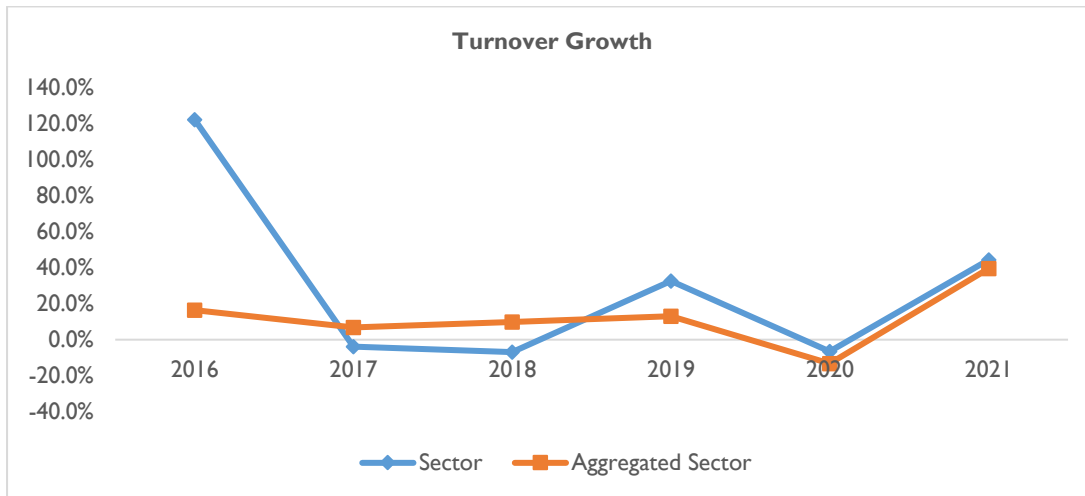


Source: National Statistics Office of Georgia

<sup>38</sup> Throughout this section, “sector” will refer to solid waste management and recycling, while “aggregated sector” will refer to water supply, sewerage, waste management and remediation activities.

<sup>39</sup> Quarterly codes are aggregated for annual analysis

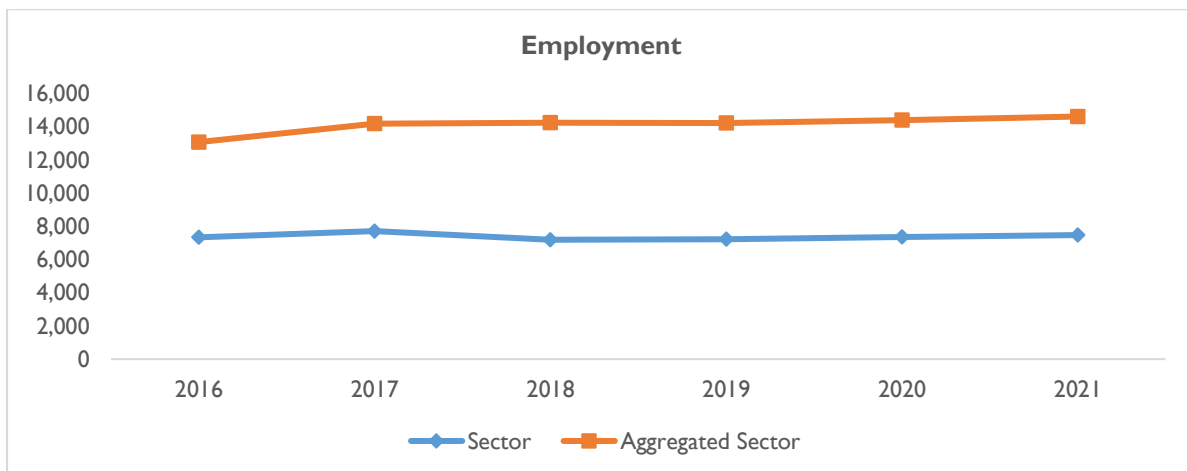
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

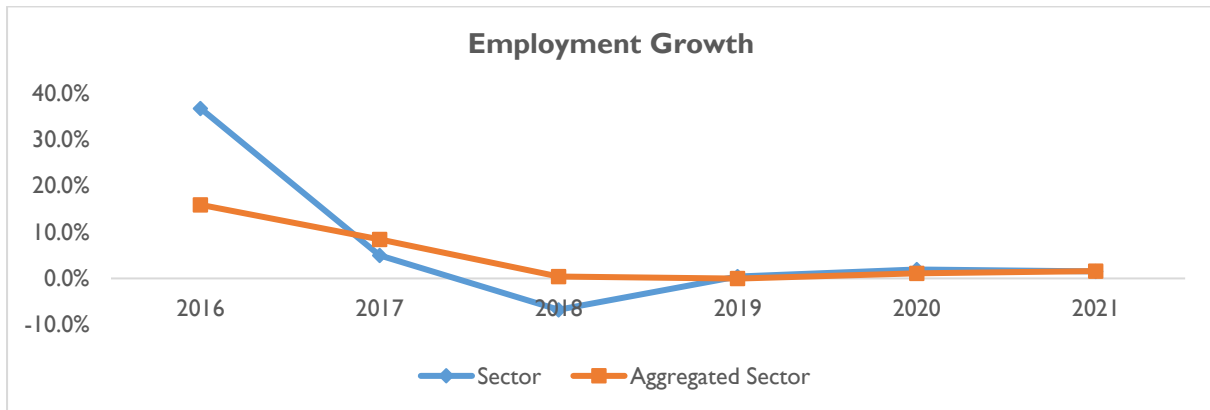
Charts 4.3 and 4.4 present the dynamics of employment and its annual growth rates in the solid waste management and recycling sector and the respective aggregated sector. In 2021 employment increased slightly (1.5%) compared to 2020 and reached 7,469 people. The number of hired employees also increased in the aggregated sector at a moderate speed (1.6%) in 2021 compared to 2020 and amounted to 14,616 people.

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



Source: National Statistics Office of Georgia

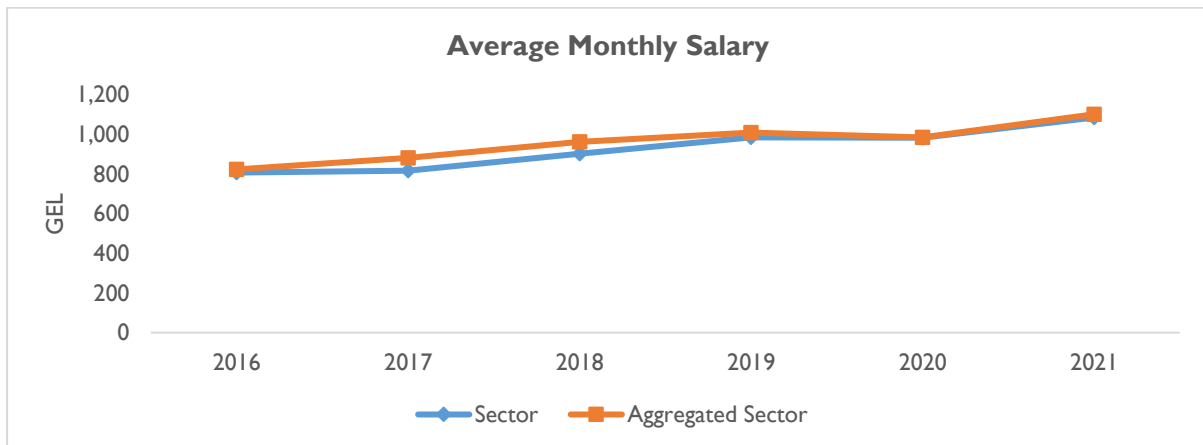
Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 4.5 shows, the average monthly salary in the solid waste management and recycling sector expanded in 2021, amounting to GEL 1,083, which is 10.3% higher than in 2020. The average monthly salary in the aggregated sector also increased by 11.8% to GEL 1,100 in 2021.

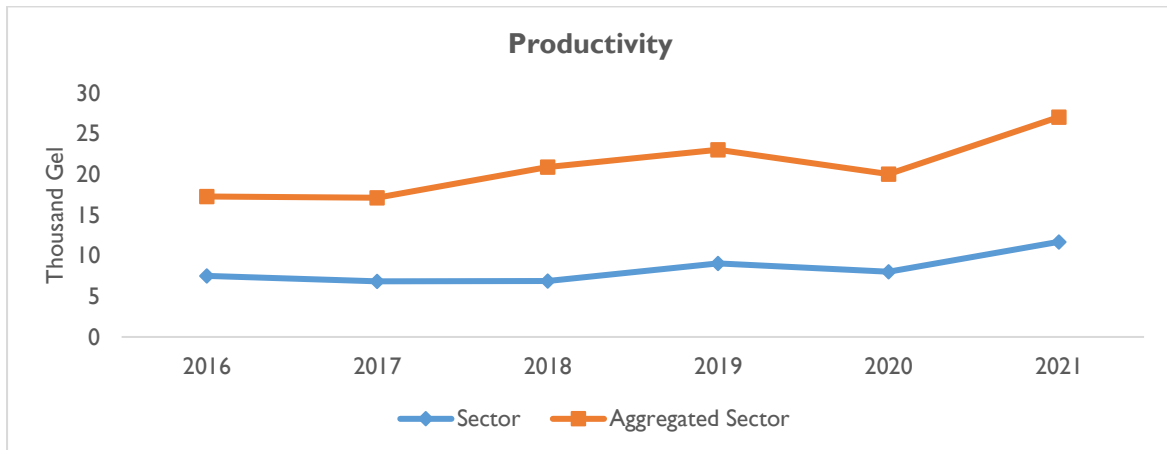
Chart 4.5 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The productivity in the solid waste management sector increased significantly (45.8%) in 2021 and amounted to GEL 11 708. The productivity in the aggregated sector increased as well by 34.9%, amounting to GEL 27 000.

Chart 4.6 Labor productivity (annual output per hired employee) in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

## 5. SHARED INTELLECTUAL SERVICES

### SECTOR SUMMARY

Under Shared Intellectual Services sector, we observe economic trends, challenges and opportunities in Business Processes Outsourcing (BPO) Value Chain. Four business activities under the BPO value chain are covered: Architecture, Design, and Engineering (ADE); Human Resource Management (HRM); Finance and Accounting (F&A); and Customer Relations Management (CRM).

In this report, quantitative analysis is performed for the CRM and HRM business activities, while the findings from the focus group discussions and individual interviews with the field representatives cover the whole BPO Value Chain.

CRM and HRM are such business activities for which Geostat business survey data are not available. Therefore, a survey of the business activity's representatives has been conducted. Quarterly survey data for 2021 were put in annual perspective to inspect the tendencies for 2021 in these business activities. As the results show, the majority of surveyed companies in both, the CRM and HRM business activities, were small businesses, with average quarterly turnover below GEL 100,000 in 2021. Moreover, a significant proportion of the CRM and HRM companies (63% of HRM companies, and 76% of CRM companies) reported an increase in average quarterly turnover in 2021 compared to 2020. On average, the HRM business activity presented a slight 5.5% improvement in turnover, while the CRM recorded a larger increase of 19% in 2021. As for employment, the half of surveyed HRM operators reported no change in their number of employees in 2021 compared to 2020, while on average, 67% of CRM companies indicated growth in employment.

Qualitative analysis revealed that two stressing challenges remain universal across the BPO Value Chain. These challenges have continued to persist in 2021 as well. The first challenge relates to the lack of qualifications of the sector representatives. Interviews with the industry representatives reveal that the problem hindering development of these industries stems from the low competencies of the service providers. The lack of relevant market-oriented educational programs has been identified as the root-cause of this barrier. Another prominent problem, outlined by the majority of sector representatives, relates to the lack of regulatory mechanisms and professional standards, highlighting, for instance, issues related to the certification of architectural services provision and professional standards in HRM. Some of the sector representatives underline that introduction of such standards will elevate quality of services provided. However, consistent advocacy efforts to tackle described challenges are not observed so far.

### HUMAN RESOURCE MANAGEMENT (HRM)

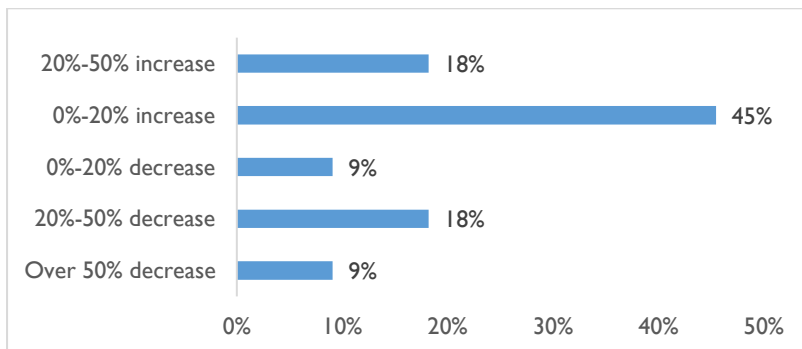
#### Quantitative Survey Results

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

The surveyed firms are mainly Limited Liability Companies (LLC). The declared quarterly turnover of eight companies was under GEL 0.1 million. The rest 3 firms reported to have turnover between GEL 0.1 million and GEL 0.5 million. 63% of surveyed companies indicated that they experienced growth in

average quarterly turnover, most of them (45%) reporting moderate rise. At the same time, 36% of companies had decline in their average quarterly turnover. (Chart 5.1).

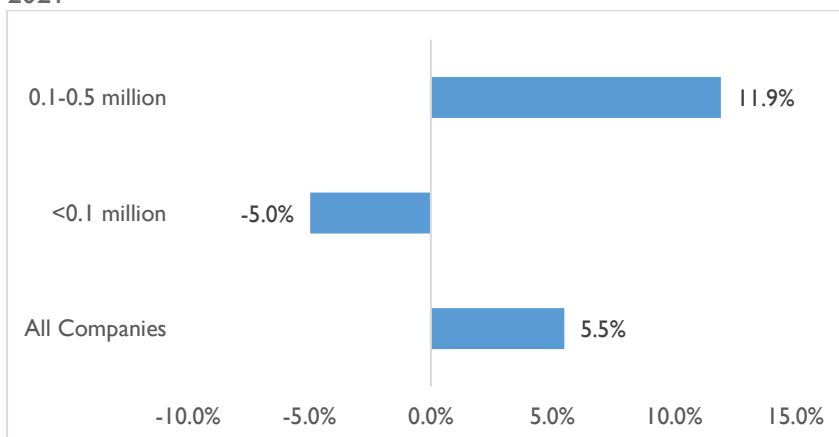
Chart 5.1 Percentage Distribution of Average Quarterly Turnover Growth Rates in the HRM Value Chain, 2021



Source: Authors' calculations

The average quarterly turnover growth rate in HRM companies constituted 5.5% in 2021, compared to the previous year (Chart 5.2). Amongst them, firms with average quarterly turnover below GEL 0.1 million experienced a moderate decline (5%), while the companies with the average quarterly turnover between GEL 0.1 million and GEL 0.5 million reported 11.9% average quarterly growth.

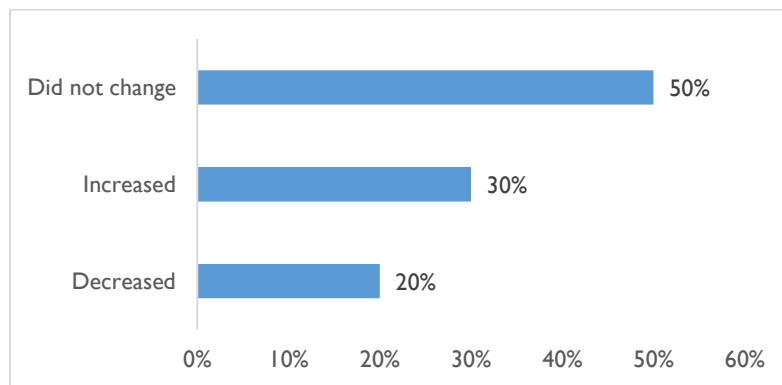
Chart 5.2 Distribution of HRM Companies Average Quarterly Growth Rates by Turnover Range, 2021



Source: Authors' calculations

The average quarterly employment in HRM companies in 2021 varied between 1 to 22, the median number being 3 employed persons. At the same time, share of women in those firms equaled 60% and the proportion of staff aged under 30 years has been 54%. Employment in half of the companies did not change in 2021 compared to the previous year, whereas 30% reported rise in average quarterly employment and the rest 20% indicated that their average quarterly employment declined (Chart 5.3). In 2021, average quarterly salary constituted GEL 1,100 for HRM business activity.

Chart 5.3 Change in Average Quarterly Employment, 2021



Source: Authors' calculations

## Overview of Existing Challenges and Opportunities

HRM is an emerging industry in Georgia, with potential for further growth and job creation. However, the business activity is developing only at the domestic level and has limited prospects for global expansion. As of now, some positive tendencies can be observed in the overall development of the industry. However, the pace of progress against prominent challenges is quite slow. Even though the industry representatives are interconnected in strong sectoral networks and know each other well, it is usually hard to achieve advancement when it comes to persisting barriers to growth.

The following are the challenges that are of concern to HRM business operators:

- **Lack of awareness about the breadth of HRM services** was outlined as the central obstacle that limits the development of this business activity. This challenge is prominent in terms of both supply and demand of HRM service. As emphasized by some focus group participants, it is quite common for HRM to be entirely associated with solely administrative and recruiting activity both by industry players and businesses demanding these services. Such a perception is problematic since it overlooks a broad spectrum of responsibilities that must be undertaken by the HR team or HR consultant to ensure sustainability of the services offered and guarantee employee retention.
- **A shortage of academic programs in HRM** reflects the low level of awareness regarding this sphere in Georgia. Some educational institutions perceive HRM as a sub-discipline of psychology. In some instances, and more correctly, HRM is taught under business administration programs. However, ideally, the subject should be considered as a separate discipline at the intersection of different fields. Any future upgrade of this business activity, to some extent, will depend on separate academic degrees in HRM being developed so that the sphere is appropriately understood, allowing its full potential to be exploited.

To address the above-mentioned challenges, some of the industry players outline the need for introducing qualification requirements for HRM services. In this direction, HR Professionals Association recently took an initiative and organized a meeting with a large pool of industry players. The main motivation of this meeting was to form working groups, and to draft HRM professional standards that would later be advocated to gain validation from the sphere stakeholders, including public and private interest groups. However, no actual progress has been made in this direction due to the lack of consensus among industry representatives.

The provision of recruiting and headhunting services clearly dominates the Georgian HRM market, followed by HR administration. The latter covers a wide range of activities related to effective workforce management. Businesses in Georgia sometimes also demand consultancy services regarding their performance evaluation and reward systems, development and learning strategies, and organizational structure and development. In rare instances, HR consultancy is also called upon during mergers and acquisitions (M&A).

Competition in this business activity is moderate. The sales of Georgian HRM companies or individual consultants are generally network-based. The business activity does not have particularly large business players. However, some firms, such as Insource, Employment Agency HR (hr.ge), Adelante, and HR4B (HR for Business) along with several individual freelance HRM consultants, have significantly contributed to setting professional standards. Furthermore, there are some emerging players on the market (e.g. HRM firm - Onepoint) showing promising signs of growth.

There are no active business associations specializing in HRM. However, the industry players frequently organize information-sharing and networking events under different active platforms, such as, for instance, HR Hub and the National Association for Human Resources of Georgia, both of which aim to spread industry-specific knowledge and encourage Georgian HR specialists to grow. Yet another interesting initiative in this business activity is the HR Professionals Association (HRPA), which is a membership-based organization for professionals in the sphere. The organization provides the following services for its members: professional development; advocacy; and professional networking. The HRPA also supports the employability of future talents of the sphere. The association has around 100 members, with plans to increase this considerably in the coming months.

At present, according to the evaluations by interviewed private sector representatives, Georgian HRM providers, at large, do not have potential for global expansion as they are unable to offer added value to foreign HRM markets. Furthermore, Georgian companies also do not possess incentives for export orientation, considering the fast-growing demand for HRM services domestically. Knowledge and skills that are the most applied on the Georgian HRM market mainly relate to HR administration - HRM service that manages employee contracts, agreements, personal information, thus is regulatory regime-specific and inflexible to export. As representatives of this business activity outline, language might be another barrier to penetrate some of the Asian markets. Millennials, that mainly comprise Georgia's HRM talent pool, do not have proficiency in Russian, which is a working language in some post-Soviet parts of Asia.

Some of the interviewed respondents highlighted that the production, implementation, and management of digital tools for HRM (such as HRM software) might be more susceptible to global market penetration. There are some examples of such digital tools being created in Georgia (e.g. self.ge or HR Point), however, absolute majority of them represent software that offer administrative solutions. As some participants outlined, this direction has potential for value generation but needs considerable advancement to ensure that significant economic benefits are gleaned.

On the domestic market, demand for HRM services mainly comes from the health management, retail, gambling, and fintech sectors. In general, HRM outsourcing services are mostly utilized by the private sector in Georgia. Focus group participants could not recall partnership instances with the public sector and evaluated public-private cooperation as critically low. Inter-sectoral dialogue is also near absent. For instance, most of the interviewed business activity representatives declared that they had been excluded from the deliberations regarding amendments to the Georgian Labor Code that introduced a working time accounting requirement for employers across the country. The amendments are part of the labor law reform package adopted by the Georgian parliament in fall 2020.



Nevertheless, the above-described obstacles are not exclusive to the Georgian context. HRM culture is a relatively new phenomenon globally as well, and its development is tightly linked to the emergence of corporate culture, the broadening of which will largely rely on the development of the economy as a whole.

## **CUSTOMER RELATIONSHIP MANAGEMENT (CRM)**

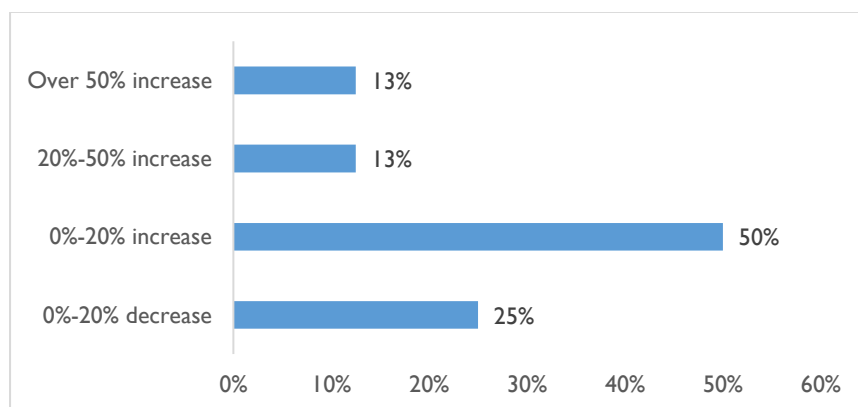
### **Quantitative Survey Results**

In this section the dynamics of CRM business activity is assessed based on a quantitative survey conducted with eight CRM companies. Results from quantitative surveys were put in annual perspective to examine 2021-year tendencies in the business activity. Surveyed firms were all small-scale businesses, providing outsourcing of CRM services. Most of them are based in Tbilisi, albeit there is also Akhaltsikhe-based company, providing call-center and outsourcing services.

Surveyed companies are mostly limited liability companies (LLC). In 2021, six of them declared to have average quarterly turnover below GEL 0.1 million, while one of them stated to have average quarterly turnover between GEL 0.1-0.5 million. The last firm indicated that its average quarterly turnover ranged between GEL 3 million and GEL 6 million.

In 2021, local as well as global rebound in the economic growth seems to influence positively the turnover growth. 75% of surveyed companies reported a varying degree of increases in their average quarterly turnover. The remaining 25% indicated the decline in their average quarterly turnover up to 20%. (Chart 5.4).

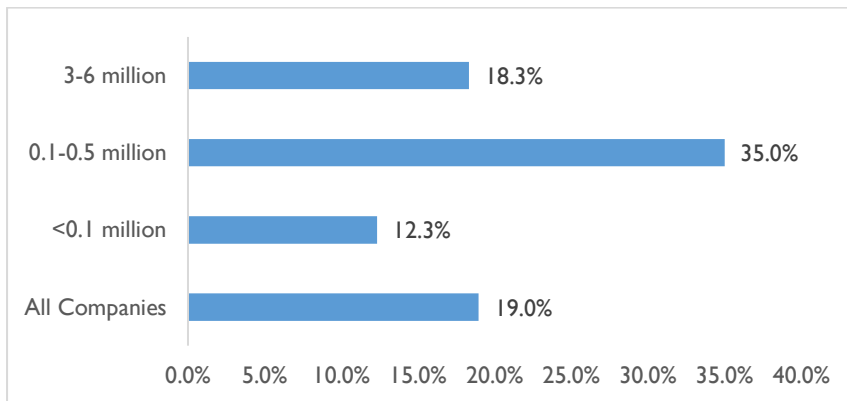
Chart 5.4 Percentage Distribution of Average Quarterly Turnover Growth Rates in the CRM Value Chain, 2021



Source: Authors' calculations

On average, the annual growth in the CRM companies' turnover constituted 19% in 2021. Companies with turnover between GEL 0.1-0.5 million have experienced growth of 35% (Chart 5.5). The small firms have reported a moderate rise by 12.3% on average.

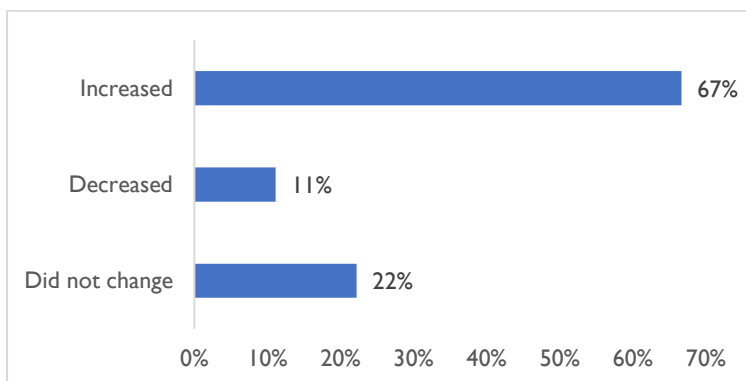
Chart 5.5 Distribution of CRM Companies Average Quarterly Growth Rates by Turnover Range, 2021



Source: Authors' calculations

The average quarterly employment in CRM companies in 2021 varied between 2 and 2382. The share of women equaled 66% and the proportion of staff aged under 30 years was almost 31%. For 22% of companies, the number of persons employed did not change in 2021 compared to the previous year, while the 67% of companies increased average quarterly employment. 11% of firms reported decline in the average quarterly employment (Chart 5.6). The average monthly salary of the CRM employees equaled GEL 2,247 on average in 2021.

Chart 5.6 Average Quarterly Change in Employment, 2021



Source: Authors' calculations

### Overview of Existing Challenges and Opportunities

The CRM business activity is nascent in the Georgian context. Nevertheless, CRM has already shown promising signs in terms of growth and job creation. As an indication of such potential, field representatives regularly expand their operations both locally and internationally, add new service directions and penetrate new foreign markets. Even though some challenges limit CRM operators in Georgia, this business activity has been resilient towards such barriers and recent exogenous shocks.

Lately, Georgia has become a home to Majorel, CMX Solutions, Evolution Gaming, and other international companies offering CRM services from Georgia. In addition to large international players, there are also Georgian firms engaged in this business activity that either offer offshore CRM services to foreign markets or offer outsourced CRM to local companies. The entry of international CRM companies has kick-started this business activity in the Georgian market. As a representative of Majorel cited, its decision to establish an office in Georgia might be regarded as one of the main motivations behind other CRM companies launching their operations in the country as well. Moreover, CRM has been among the priority directions of Enterprise Georgia which has put significant effort into

developing this business activity. Competition in this business activity among Georgian CRM companies is moderate and the domestic market is currently a fraction of its potential size. International players are engaged in global competition and possess a significant competitive advantage considering the high quality of their services.

CRM operators that offer offshore services mainly provide customer support to the European, US, and regional markets (e.g. Azerbaijan or Russia). Operators that currently exclusively serve the domestic market are also planning international expansion, but they have yet to decide on a niche service offering under CRM that might be attractive to the foreign markets. Significantly, Russia's war in Ukraine and international sanctions on Russia has had its toll on CRM service providers in Georgia. Many of the major ongoing CRM projects in the country targeted the Russian market, while meaningful number of such operations have been disrupted. Nevertheless, diversified service portfolios enabled CRM operators to activate other, more stable international markets.

Demand for CRM services, both in the case of local and international operators, stems from a wide range of industries, varying from healthcare to e-commerce and IT. The interviewed companies work intensively to increase their customer portfolio. However, at present, their entire operational capacities are absorbed by the current domestic demand for CRM services.

There is no precedent for traditional PPP in this business activity. Collaboration instances with most public agencies are mainly sporadic and unrealized. For instance, as a representative of one of the CRM operators cited, their cooperation with public entities to integrate CRM skills component into the Georgian VET curricula was hampered because of bureaucratic difficulties and due to lack of qualified teachers who would train the workforce. Nevertheless, a better cooperation with public sector has the potential to further improve social outcomes as, for example, some of the interviewed companies declare their willingness to employ vulnerable societal groups such as PwDs.

To catalyze the upgrade of this business activity, several steps were identified by the private sector:

- The business activity necessitates intensive **awareness raising campaign** in the public. It would be beneficial if the public sector was to also contribute to information-sharing efforts regarding CRM employment opportunities to the population. This would potentially prepare the necessary talent pool of future employees.
- More it expands, CRM increases its demand on **qualified workforce**. As representatives of this business activity outline, freely available workforce for CRM becomes meagre as more CRM operators appear on the market. Lack of labor skills is especially evident when it comes to knowledge of some European languages (e.g. German, French, Italian, Spanish, Dutch, Greek, etc.). The educational system fails to properly recognize growing demand of the sphere on the qualified workforce. Thus, to exploit its full potential, there is a need to have a strategic vision regarding effective ways of workforce recruitment and training for CRM.
- Representatives of this sphere also have a need for improved access to **quality infrastructure**. Primarily, a more robust internet connection was highlighted as essential. Additionally, CRM operators grow their demand on class A office spaces and reliable maintenance services (e.g. for air conditioning systems). Meaningfully, shortage of high-quality office spaces is a prominent problem both in Tbilisi and in the regions. Quality infrastructure is regarded as an essential prerequisite to ensure stable management of routine operations in this business activity.
- Lastly, the existence of **inter-sectoral networking platforms** was demonstrated to be an important factor. It might enable small-sized CRM firms to expand their operations and to be better prepared to enter foreign markets.

Even though some impediments remain, the sphere is expanding and necessitates support on its way forward. Addressing challenges mentioned above might be critical to glean available economic benefits from CRM growth. Specifically, development of quality human capital will have a decisive say in future advancement of this business activity.

## **FINANCE AND ACCOUNTING (F&A)**

Under the F&A business activity, there are two core activities. Accounting covers consulting, analyzing, and reporting financial statements. It is largely a regulated activity as a considerable portion of demand for accounting stems from the firms that need to ensure their adherence to reporting standards set by the national regulator, the Service for Accounting, Reporting, and Auditing Supervision of Georgia (hereinafter, SARAS). Finance, on the other hand, encompasses various service offerings related to the processes of financial management, budgeting, financial planning, attracting investments, and raising funds for business operations.

Depending on categorization of enterprises per the volume of i. total value of their assets ii. generated revenue, and iii. average number of persons employed, firms in Georgia are divided in four enterprise categories that possess different reporting requirements before SARAS<sup>40</sup>. Due to the reporting requirements, compared to finance, accounting is at a relatively more advanced stage of development in the country. There are many small accounting firms, mainly specializing in outsourced accounting, which intensely compete over procurements stemming from the enterprises of the third and fourth categories. Leading players in accounting (e.g. the “Big Four” of EY, PWC, Deloitte, and KPMG; BDO; Nexia TA; and Grant and Thornton) mainly serve the enterprises of the first and second categories.

Private sector leadership within F&A is high. The largest players in the market, known as the Big Four, have significantly contributed to building up knowledge and qualification domestically. There are several local and international professional unions and associations in this business activity. These platforms offer networking services, share, and spread industry-specific knowledge and, in particular cases, are delegated with certain administrative and organizational responsibilities. Locally, the work of the Georgian Federation of Professional Accountants and Auditors (GFPAA) is worth noting here. The GFPAA has been active since 1998 and currently brings together up to 7000 professionals of the sphere and 55 companies, altogether making up 92% of the accounting market in Georgia. The GFPAA is in charge of administering local accountancy qualifications, verified under the UK’s Association of Chartered Certified Accountants (ACCA). Furthermore, the federation translates international standards and disseminates them across the sphere, consults its members, and advocates their interests at state level. Besides the GFPAA, several participants of the focus group are members of DFK International, the Independent Valuers Society of Georgia, the Georgian Association of Women Auditors and Lawyers, and/or the Federation of Auditors, Accountants and Financial Managers (FAAFM).

In terms of accounting, increased regulations have significantly affected the domestic market. In response to the obligations of the Association Agreement with the European Union (EU), Georgia enacted the Law on Accounting, Auditing and Reporting in 2016. Following the law’s adoption, SARAS was established as the national supervisory authority on the market. SARAS, besides its obligation towards enterprises to meet International Financial Reporting Standards (IFRS), oversees the certification process of professionals and introduces quality control standards for the firms. While such measures ensure the homogeneity of the service quality across the country, according to some

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<sup>40</sup> See more information regarding reporting requirements in Law of Georgia on Accounting, Reporting and Audit. Available at: <https://matsne.gov.ge/en/document/download/3311504/4/en/pdf>

of the interviewed representatives of relatively small-sized accounting companies it has been perceived as a burden, favoring the leading market players in this business activity.

On another hand, difficulty to meet compliance requirements also demonstrates that firms belonging to this economic activity necessitate to improve their services. The interviewed expert of this sphere pointed out that only a small share of the active auditing firms is capable of fully complying with national regulatory requirements - majority of the market players do not possess enough resources to provide quality auditing. Instead, some of them can well specialize in accounting only. This, on the other hand, decreases trust towards auditors. Future advancement of this sphere, thus, will depend on how the companies will reconfigure their positioning on the market to best reflect their professional capacities.

Participants of focus group discussions mainly operate on the domestic market and do not export their services internationally. There are several reasons behind this. Primarily, for majority of the companies, foreign markets and their specificities are unknown. The sphere is heavily regulated in foreign markets, and outsourcing is risky and costly, unless the service provider can comply in full of country-specific regulatory requirements. Meeting such requirements is more challenging for small-sized companies, that lack qualified and experienced workforce. Moreover, the domestic demand and compliance standards set by SARAS often absorb the full national capacity of accounting services.

The F&A business activity has genuine upgrading potential when it comes to finance. Some of the interviewed participants outlined that under finance, the sphere of investment attraction services is relatively underdeveloped in Georgia. On the one hand, there are a number of individual foreign investors seeking new markets to penetrate and, on the other hand, many Georgian firms require some sort of intermediaries to connect with potential funds. Hence, the development of intermediary networks for investment attraction has significant value creation potential in this business activity.

Another major challenge identified by the value chain representatives concerns qualifications on the side of service recipient companies. Apparently, managers, especially of small enterprises, sometimes lack basic understanding of tax-compliance, financial reporting, investor relations, etc. As a result, businesses do not comprehend full benefit of quality financial reporting and only conduct mandatory procedures to comply with regulations in the short-term. Overall, the advancement of the F&A business activity is positively correlated with economic growth. It can be projected that, as time passes, demand for high-quality F&A services will be increased. At present, the qualification of local professionals is rising, albeit slowly. In terms of accounting, the growing number of certified accountants and reputable auditing firms indicates that the activity has positive development dynamics. Even though the workforce, to some extent, is unskilled in this business activity, accounting firms frequently enhance their qualifications and upgrade their professionalism.

## **ARCHITECTURE DESIGN AND ENGINEERING (ADE)**

Focus group discussions were conducted with a wide range of representatives engaged in the ADE business activity including professional unions, individual architects, industrial and product designers, urban planners and other stakeholders.

Overall, this business activity has been developing at a moderate pace, with some of the significant and persistent obstacles to overcome. Noticeably, as of now, no major progress has been made with regards to any of the described challenges that has impeded growth of ADE. According to focus group participants, following barriers have persisted in 2021 as well in this business activity:

- **The absence of a mandatory certification requirement for architects** is a key challenge, according to some participants. Even though none of the respondents claimed that

certification would solve all of the problems currently being faced in ADE, the majority of them outlined that it was a necessary tool in the course of determining a fairer market price for architectural services in Georgia. Moreover, if administered appropriately, mandatory certification has the potential to increase the credibility of service providers through the introduction of additional objective criteria. Notably, some significant steps have already been taken in this direction. The Code of Georgia on Spatial Planning, Architecture and Construction (hereinafter, the Construction Code), adopted in 2018, introduced a mandatory certification to conduct architectural activity in Georgia<sup>41</sup>. According to the current version of the Georgian Law on Architectural Activities, this requirement will come into force only in October 2022, which is two years later than initially planned<sup>42</sup>. Importantly, as interviewed architects claim, the proposed change is not well communicated with the private sector, which might threaten effective implementation of the policy. For instance, there are misconceptions among sector representatives about who needs to get certified. According to the new law, every architect will be obliged to submit its project for verification to the certified representatives of the sphere.

- **A shortage of quality education** represents another challenge that is prominent for this economic activity. Even though the sphere has been established in Georgia for years, some participants agree that the country lacks effective and “market-oriented” educational modules in ADE. Focus group participants noted that the modules often fail to equip students with interdisciplinary perspectives and transferrable skills. Those institutions that offer degrees do not have resources to integrate contemporary approaches into their programs. Moreover, educational programs are often focused on quantity rather than quality of their graduates, failing to equip them with practical knowledge. As a result, it is usually the private sector that has to care for educating their employees.

**A challenging system of public procurement** is another barrier identified as hampering growth in this business activity. In certain cases, the public procurement system does not ensure a fully transparent process and leaves room for some distrust towards the establishment of criteria and the selection procedures. For instance, some participants of the focus groups outlined that, frequently, the company eligibility criteria in public procurements requests an unreasonably high annual turnover from applicants, while it does not determine the applicant’s capacity to actually execute the proposed project in a timely and satisfactory manner. Thus, from the perspective of many focus group participants, it would be beneficial if the current public procurement system was to be based on stronger principles of transparency and competition. A positive tendency can be observed when it comes to procurement projects involving international donor organizations such as, for instance, the World Bank or the Asian Development Bank. As explained by the interviewees, with these organizations involved, procurement procedures usually comply with high international standards, increasing their credibility. On the contrary, when international actors are absent from the projects, public sector representatives, such as municipalities, are rarely seen as stable and reliable partners. For instance, according to interviewees, there have been some instances when municipalities suspended procurement calls with no apparent explanations.

There are various types of companies operating in this business activity. Companies taking part in public procurements are usually the biggest players in ADE. Meanwhile, there are some firms oriented towards large procurement calls issued in the private sector (e.g. by Adjara Group or TBC Group). Finally, there are numerous small-sized, relatively unknown companies operating on the Georgian

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<sup>41</sup> Article 140 of the “Code of Georgia on Spatial Planning, Architecture and Construction.” Available at: <https://matsne.gov.ge/ka/document/view/4276845?publication=8>

<sup>42</sup> Article 3, paragraph 4 of the “Law of Georgia on Architectural Activities.” Available at: <https://matsne.gov.ge/ka/document/view/32506?publication=5>

market in this business activity. These firms try to take advantage of architectural competitions and events to enhance their visibility and establish themselves on the market.

Interestingly, most of the companies or individual contractors in ADE operate domestically and, generally, do not export their services abroad. As explained by some participants of the focus group, domestic demand absorbs the entire capacities of local players. Moreover, as some participants outline, the Georgian workforce do not possess advanced engineering skills that are necessary to take full ownership of the exported architectural processes. Another driver behind the lack of export orientation is the largely conservative nature of this industry globally. The strong presence of trade unions and the heavy regulatory burdens that this business activity faces on the foreign markets, especially in western Europe, makes it hard to export architectural services. However, there are some competitive advantages that Georgian firms possess when it comes to internationalizing their services. Primarily, Georgian companies can offer competitive service prices to international clients. Some companies have also found a niche in specializing in the export of visual and technical components of the architectural process, such as sketching and rendering.

When it comes to target markets, some participants of the focus group noted that it is not feasible to enter the western markets when it comes to exporting architectural services, as high saturation of these markets makes it hard for the Georgian companies to compete. In search for alternatives, Multiverse Architecture (MUA), Tbilisi-based Architecture and Placemaking office, plans a proactive communication campaign with potential partners in Kazakhstan, Uzbekistan and Azerbaijan, with one project in Kazakhstan already being in the negotiation phase. According to the representative of MUA, markets in these countries are by no means inferior compared to those in the western, even in terms of prices,

According to the focus group discussions, any further internationalization of Georgian ADE activities will significantly depend on the existence of networking platforms that can inspire potential collaboration, including idea- and portfolio-sharing between Georgian and foreign ADE market representatives. Importantly, the Tbilisi Architecture Biennial<sup>43</sup>, founded and organized by four Georgian architects, is a promising initiative in this direction. If suitably strengthened, the biennial could assist Georgian architects to establish contacts with professionals in the sphere from different parts of the world.

Some of the challenges mentioned above could be better addressed by the organized efforts of the private sector. In terms of design activities, Association Design Georgia has been active in the country since May 2019. However, private sector leadership is vividly low when it comes to the architecture business activity. Pertinently, there is no specific active business association in the industry. The professional platform entitled the Georgian Union of Architects is present in this sphere. However, the industry representatives have often expressed their distrust towards the management structure of this Union, which did not allow new generation of architects to participate in the decision-making process of this entity. Nevertheless, some promising developments took place in this regard recently. The election of a new chairman and governing board in December 2021 was followed by administrative restructuring of the Union. As a result, new members actively advocate new initiatives in the Union. Precisely, the Union members have identified priority directions and working groups have been formed to address specific challenges in education, public procurements, urban planning, etc. Mr. Pavle Maisuradze, a newly elected member of the Union's governing board, noted that more promising developments are to be followed in the coming years.

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<sup>43</sup> <https://biennial.ge/>

## 6. CROSS-CUTTING SECTORS

### SECTOR SUMMARY

The pandemic and related-restrictions in 2020, as well as the beginning of economic rebound in 2021 had a different and less-straightforward impact on cross-cutting sectors compared to other sectors of the economy. On one side, cross-cutting sectors are tightly intertwined with every other sector in the economy and thus are significantly affected both by the recession and the subsequent economic rebound. Indeed, the transports and logistics value chain experienced a strong decline in 2020 and started to rapidly recover in 2021. But other two value chains - ICT and e-commerce, in parallel to the movements in overall economic growth, also experienced the reverse pressures from the pandemic-related restrictions.

It can be said that the ICT value chain was less severely damaged in 2020 compared to the other value chains of the economy, while some indicators of the VC's performance have even experienced growth (indicators for ICT hardware). The explanation is that even though the pandemic led consumers to rely more on digital technologies, they also had less money to spend in total, so the boost from restrictions was not enough to make the VC grow in 2020. But with the rebound in the economy and despite the loosening of restrictions in 2021, ICT, especially ICT software, experienced growth in most indicators.

As for e-commerce, despite the recession, the restrictions resulted in the high growth of total quantity (YoY 33.0%) and value (YoY 37.4%) of e-commerce transactions in 2020. And even with the loosening of restrictions, the e-commerce value chain has continued strong growth in 2021, with the number of transactions increasing by 16.4%, while the growth of the value of those transactions was as high as YoY 47.0%.

After being significantly damaged by the recession in 2002, the transport and logistics VC and especially the air transport industry (which was hit the hardest in 2020 as there was no flexibility in contrast to other sectors of the value chain) experienced strong growth in 2021 compared to 2020. In some key indicators (turnover, average monthly salary, productivity), the growth was enough to even surpass 2019 levels. Though in VCs some other key indicators (imports and exports, GDP, employment) this growth was mainly attributed to the low base of 2020 and was not enough to recover to the pre-pandemic performance.

To sum up, in 2021 all cross-cutting value chains have experienced considerable growth, even when loosening pandemic-related restrictions could act negatively on ICT and e-commerce. This might be hinting at the possible permanent nature of the shift toward a digital economy that was caused by the restrictions in 2020. However, pent-up demand in 2021 could also be the key reason for this increase. Subsequent analysis of those value chains in future years will allow making more conclusive observations about the nature of the current increase.

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

Representing a considerable global challenge, the shortage of IT professionals has been the most frequently discussed topic during the value chain qualitative analysis. The majority of stakeholders agree that existing educational programs in Georgia fail to keep up with the rapid pace of the value chain. However, initiatives and strives for overcoming the challenge are frequent, namely: The ICT cluster and its members are implementing several projects aimed at, initially, creating and developing



100 technology clubs in the regions of Georgia for school-age children, with a core goal to develop relevant skills in pupils from an early age; secondly, the cluster is engaged in supporting educational organizations to develop practical approaches tailored to existing needs of the private sector, with an aim to carry out recommendations for improving the teaching methodologies. The discussions are currently also being held with a newly founded Vocational Skills Agency, which, with the active involvement of the private sector, is working on a new management model in direction of vocational education. However, it is also believed that the traditional methodology in IT education may no longer work in modern times, as the complexity lies in understanding what to focus on in the curriculum: teaching simply the programming language or developing a systemic vision. Consequently, the respondents doubted if it is obvious that the businesses have a direct and accurate answer to the teaching methodologies and VC should seek solutions through intensive consultation with sector experts.

Since October 2020, the GoG (considering international practice) enacted a preferential tax policy for IT companies with international status. Through this decision, the enterprises with eligible "international" status may benefit from several tax relief schemes including decreased income and profit tax to 5% and property tax exemption. Most of the private sector actors think that such preferences can be well used for attracting investments and encouraging penetration of international enterprises into the local market, however, part of them are concerned that such tax reliefs designed only for companies with international status, give them an advantage over local companies and renders competition unbalanced on the local market.

Since September 2021, the IT sector is among the priority sectors of the EG. Such an initiative is believed to improve ICT value chain business actors' access to finances, though, they still face obstacles with regards to the loan collateralization, as generally, the IT companies own neither land nor any capital, nor can they use intangible assets, such as copyrights and codes, as a guarantee for business loans. Although the VC actors already have carried out a number of activities for overcoming it, the issue is still open and has not yet been resolved.

A closed ecosystem of public e-services was marked as one of the key impediments of VC's development, during the qualitative study. However, based on the information shared by the VC's main stakeholders, the first steps are put forward for finding solutions to it. Firstly, a Digital Transformation Consortium was founded (June 2021), with an aim of promoting the country's "digital transformation", the development of a decentralized ecosystem of public e-services, and the development of the country's international export potential. The consortium, together with MoESD, organized several public-private dialogue events, eventually resulting in a creation of a digital transformation committee, the main goal of which is the digital transformation of the economy. From a consortium members' perspective, ever since the dialogue has been activated, the private sector has started working on solutions on how to decentralize specific services without disrupting the existing ecosystem. This collaboration is ongoing and still active.

Despite being a long-term process requiring the establishment of a legal and regulatory framework, market infrastructure, and financial instruments, capital market development in a developing country like Georgia is believed to play a crucial role in the country's economic development. With this in mind, consortium members started a dialogue with MoESD and the National Bank of Georgia, specifically developing capital markets through one of the modern mechanisms such as STOs (Security token offering). According to the stakeholders, this direction seemed to be interesting for the Ministry of Finance of Georgia as well and the discussions are being held.

Based on our observations, the quality of public-private dialogue has increased throughout the qualitative study of the VC. It is noticeable that positive steps have been taken toward improving the level of communication between the private sector enterprises and respective government units. However, the private sector is still concerned about the existing PPD format, and its effectiveness might change in the event of rotation of governance and politician now being involved in the process. Therefore, the majority of them think that a systemic vision has to be established as a good basis for elaborating a strategy of sustainable actions.

Observing the value chain key economic indicators on annual basis, it is apparent that the Covid-19 pandemic was a game-changer for E-commerce. During the crises many consumers' behavior has changed switching to purchasing goods and services online and, as the qualitative study reveals, such inertia is being attained in a post-pandemic phase as well. During the crisis, the main obstacle was linked to an inadequacy of the supply side for the increased demand – shortcomings of courier and logistics services that became even more obvious during the New Year and other celebrations. According to the majority of interviewed respondents, although the crisis has somewhat further developed the e-commerce VC (e.g. logistics and other ancillary services), in general, excessive growth did not turn out to be good for the industry, as the quality of services could not pursue it.

The E-commerce value chain is in anticipation of a new law on e-commerce. Importantly, as highlighted by interviewed respondents involved in the working group, the draft law does not include an exact definition of e-commerce, rather mentioning that e-commerce is "the information society service", which causes uncertainties. For example, it is unclear whether sales of goods on social networks are e-commerce operations or not, and it is believed that only the law should define these concepts. Otherwise, a misinterpretation and mismatch in the qualitative measurements will always happen.

Based on our findings, Georgian e-commerce outlets use the Cash on Delivery (COD) service very frequently, amounting substantial share of their turnovers (based on one of the delivery company's information, in total, 47% of delivered packages are being paid by cash, out of which 16.5% are payments made via POS terminals on delivery). Nevertheless, according to the majority of interviewed respondents, there exist particular courier companies involved in the so-called shadow economy, hiding COD service operations and thus avoiding paying taxes.

Foreign debit or credit cards are limited with respect to making payments from abroad on Georgian e-commerce websites. This challenge is basically due to the cautious policy that the local commercial banks have. Georgian commercial banks cooperate with merchants only if the latter reimburse the customer's required amount, in case of a dispute. At a local level, the commercial banks are negotiating with each other, do not dispute and individual cases are dealt with mutual agreement. According to the respondents, the solution to this challenge may be the emergence of new fintech companies, that would be able to insure similar cases.

As opined by the interviewed respondents, Georgia holds an opportunity of becoming a hub for international transactions, when neither a buyer nor a seller is in the country, however, uses local banking infrastructure. This is what cross-border acquiring is, an activity allowing international merchants to operate across multiple countries for better services and rates than those offered by their own domestic acquirer banks. However, as was highlighted, the notion of cross-border acquiring is yet ambiguous in the legislation and there are no specific rules about cross-border acquiring requirements, thus the commercial banks' activities in this direction are still passive. Overall, it is believed that there is a big potential that Georgia has in developing the cross-border acquiring.

According to the interviewed respondents from the transport and logistics associations, the sanctions imposed on the Russian economy can create opportunities for the Georgian logistics sector through two main dimensions: First of all, the cargo moving through the northern corridor, through Russia, is expected to be at least partially closed to Central Asia as well as China and as a result, the „middle corridor“ will acquire much greater importance. Secondly, given that hundreds of different companies cease operations in Russia, and are forced to leave Ukraine as well, the current situation creates a prospect for moving such productions to Georgia. Besides, In 2017, Georgia has joined the CAREC (Central Asia Regional Economic Cooperation) program, thus, Corridor 2 (Europe–Mediterranean–East Asia), among the six, was revised, through which CAREC multimodal network connectivity to the Black Sea ports, and to the land border with Turkey, has been expanded, creating opportunities for Georgia.

Access to skilled labor and professional educational programs specialized in transport and logistics play a most important role in productivity growth at both the company and the value chain level. Specialized companies face big obstacles in recruiting qualified and skillful employees at the local labor market. Most of the company managers are self-educated, which in some cases results in low quality of services. In response to the complex challenge, the Georgian Logistic Association (GLA), normally being actively involved in vocational and academic education, carried out a needs assessment study of the value chain, with the support of GIZ and the involvement of the newly created Vocational Skills agency. The initiative aims to create dual programs, which should receive accreditation in September, and be launched by 2023. GLA claims that the problem is associated with the willingness of companies and the desire to retrain their own staff, as they later cannot offer career development opportunities to trained and highly qualified staff.

Based on our observations, the transport and logistics value chain is in need of advanced functionality of business associations. From a private sector perspective, the majority of respondents are united around the idea of becoming members of the association of advanced functionality that would ideally provide a variety of services for its members. In GLA’s opinion, the association’s resources are limited to developing its services and increasing its functional role in the value chain. In their viewpoint, the greatest opportunity for attracting such resources exists from international donor organizations

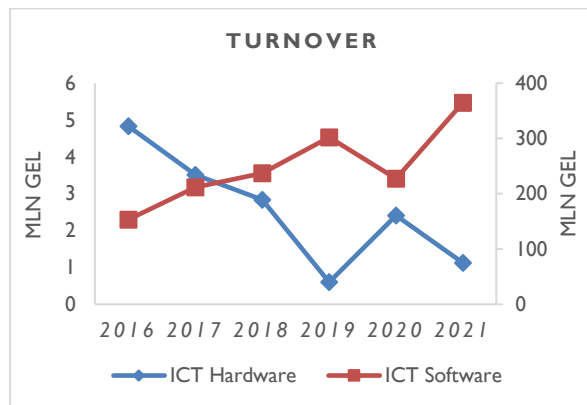
Covid-19 had a negative influence on the overall global shipping market, especially consequences on global maritime mobility turned out to be severe. The respondents from the private sector, as well as business associations, cite a disbalance between exports and imports caused by the pandemic, as one of the possible reasons for the global challenge. Besides, the second reason was related to artificially increased prices in the global market. The majority of interviewed respondents think that the crisis period was used by the shipping companies in their favor and kept the high prices artificially.

## **INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)**

Interestingly, Information and Communications Technology (ICT) is one of the few value chains that could have been boosted during the pandemic as there was a higher demand for digital technology due to nationwide stay-at-home directives not only in Georgia but globally as well.

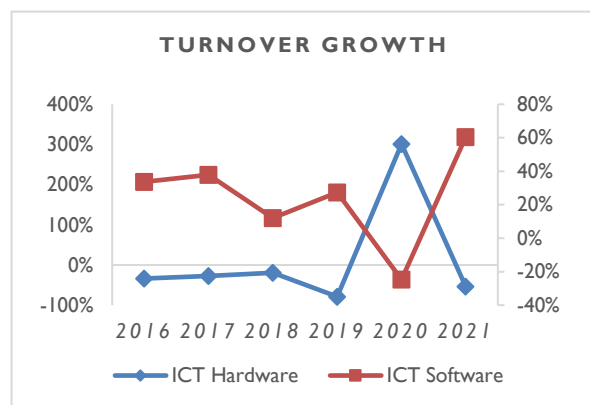
According to Geostat’s “Indicators of using information and communication technologies (ICT) in households” report, 86.1% of Georgian population has internet access in 2021, compared to 70.1% in 2016, 79.3% in 2019 and 83.8% in 2020. This indicator is higher in urban areas (91.4% in 2021) and lower in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

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



Source: National Statistics Office of Georgia

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



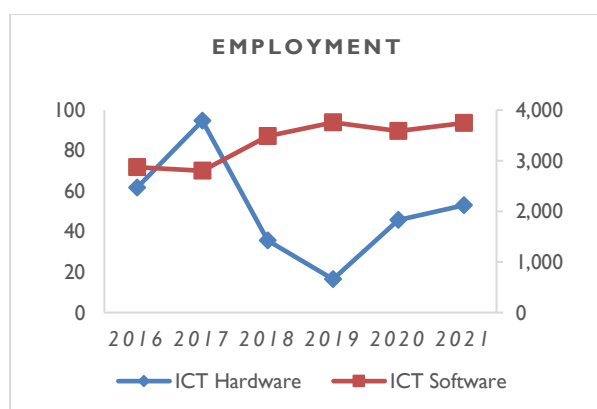
In Georgia, the ICT software value chain is far larger than the hardware. In 2021, a turnover of ICT software was GEL 364.8 million, that is approximately 324 times higher compared to a turnover of ICT hardware, which amounted to just GEL 1.1 million.

Before 2020, the turnover of the ICT software was growing steadily, recording a growth rate of 27.3% in 2019, but the pandemic caused the VC's turnover to decrease by 24.7% in 2020. Though in 2021, despite the reopening of the economy and loosening of restrictions, the turnover of the ICT software recorded high growth (60.4%), not only recovering but even taking ahead of a pre-pandemic performance by 21.0% (compared to 2019).

Meanwhile, the ICT hardware showed quite different movements. The turnover of ICT hardware was declining before pandemic, decreasing as much as by 78.7% in 2019. Then, interestingly, the turnover of the VC sharply increased in 2020 by 301.1% but decreased again in 2021 by 53.3%. Though in absolute terms, the turnover of the ICT hardware in 2021 was higher than in 2019.

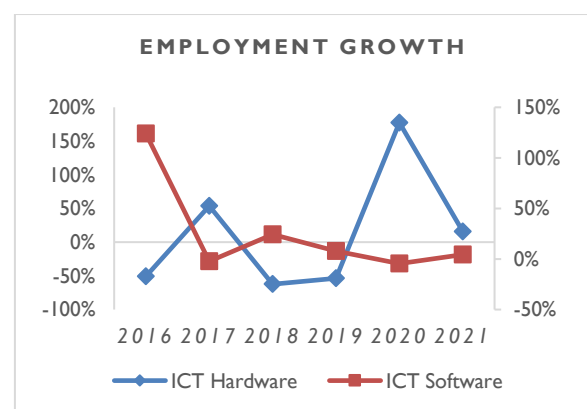
As of 2021, the turnover of ICT software has increased, while of ICT hardware decreased, it deepened the difference in size between the two value chains even further compared to previous years.

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



Source: National Statistics Office of Georgia

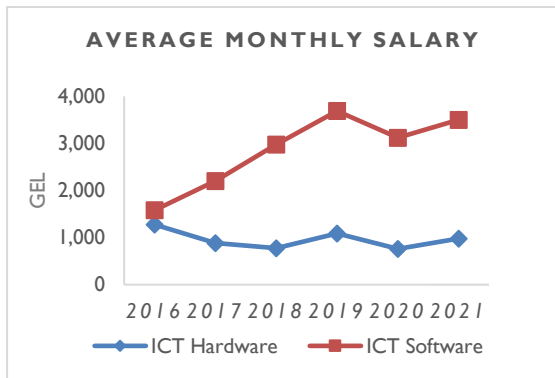
Chart 6.4 Growth rate of the ICT value chain's employment, divided by software and hardware



The ICT software value chain employed 71 times more employees than the hardware value chain, having employed 3 743 employees, compared to 53 in the hardware value chain in 2021.

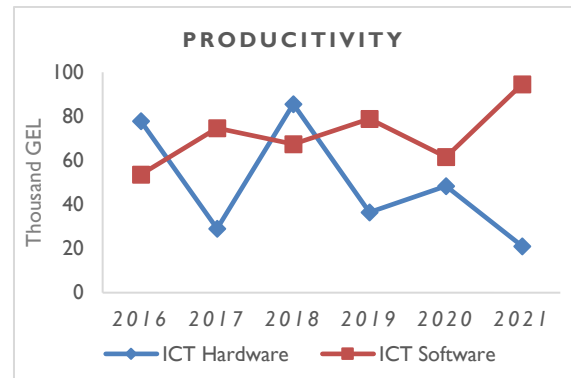
Employment in both VCs have increased in 2021 – by 15.8% in the hardware and by 4.4% in the software. Looking at previous years, before 2021 employment in both VCs showed movements similar to turnover.

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



Source: National Statistics Office of Georgia

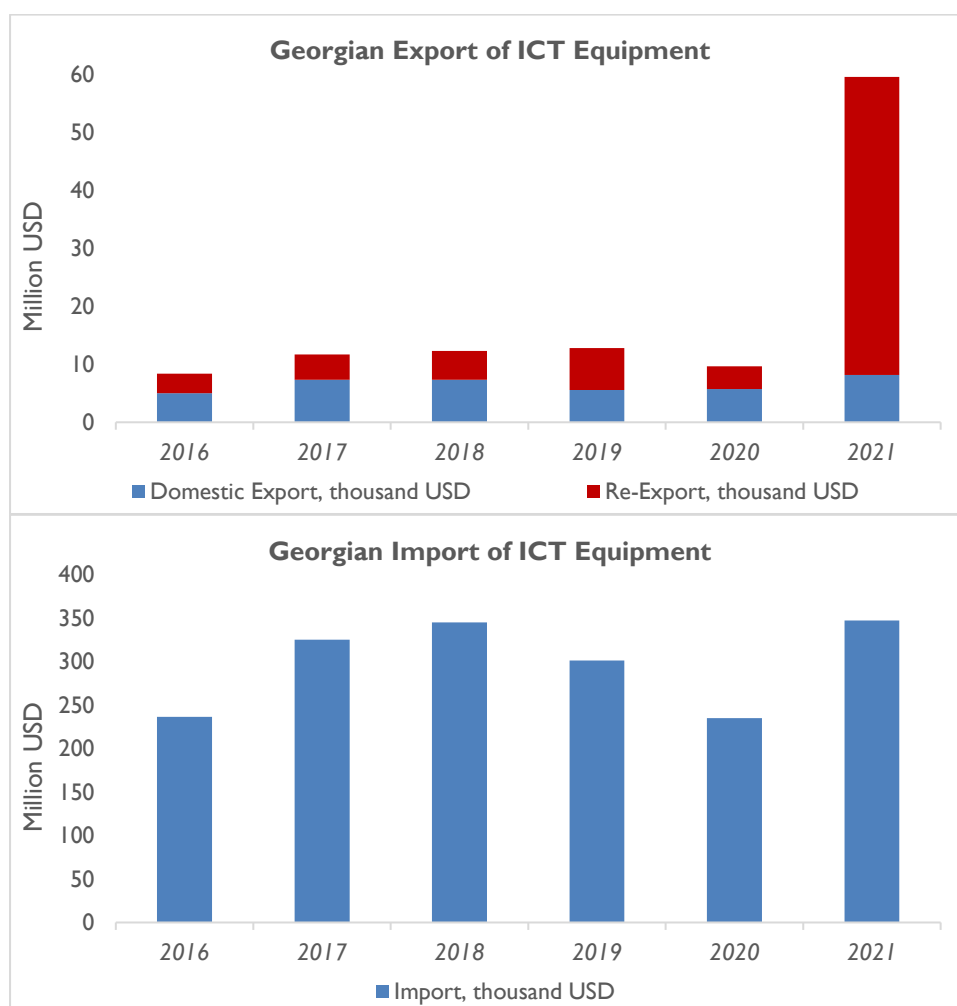
Chart 6.6 Productivity for the ICT value chain, divided by software and hardware



Average monthly salary in both value chains has not been much affected by the pandemic. Average salaries slightly declined in 2020 (by 15.4% in the ICT software and by 30.3% in the ICT hardware) but quickly returned almost to the same levels as in 2019. Notably, salaries in hardware VC are much lower than those in software VC. In 2021, while average monthly salary in hardware was GEL 981.4, it was GEL 3498.8 in software, which is 3.6 times higher.

In 2019-2021, the productivity of both VCs showed fluctuations similar to the turnover. That is, for the ICT software, the productivity in 2020 decreased by 21.9%, but increased in 2021 by 53.5%, surpassing the performance of 2019 by 20.0%. For the ICT hardware, the productivity increased in 2020 by 32% but decreased by 56% in 2021.

Chart 6.7 Georgian exports and imports of ICT equipment



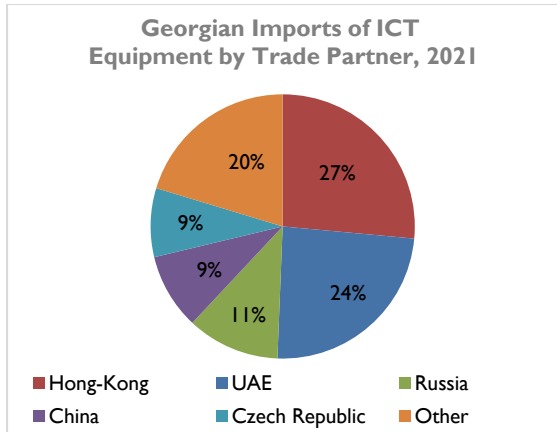
Source: National Statistics Office of Georgia

Georgia is primarily an importer of ICT equipment rather than an exporter. In 2021, the value of the imports reached USD 346.9 million, compared to the exports which were USD 59.5 mln. In 2021, the value of both Georgian imports and exports were the highest for the last years. The value of Georgian imports of ICT equipment has increased by 47.7% compared to 2020, but also by 15.3% compared to 2019. While the value of ICT exports was 516.1% higher compared to 2020 and also 366.3% higher compared to 2019.

It is worth noting that out of these exports, 86.3% were re-exported. Moreover, this extraordinarily high increase in exports in 2021, was mainly due to a jump in re-exports of ICT equipment. This is highly attributed to an abnormal increase in digital processing unit re-export from Georgia to Ukraine and to Azerbaijan.

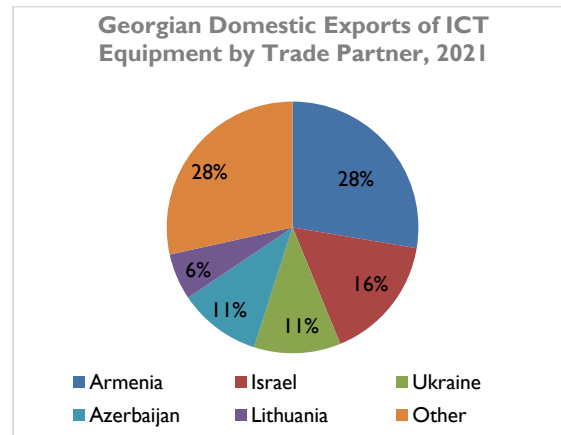
27% of imported ICT equipment in Georgia in 2021 come from Hong Kong, 24% from the United Arab Emirates, 11% from Russia, 9% from the Czech Republic, 9% from China, and 20% from other countries. Unlike the imports, the domestic exports are predominantly concentrated among countries with closer geographic proximity to Georgia, where 28% of ICT equipment exported goes to Armenia, 16% to Israel, 11% to Azerbaijan, 11% to Ukraine, 6% to Lithuania and 28% to other countries.

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



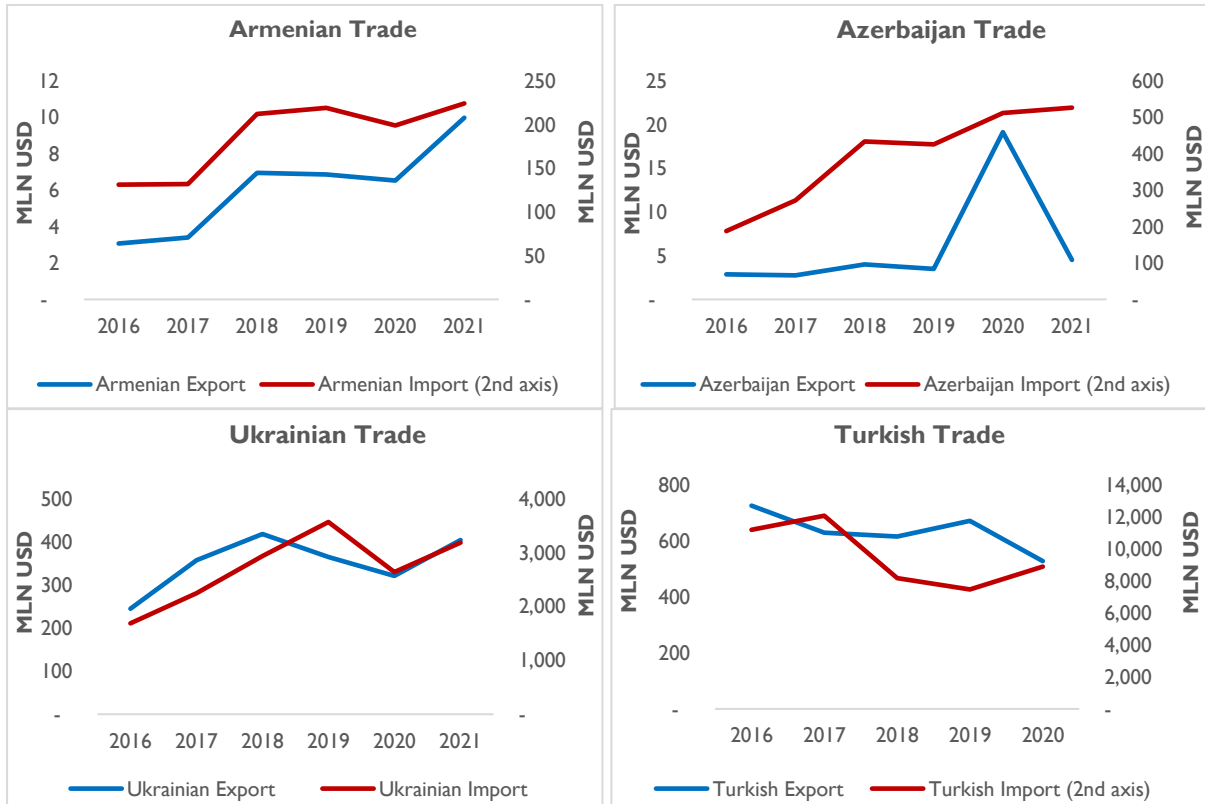
Source: National Statistics Office of Georgia

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



On the regional level, Turkey is the largest importer and exporter of ICT equipment among all 4 countries. In 2020, Turkey imported roughly USD8.9 billion worth of ICT equipment, while exporting USD529.1 million, while there is no data available on Turkish Trade of ICT equipment for 2021. This is in stark contrast to Armenia, Azerbaijan, and Ukraine, which imported roughly USD224.6 million, USD527.4 million, and USD3.2 billion respectively, and exported roughly USD9.9 million, USD4.5 million, and USD404.2 million respectively, in 2021. There is no significant ICT production sector in any of these countries, which makes their exports limited in scope compared to their imports.

Chart 6.10 Regional trade patterns in the ICT value chain



Source: UN Comtrade

## **Overview of existing challenges and opportunities**

Applying rapidly growing digital technologies for improved efficiency and increased productivity has become an essential prerequisite for entering the modern market competition. Based on the qualitative study carried out through consultations with VC's key stakeholders, a necessity of digital transformation in Georgia, especially after the events of the pandemic crisis, is believed to be more essential than ever.

The qualitative analysis during the year was based on individual interviews and focus groups meetings with representatives from the private sector (both large-sized companies and SMEs) and respondents from the ICT cluster and digital transformation consortium – which has been founded recently. The key obstacles, as well as, existing opportunities and core thematic topics covered during the qualitative study, are summarized below:

### ***The skills gap and strives for overcoming the lack of a qualified workforce***

Shortage of IT human resources represents a substantial global challenge and the demand for IT professionals is increasing considerably quicker than in other areas. Referring to the majority of respondents' opinions interviewed during the qualitative study, the existing educational programs both at the academic and vocational education level, cannot pursue and keep up with the rapid pace of the value chain and are in need of constant renewal.

In response to this, several educational projects have been initiated by different stakeholders with a common goal of finding solutions for the complex challenge: The ICT cluster and its members (within the framework of the EU4Business initiative, with the support of EU-funded SME Development and DCFTA project in Georgia) are implementing a project aimed at creating and developing 100 technology clubs in the regions of Georgia for school-age children. The objective is to develop technical skills in pupils from an early age, later on providing them with internship opportunities in cluster member and nonmember companies. Secondly, the cluster is engaged in supporting educational organizations to develop practical approaches tailored to the existing needs of the private sector. The task is to study the practice that IT specialized companies have towards interns - how competencies are developed during the internship, and what would facilitate this process. As a consequence, the recommendations will then be passed on to educational institutions for upgrading the teaching methodologies. As informed, the discussions are currently being held with a newly founded Vocational Skills Agency, which, with the active involvement of the private sector, is working on a new management model in the field of vocational education.

On the other hand, as opined by part of the respondents, creating modules, curriculum and content are not difficult, however, the traditional methodology may no longer work in modern times. As they assess, the problem doesn't relate to what should be taught, but how, as the complexity lies in understanding what to focus on in the curriculum: teaching simply the programming language or developing systemic vision. Consequently, from the same respondents' viewpoint, it is not obvious that businesses will have a direct and correct answer to the teaching methodologies and that the right solutions can be discovered by discussing them with the sector specialists and experts.

Notably, referring to the representative from an international status company EPAM, they invest much in leveling up a qualification in the IT field in Georgia, already providing up to 5 free online courses for interns plus paid internship opportunities to youth, not necessarily with an education or experience in the IT field. However, only the capital is developed in this regard, and the engagement level in regions is still very low. From the respondent's viewpoint, there is a big potential in the IT value chain,



however active popularization of the field is necessary. As opined, the current period is the beginning of an acceleration in Georgia to a successful phase, which has already been achieved in Ukraine and Belarus.

Besides, recently a career acceleration program has been launched by Sweeft Digital with the support of USAID's Economic Security Program, which offers interns both theoretical as well as practical coaching with the help of personal senior mentors within local and international projects. The interns get paid from the first day of joining the program. From part of the respondents' opinion, the program is believed to be an important initiative for leveling up the most demanding skills in the ICT value chain. It is also important to highlight the ICT training program implemented by GITA within Georgia National Innovation Ecosystem (GENIE) project. The program was launched in November 2020, initially aiming to train up to 500 IT specialists (the majority of which (70%) have been successful, passing the international certification exams). Later on, the first pilot phase has been followed by the larger scale phases, and overall goal is to train at least 3,000 participants by May 2023. The trainings are conducted by the New Horizons, a globally acknowledged IT Training center, together with Space Cad and Tbilisi Communication School.

### ***Preferential tax mechanism applied to companies with international status***

Influenced by international practice, since October 2020, a new decision has been made by GoG about enacting preferential tax policy for companies with international status and specializing in two main sectors: IT and Maritime services. Through this decision, the enterprises with eligible "international" status may benefit from several tax relief schemes including decreased income and profit tax (to 5%) and property tax exemption.

GoG's objective was to strengthen Georgia's potential as a regional hub and increase the interest of multinational international companies. According to the majority of interviewed respondents, such a preferential regulatory and tax framework is an effective tool for attracting investments and encouraging penetration of international enterprises into the Georgian market. However, in their opinion, the tax reliefs designed only for enterprises with international status gives them an advantage over local companies and render competition unbalanced in the local market.

From EPAM's viewpoint, as being one of such international status companies having entered in Georgian market since the tax relief mechanism was in force, the current tax relief system can accelerator role for the companies with international status, however, EPAM had already discussed penetrating the market prior to this initiative and it was not the cause of their decision. According to the representative's opinion, it would have been better to extend the existing preference to the entire IT sector, though, it can also be perceived as an incentive and not domination over Georgian companies. As noted, several IT companies will try to engage in exports and gain international status, which in turn will eventually help the value chain.

### ***Export impediments and opportunities***

Many respondents indicated that Georgia has exported several ICT products, but such occasions have been mostly spontaneous and unstable. Although trade liberalization with the EU through the DCFTA and AA offers great opportunities, this potential remains to be realized even to a small extent as Georgia has not yet developed ICT products that attract global demand. As some respondents reported, convincing the European market that Georgia can produce high-quality tech products is a complex task. To address this challenge, several stakeholders mentioned the importance of results-oriented trade missions by Georgian ICT companies to targeted countries. Rather than focusing on

trade fairs, which are not always effective, a well-organized and immersive trade mission of Georgian companies visiting a targeted country's relevant IT service buyer companies, whose prior interest and readiness to cooperate with Georgian ICT companies has been established, was cited as potentially having tangible outputs for the private sector. The latter calls on international donor organizations and programs to support similar projects in Georgia.

### ***Loan collateralization difficulties in the ICT value chain***

Since September 2021, EG has incorporated the IT sector into its list of priority sectors. According to the majority of the interviewed respondents, such an initiative will improve ICT value chain business actors' access to finances. Although they still face obstacles with regard to the loan collateral as generally the IT companies own neither land nor any capital to be used as a guarantee for business loans. According to them, intangible assets such as copyrights and codes are not in Georgian banks' interests. Besides, raising funds might be easier for large and experienced companies, though quite difficult for small size and start-up companies as, in today's changing world and difficult environment, neither previous contracts nor a good history of small-sized enterprises can represent a guarantee for the loans. As marked by the consortium members, although having carried out activities for overcoming the challenge, the issue is still open and has not yet been resolved.

### ***Strives for digital transformation***

A closed ecosystem of public e-services was marked as one of the key impediments of VC's development, during the qualitative study. However, based on the information shared by the VC's main stakeholders, the first steps are put forward for finding solutions to it. A Digital Transformation Consortium was founded in June 2021, with the primary goal of promoting the country's "digital transformation", the development of a decentralized ecosystem of public e-services, developing the country's international export potential, and supporting effective dialogue between the value chain stakeholders. Willingness and desire for such dialogue and partnership were expressed through the memorandum signed by diverse stakeholders: large businesses (UGT, Azry, OL, Altasoft), small and medium-sized enterprises, universities, research organizations, consulting companies (including PMCG), business associations, and the government representatives.

As the consortium members reported, the MoESD has been open for dialogue within the abovementioned framework, working meetings have been held and recently a digital transformation committee has been established, the main goal of which is the digital transformation of the economy.

From a consortium members' perspective, ever since the dialogue has been activated, the private sector has started working on solutions on how to decentralize specific services without disrupting the existing ecosystem. Thus, the private sector offered the creation of a blockchain platform i.e. a decentralized network that would be used in the future to run a specific application. According to them, the network has already been launched and they are moving on to the testing stage when the production network will be launched. Importantly, such an approach differs from traditional outsourcing as it retains the public sector's role in the provision of public services but incentivizes the voluntary involvement of private sector representatives to offer alternative services.

### ***Capital market emergence opportunities:***

According to the majority of interviewed respondents, considering international best practices and already established consensus that despite being a long-term process requiring the establishment of a legal and regulatory framework, market infrastructure, and financial instruments, a capital market

development in a developing country like Georgia, could play a critical role in country's economic development.

With this in mind, the consortium members started a dialogue with MoESD and the National Bank of Georgia, specifically developing capital markets through one of the modern mechanisms such as STOs (Security token offering). According to our respondents, this direction seems to be interesting for the Ministry of Finance of Georgia, since it creates opportunities for start-ups and small to medium-sized companies to go for foreign investments. The consortium members also confirmed working with Deloitte within the USAID Economic Governance Program, which incorporates two main directions in this regard: supporting the GOG in the implementation and enforcement of policies, laws, and regulations for the capital market development in Georgia; and secondly, facilitating crowdfunding ecosystem development in Georgia, with a sole focus on equity-based crowdfunding.

### ***Improved Public-private dialogue***

Based on our observations, the level and quality of public-private dialogue has increased throughout the VC's qualitative study, compared to which point it has reached. It is noticeable that, positive steps have been taken toward improving the level of communication between the private sector enterprises and respective government units. However, the private sector is still concerned about the existing PPD format, and its effectiveness might change in the event of rotation of governance and politician now being involved in the process. Therefore, the majority of private sector actors think that a systemic vision has to be established as a good basis for elaborating a strategy of sustainable actions. This will in turn create a tendency for strong public-private dialogue, such that all governments will have a desire to take part in it. Keeping this in mind, the majority of private sector representatives request donor organizations to be more actively involved in sustaining the course and further developing the dialogue.

## **E-COMMERCE**

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

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

The analysis of the e-commerce sector in 2018-2021 years uses the transactions via bank cards (VISA, MasterCard, etc.) online. Notably, only some part and not the whole of the transactions with bank cards would be part of the turnover, as some corporations are labeled under different sectors. Thus, an assumption will be made that the data will reflect the non-cash operations of e-commerce companies, and the gambling sector is analyzed separately from the total e-commerce to make more accurate observations.

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

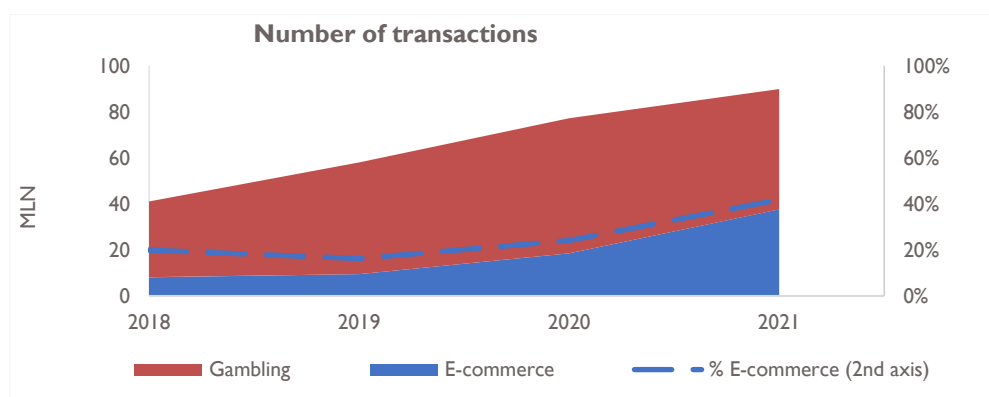
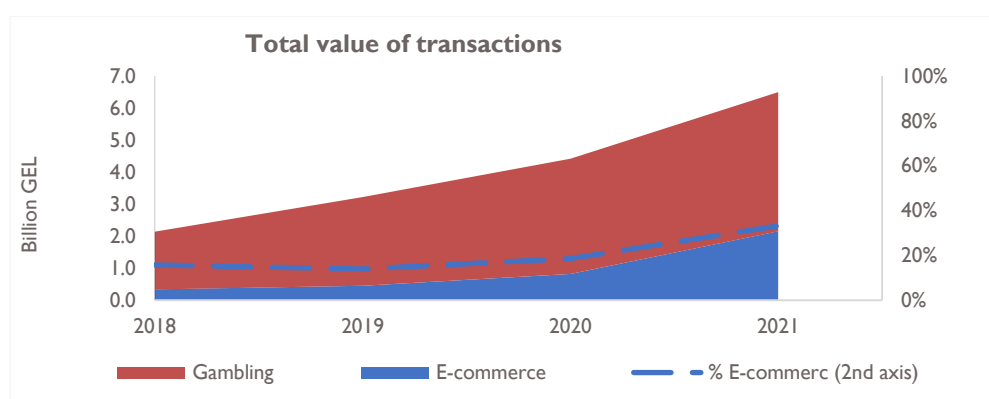


Chart 6.12 Total value of online transactions in Georgia decomposed by gambling and e-commerce



Source: National Bank of Georgia

Unlike the most of the other value chains, e-commerce got boosted by the pandemic-related restrictions and total e-commerce transactions have increased both in quantity (by 33.0%) and in value (by 37.4%) in 2020. Even with the loosening of restrictions in 2021, e-commerce VC continued to grow and while the number of transactions increased by YoY 16.4%, the growth of the value of those transactions was even higher and has increased by 47.0% compared to 2020. Subsequent careful observation of evolution in e-commerce transactions will allow making more conclusive observations about the growth trends of this VC, as while the pandemic forced people to utilize online stores and other forms of e-commerce transactions, they might continue to use these online and e-commerce transactions in the future years as well, due to convenience, and an increased trust towards them.

Interestingly, while the online transactions excluding the gambling sector hovered around 20% of the total operations from 2018 to 2020 years, in 2021, the share of e-commerce transactions in all online transactions almost doubled - increasing from 24% in 2020 up to 42%. Due to the approval of new restrictions on the gambling sector by the Parliament of Georgia in December 2021, the share of the gambling sector is expected to decrease further from 2022.

The share of transactions made via cards issued by foreign banks in online transactions made in Georgian e-commerce terminals is generally low: it was only 1.0% in 2018 and 2019 and dropped to 0.5% with the fall in tourist numbers in 2020. Though in 2021, the number of transactions made via foreign cards has considerably increased (by 256.6% compared to 2019 and by 392.1% compared to 2020), reaching even higher than pre-pandemic levels, which might be explained by a tourism rebound. The share of foreign bank-issued transactions in total e-commerce transactions made in Georgian terminals reached 2.1%.

As we saw, gambling has a large share in total e-commerce transactions made in Georgian terminals. But when it comes to online transactions made via foreign bank-issued cards in Georgian terminals, in 2021 more than 99.8% are conducted in non-gambling e-commerce operations rather than gambling.

Notably, if we compare non-gambling e-commerce operations made via Georgian cards inside and outside the country, a higher number and total volume of operations is made inside country compared to the transactions made abroad. However, in 2021, the average value of each transaction (total value of transactions divided by the total number of transactions) made abroad, which amounts to GEL 80, was higher compared to the average value of each transaction made inside the country, which is equal to GEL 70. Thus, it can be implied that on average Georgian online shoppers spend more on goods they are purchasing from abroad, than the ones they are ordering inside the country.

As for gambling, online transactions made abroad via Georgian bank-issued cards also almost fully consist of non-gambling e-commerce operations, with a share of 99.2% in 2021.

### **Overview of existing challenges and opportunities**

Observing the value chain key economic indicators on annual basis, it is apparent that the Covid-19 pandemic was a game-changer for E-commerce. During the crises many consumers' behavior has changed switching to purchasing goods and services online and, as the qualitative study reveals, such inertia is being attained in a post-pandemic phase as well. During the crisis, the main obstacle was linked to an inadequacy of the supply side for the increased demand – shortcomings of courier and logistics services that became even more obvious during the New Year and other celebrations. According to the majority of interviewed respondents, although the crisis has somewhat further developed the e-commerce VC (e.g. logistics and other ancillary services), in general, excessive growth did not turn out to be good for the industry, as the quality of services could not pursue it.

Importantly, the draft law on E-commerce, not yet been approved and discussed with part of VC stakeholders, is believed by most of the respondents to play a vital role in making the country's e-commerce platform more reliable and encouraging exports of goods and services through this modern sales channel.

The annual qualitative study has been based on individual interviews and focus group meetings with representatives from the private sector and the business associations. The most frequently discussed topics by the VC's stakeholders during the annual qualitative study, both in terms of challenges and opportunities, are summarized below:

#### ***Common sense about the E-commerce definition is not actually common***

There are still exit ambiguities in defining and measuring e-commerce. Based on the opinions expressed by the majority of interviewed respondents, there is a mutual perception that e-commerce is the sales of goods and services in which commitment for a final purchase is made online. However, opinions differ when it comes to the form of payment, i.e. how the payment was made – whether or not should we count payments made by cash on delivery (COD) still as an e-commerce operation.

Looking at worldwide recognized defections of e-commerce, most of them (US Census Bureau, Statistics Canada (2016), Eurostat (2017)) recommend recognition of OECD (2011) definition for ensuring the widest possible comparability of e-commerce operations, which defines e-commerce as follows:

“The sale or purchase of goods or services, whether between businesses, households, individuals or private organizations, through electronic transactions conducted via the internet or other computer-mediated (online communication) networks. The term covers the ordering of goods and services which are sent over computer networks, but the payment and the ultimate delivery of the goods or service may be conducted either on- or off-line”.

On the other hand, when it comes to measuring e-commerce quantitative data in Georgia, SebStat (Unified Information System of the National Bank of Georgia) payment card statistics manual (PCS data family) defines e-commerce operations as follows:

- E-Commerce Transaction - a card transaction performed for the purpose of purchasing /selling services or goods through the website of a merchant;
- Local e-commerce operation - an e-commerce operation, the acquiring of which is carried out by a provider operating in Georgia;
- Foreign e-commerce operation - an e-commerce operation, the acquiring of which is carried out by a foreign provider.

Significantly, according to the interviewed respondents, the draft law does not include an exact definition of e-commerce. It only mentions that e-commerce is "the information society service", which, in their opinion, causes uncertainty. For example, it is unclear whether sales of goods on social networks are e-commerce operations or not. With regards to payments made on delivery rather than in advance, such operations are internationally called ROBO – (research online buy offline), and in their opinion, should be counted as e-commerce operations. However, only the law on e-commerce, which should define these concepts, can bring clarity to this discussion. Otherwise, there will always be a misinterpretation and mismatch in the qualitative measurements.

### ***The Value Chain in anticipation of a new law on e-commerce***

The draft law on e-commerce is being actively discussed, but not yet adopted. Though, a part of interviewed stakeholders highlighted the inactive engagement of all counterparts in the process. For instance, a representative of the Voice of E-commerce association reported no engagement nor invitation to the working meetings in the draft law discussions. The alike concerns have been expressed by the private sector's representatives. According to one of the stated views, the reason for not including all relevant stakeholders may be the fact that it is already a phase when the authors are in a hurry to adopt this law, and there is no time left for comprehensive discussions.

According to the E-commerce Association, which has been involved in working group discussions, the draft law is more related to the activities of the so-called information society rather than to e-commerce. According to the respondent, the association has made a number of remarks and comments during the working meeting: initially, as mentioned above, the law does not define e-commerce, but it outlines e-commerce as an information society service, which is unclear to the association, and in their opinion, the value chain will again fall into uncertainty when measuring e-commerce; secondly, as stated, the law directly contains a record that it does not apply to the National Bank regulations; thirdly, in respondent's opinion, the law may pose risks in the direction of data storage and transmission, as, according to the draft law, the intermediary service providers (technology intermediaries) are exempt from such liabilities.

### ***Confidence about fair play among VC actors at doubt***

By the majority of the interviewed respondents' opinion, the commercial banks have a substantial role in the e-commerce value chain in terms of being a basis for the provision of stable and secure payment platforms. However, some stakeholders highlighted the importance of fair play and the self-reliance of e-commerce business actors in the value chain. In other words, as noted by the respondents, strong commercial banks, as a non-core business activity, are acting as parent companies of some of the leading e-commerce outlets, hence holding a competitive advantage, putting other competitors in an unequal position in the local market.

Besides, according to the 'Voice of E-commerce' association, a large segment of customers prefer researching online and paying later by cash, thus Georgian e-commerce outlets use the Cash on Delivery (COD) service very frequently, amounting substantial share of their turnovers (based on one of the delivery company's information, in total, 47% of delivered packages are being paid by cash, out of which 16.5% are payments made via POS terminals on delivery). Nevertheless, according to the association members, there exist particular courier companies involved in the so-called shadow economy, hiding COD service operations and thus avoiding paying taxes. In addition, there exist merchants cooperating with such courier companies and thus offering items at a low price to customers. As opined by the respondent, such unfair play affects the market competitiveness very negatively.

#### ***Limited payments from abroad using foreign debit/credit cards:***

Foreign debit or credit cards are limited with respect to making payments from abroad on Georgian e-commerce websites. This problem is basically due to the cautious policy that the local commercial banks have. With any online payment, if the customer does not receive the product ordered, he/she has the right to make a dispute and require a chargeback within 120 days, at which time the acquiring bank runs the risk of losing this amount. International consumers know well these rules, but not Georgians. At a local level, the commercial banks are negotiating with each other, do not dispute and individual cases are dealt with mutual agreement. Georgian commercial banks cooperate with merchants only if the latter reimburses the customer required amount, in case of a dispute.

According to the respondents, the solution to this challenge may be the emergence of new fintech companies, that would be able to insure similar cases. Besides, the majority of respondents foresee the penetration of new fintech companies as an opportunity for the value chain, as they would provide probably more suitable and convenient payment solutions and stimulate healthier competition in the market.

#### ***Cross-border acquiring, is an opportunity for the country's economy***

As opined by the interviewed respondents, Georgia holds an opportunity of becoming a hub for international transactions, when neither a buyer nor a seller is in the country, however, uses local banking infrastructure. This is what cross-border acquiring is, an activity allowing international merchants to operate across multiple countries for better services and rates than those offered by their own domestic acquirer banks. For instance, a European entrepreneur, being attracted by Georgia's business climate, registers a business representation in Georgia and sells IT products, for example, to US clients through the Georgian banking system.

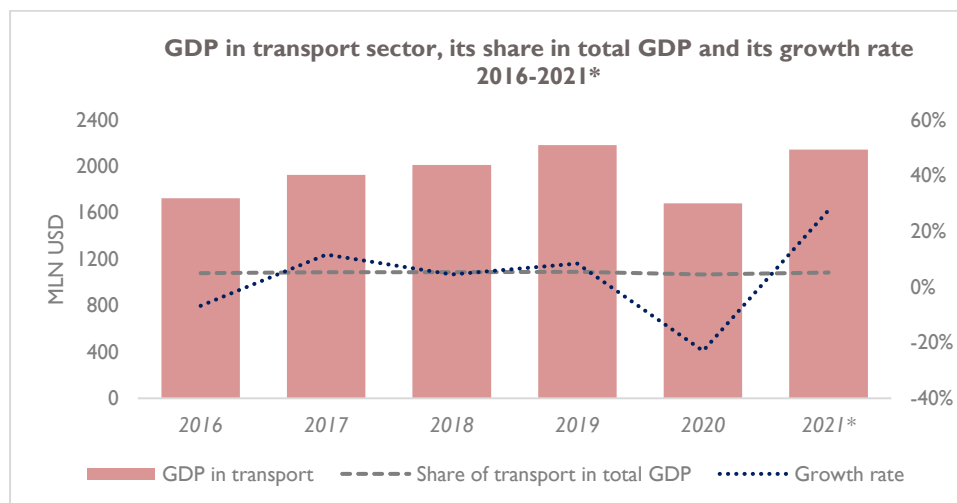
According to interviewed respondents, the notion of cross-border acquiring has been ambiguous before the NBG's new statute of September 2nd, 2020 which sets out a number of requirements for the acquirer and sub-acquirer primarily to prevent fraudulent schemes and reduce the risk of

fraud. However, as was highlighted, there are yet no specific rules about cross-border acquiring requirements thus the commercial banks' activities in this direction are still passive. Overall, according to the majority of respondents, there is big potential in developing cross-border acquiring in Georgia.

## TRANSPORT AND LOGISTICS

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

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



Source: National Statistics Office of Georgia

GDP of the transport sector in Georgia has been experiencing stable moderate growth, averaging yearly 4.4% in 2016-2019 period. In 2020, GDP of the sector suffered a decline of 23.0%. In 2021, recovery is evident, with GDP of 2021 showing 27.6% YoY growth and almost reaching, though still remaining 1.8% lower compared to the pre-pandemic value of 2019. The share of the sector in overall economy has been more stable and has not been affected by the pandemic, averaging to 5.1% in the period of 2016-2021.



Chart 6.14 Turnover of the transport and logistics value chain

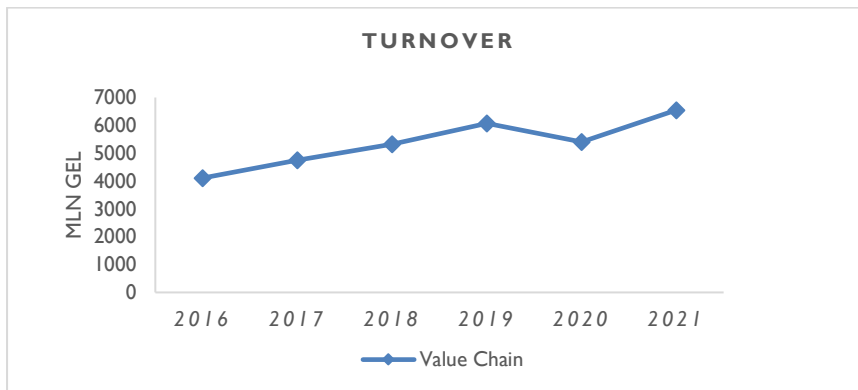
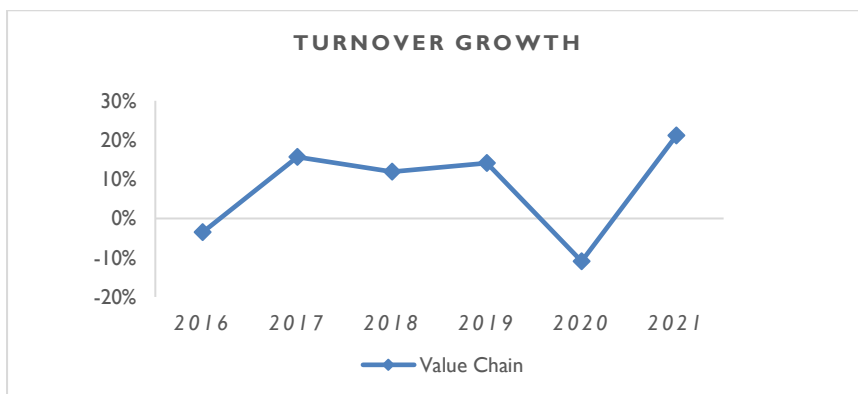


Chart 6.15 Annual growth rate of turnover for the transport and logistics value chain



Source: National Statistics Office of Georgia

After having experienced stable growth prior to the pandemic, the turnover of the transport and logistics value chain dipped in 2020, decreasing by 10.9% YoY. Though the VC's turnover saw a strong recovery in 2021, growing by 21.1% and the recovery was only partially attributed to the low base effect, as growth was still present in comparison with 2019 – 7.9%. Significant pick-up in exports and imports of Georgia can be considered as one of the main drivers of this growth.

Chart 6.16 Employment in the transport and logistics value chain

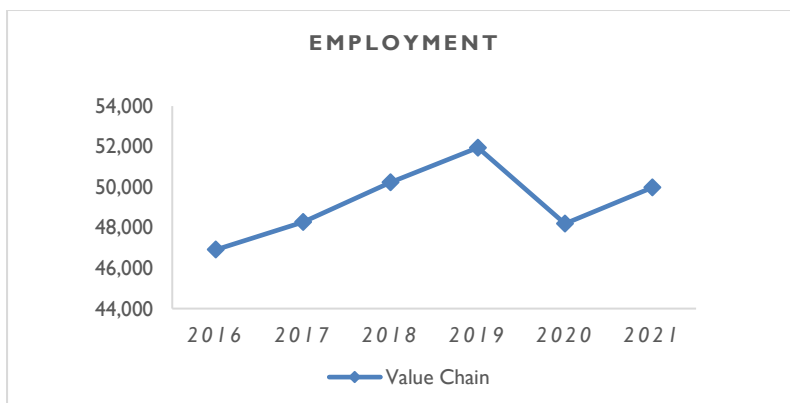
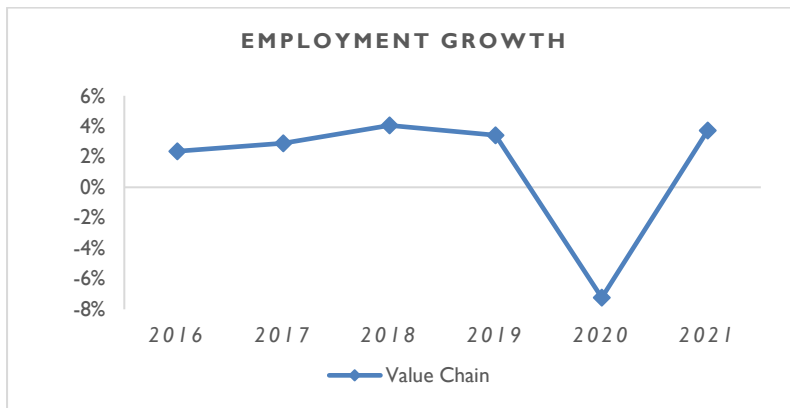


Chart 6.17 Growth rate of employment in the transport and logistics value chain



Source: National Statistics Office of Georgia

Employment in the VC saw a steady increase prior to the pandemic but declined by 7.2% in 2020. Similar to turnover, in 2021, the transport and logistic value chain saw a rise in employment as well. Number of employees in the VC increased by 3.7% in 2021 when compared to 2020, but still has not fully recovered to the level of 2019.

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

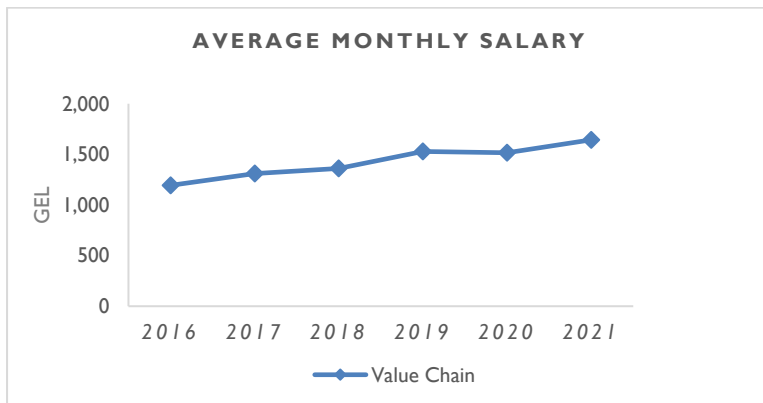
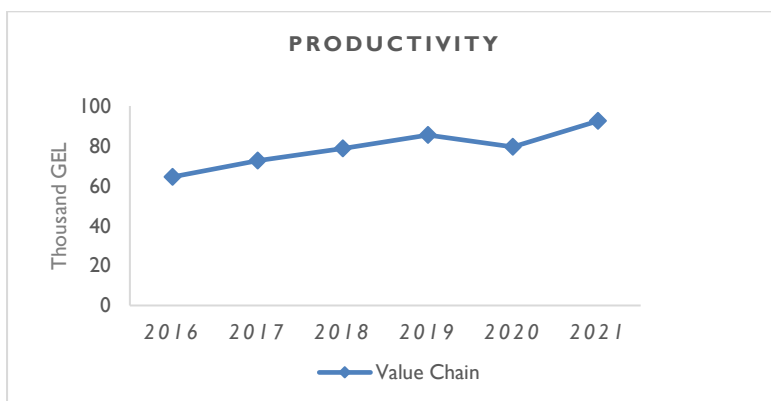


Chart 6.19 Productivity for the transport and logistics value chain

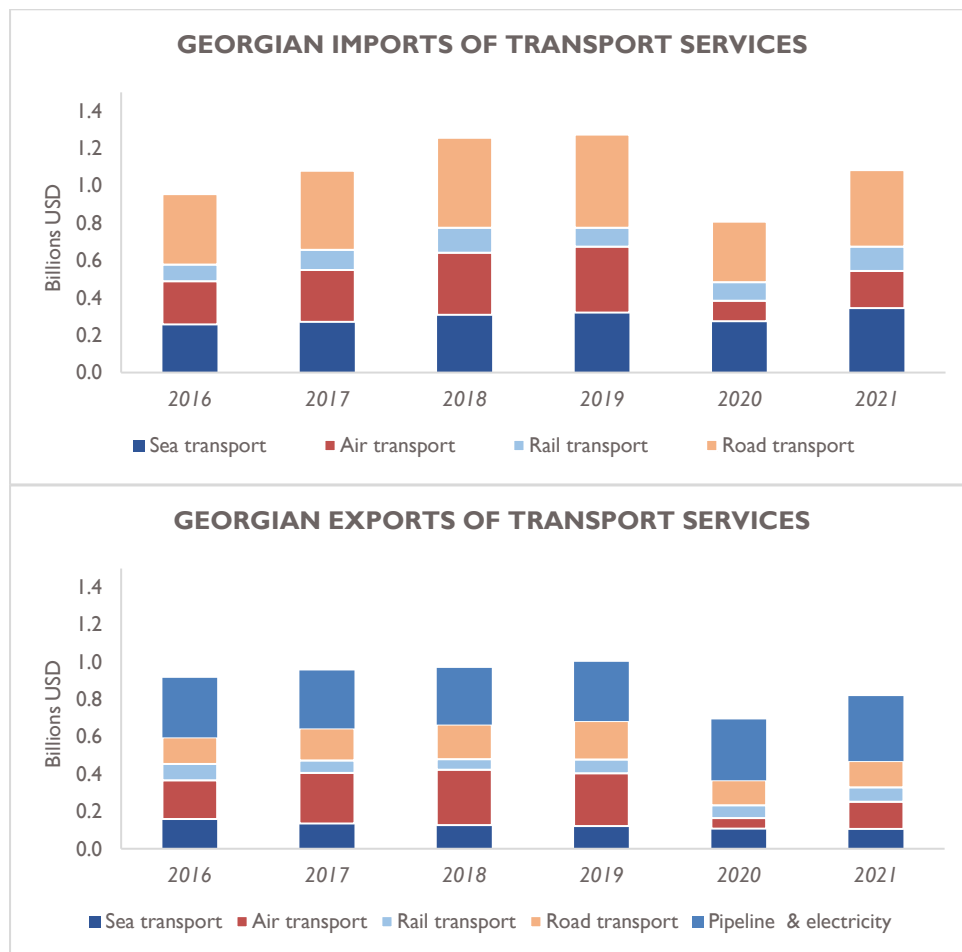


Source: National Statistics Office of Georgia

The average monthly salary and productivity for the transport and logistics value chain showed similar dynamics to turnover and employment, growing steadily before the pandemic, and then gradually declining during 2020, with the recovery in 2021. Average monthly salary reached GEL 1643.2 in 2021,

which was higher compared to average salary of GEL 1527.7 in 2019. Similarly, productivity in 2021 was also higher than pre-pandemic 2019.

Chart 6.20 Georgian imports and exports of transport services



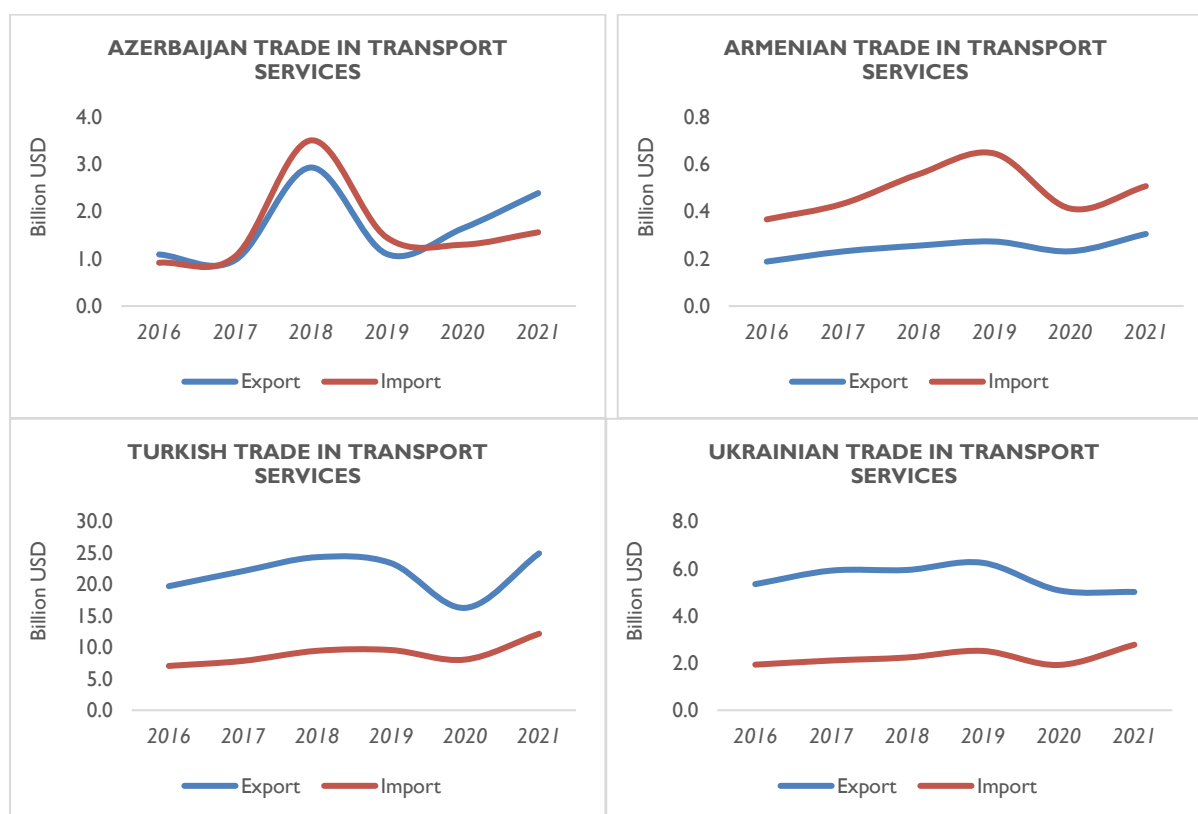
Source: National Bank of Georgia

Trade in the transport and logistics sector was heavily impacted by the pandemic, mainly due to disruption of air transport in 2020 (imports decreased by 80.1%, exports by 68.9%). In 2021, Georgian imports of air transport services showed impressive growth (156.1%), though this growth was mainly attributed to the low base effect, as the value of imports in 2021 (USD 283.2 mln) were still nearly half of the value of imports in 2019 (USD 144.6 mln). Overall, transport service imports managed to grow by an impressive 34.2% YoY but remain 14.9% lower when compared to 2019.

As for the exports of the trade services, air transport again showed the most significant YoY growth, increasing by 82.0% compared to 2020, though also remaining lower compared to 2019. Overall, transport service exports managed to grow by 18.1% compared to 2020 but remained 18.3% lower when compared to 2019.

Overall, trade in transport services recorded a deficit of USD 266.8 million in 2021, which was driven by the combination of a lagged recovery in road transport exports and strong railway and air transport import growth dynamics.

Chart 6.21 Regional trade patterns in the transport and logistics services



Source: Respective central banks

In 2021, among the countries of the region, Turkish transport service exports grew by the most (by 53.2%) compared to 2020 and even surpassing 2019 levels by 6.6%. Azerbaijanian growth was also strong, growing not only YoY 45.7%, but also by 116.3% compared to 2019 level, meaning that transport exports of Azerbaijan have more than doubled in 2021 compared to 2019. Turkey and Azerbaijan were followed by Armenia, where the exports grew by 31.6% compared to 2020 and by 11.7% compared to 2019. As for Ukraine, in 2021 it has not managed to recover neither to 2020 export level (-1.4%) nor to 2019 level (-19.8%).

Looking at imports of transport services, Turkey again saw the highest growth, increasing by 51,1% YoY and by 27.1% compared to 2019. Ukraine, in contrast to exports, showed strong growth in imports to both: the 2020 and 2019 levels, growing by 44.7% and 10.5% accordingly. Ukraine was followed by Armenia and Azerbaijan, with YoY growth rates of 22.9% and 20.2%, respectively. When compared to 2019, transport imports increased in Azerbaijan (by 7.3%), but decreased in Armenia (by 21.4%).

### Overview of existing challenges and opportunities

Representing a significant contributor to the country's economy, the transport and logistics value chain is the largest value chain in the cross-cutting sector and the most affected by the pandemic among the three (E-commerce and ICT). Global supply chain disruptions caused by the crisis, have had an impact on the national level as well, during which proper technologies and optimization of transport and logistics operations have become more important than ever.

The major issues as well as existing opportunities discussed during the value chain annual qualitative study, incorporating the stakeholders from private sector actors and business associations, are summarized below:

### ***Scarcity of qualified workforce and lack of educational programs in the VC:***

According to the interviewed respondents from the private sector, access to skilled labor and professional educational programs specialized in transport and logistics, play a most important role in productivity growth at both the company and the value chain level. As highlighted by most of the respondents, the companies face a huge obstacle in recruiting qualified and skillful employees in the local labor market. Most of the company managers are self-educated, which in some cases results in low quality of services. Besides, the private sector actors' concerns are linked to limited access to vocational education programs in the logistics sector, which is the main prerequisite for impediments to recruiting a qualified workforce.

Nevertheless, different opinions have been shared by the Georgian Logistics Association, which is actively involved in educational programs. They work in both directions of vocational and academic education. According to them, with the support of GIZ and the involvement of the Vocational Skills Agency, a needs assessment study was carried out. The initiative aims to create dual programs, which should receive accreditation in September, and be launched by 2023. According to the association, the problem here is the willingness of companies and the desire to retrain their own staff, as they later cannot offer career development opportunities to trained and highly qualified staff. On the other hand, after graduating, such personnel might leave the country and work abroad. One of such joint degree programs was named by the representatives of the association, by which the graduate actually received a German diploma - only two companies were interested in it and offered co-financing to the employees.

### ***The VC in need of advanced functionality of business associations:***

According to the Georgian Logistics Association (GLA), the association's resources are limited to developing its services and increasing its functional role in the value chain. In their viewpoint, the greatest opportunity for attracting such resources exists from international donor organizations, although international support is mainly focused on consulting projects, which does not resolve the hindrance. In times of crisis, the association was forced to suspend membership fees to the association, and currently, their main source of income comes from consulting and educational projects, which they carry out regularly. In general, they see the development of the association's role, services, and products, with increased support from international donor-funded programs.

From a private sector perspective, although a few of interviewed respondents were doubtful about the efficiency of business associations, the majority of respondents are united around the idea of becoming members of the association of advanced functionality that would ideally provide a variety of services for its members including, but not limited to: public-private dialogue - mediation between the private and public sectors, which ensures the timely exchange of important initiatives and initiatives between the sectors; policy advocacy; educational activities; Uniting members around specific challenges in the value chain and looking jointly for remediation actions for solving them.

### ***Obstacles in the freight forwarding market of Georgia***

The overall concern of the interviewed value chain stakeholders is anti-competitive practice, the unorganized and chaotic freight forwarding market in Georgia. As mentioned by most of the respondents, this challenge is linked to a frequent emergence of amateur and unscrupulous companies

in the market that use the anti-competitive practice of price dumping, disclosing confidential information, unfair recruitment practice, etc., to try to establish themselves at the market. In most cases, such actors operate for a short-term period and then vanish, however, their actions damage market quality and reputation. As they highlight, this obstacle eventually harms the end clients and in the medium term will have a negative influence on the freight forwarding subsector's transparent functionality. As noted, this issue has become even more apparent during and after post-Covid-19 pandemic period.

### ***The pandemic influencing negatively on the global shipping prices:***

As highlighted in previous qualitative studies, the Covid-19 had a negative influence on the overall global shipping market. However, the consequences on global maritime mobility turned out to be severe. Since the fall of 2020, the shipping prices have surged significantly and the increasing trend is remained, even today when the end of the pandemic is in the sight. Increased prices are especially noticeable for the sea freight shipping industry from China. For instance, shipping rates for 40FT container from China to Georgia has increased 7-8 times compared to that in the pre-Covid period (when an average price of shipping a 40FT container from China to Georgia was ranging between \$2,000-\$2,800).

The respondents from the private sector, as well as business associations, cite a disbalance between exports and imports caused by the pandemic, as one of the possible reasons for the global challenge. According to one of the explanations, the Covid19 delayed exports from China, however, after overcoming the peak phase, a large number of containers started moving from China to Europe and the rest of the world. And on the other end, the importers in Europe, for example, have slowed down economic activities, could not cope with these containers as they did in normal times, hence could not return them to China in time and many containers were stranded in ports. Besides, the second reason that respondents think is related to artificially increased prices in the market. The majority of interviewed respondents think that the crisis period was used by the shipping companies in their favor and kept the high prices artificially. Most of them expect some stabilization of prices, but most probably not return to pre-crisis levels.

### ***The increased importance of the "middle corridor" and other opportunities in light with the sanctions imposed on the Russian economy***

According to the interviewed respondents from the transport and logistics associations, the sanctions imposed on the Russian economy can create opportunities for the Georgian logistics sector through two main dimensions: First of all, the cargo moving through the northern corridor, through Russia, is expected to be at least partially closed to Central Asia as well as China and as a result, the „middle corridor“<sup>44</sup> will acquire much greater importance. According to the residents, there is no expectation that this transit load can be entirely transferred to Georgia (it wouldn't have been possible due to technical and infrastructural malfunctions) but if we could cope with 20% of the transit load, this would have been a historical opportunity for the country. On the other hand, according to the representatives of the GLA, given that hundreds of different companies cease operations in Russia, and are forced to leave Ukraine as well, the current situation creates a prospect for moving such productions to Georgia. This opinion is backed by two main arguments: the convenient location of the country, as well as the existing free trade agreements that Georgia has with the European Union, China and other countries. Attracting industries in Georgia would contribute to the development of the logistics market as well. However, another issue was underlined during the interviews, whether

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<sup>44</sup> Trans-Caspian International Transport Route (TITR): transportation of goods and containers along the route from Asia to Europe.

the country is technically prepared or not for taking an advantage of such opportunities. According to the respondents, this will reveal the readiness and existing quality level of this sector in Georgia.

### ***CAREC<sup>45</sup> program transport strategy 2030, an opportunity for Georgia***

The CAREC Program is a cooperation of eleven countries working together to promote development through partnerships, aimed at economic growth and poverty reduction. Within the CAREC program there exist six transport corridors linking key economic hubs of the regions, as well as connecting landlocked countries to other Eurasian and global markets. In 2017, Georgia joined the CAREC program and thus Corridor 2 (Europe–Mediterranean–East Asia), among the six, was revised, through which CAREC multimodal network connectivity to the Black Sea ports, and the land border with Turkey, has been expanded. Within the new Transport Strategy 2030 document, in addition to the construction and rehabilitation of new transport routes, emphasis will be made on the quality and increasing sustainability of the CAREC transport network, as well as accents on multimodal connectivity, road asset management, and road safety.

### ***Discussions about the creation of a logistics hub in Georgia:***

As mentioned during the interviews, most of the respondents think that at the regional level, even compared to the neighbors, Georgia at a very basic level in terms of organizing logistics. For example, Azerbaijan has created a transport and logistics infrastructure, Georgian cannot even be compared with, and which is close to European standards. Thus, even in the Caucasus region, Georgia loses positions, and is not in a focus, since not being competitive. In addition, according to the part of the respondents, there might be a will to create and launch a regional hub in Georgia, but no effective steps are put forward. According to the respondents, there is a need for an inclusive and result-oriented strategic plan, incorporating important feasibility studies and preliminary projects prior to making large investments in building a modern logistics center. As an example, ferry service development nasality has been mentioned by the respondents. A ferry service in Georgia, carrying cargo across the body of water of the Black Sea, is underdeveloped in Georgia, and hence enlarging the infrastructure is a great opportunity for increasing cargo turnover. Besides, it would represent an alternative route for cargo transportation, supplementary to that through Turkey.

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<sup>45</sup> Central Asia Regional Economic Cooperation

## 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
<b>Any type of media content production</b>			59.1	Motion picture, video and television programme activities	59.1	Motion picture, video and television programme activities
<b>Post-production</b>						
<b>Artisan</b>			N/A		N/A	
<b>Furniture</b>	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				
<b>Packaging</b>	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				
<b>Solid waste management and recycling</b>			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



<b>Construction materials</b>	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				
<b>Personal and protective equipment</b>	HS-6	630790; 902000; 900490; 401511; 401519; 611610; 621600; 401590; 481850; 621010; 392620; 621050; 620322; 620329; 620422; 620423; 620429; 611693; 640110; 640291; 640340; 650610; 630720; 621040; 650599	14.12	Manufacture of workwear	N/A	
			32.99	Other manufacturing n.e.c.		
<b>Wooden toys</b>			N/A		N/A	
<b>Customer relationship management</b>			82.2	Activities of call centres	N/A	
<b>Architecture, Design and Engineering</b>			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
<b>Finance and accounting</b>			69	Legal and accounting activities	69	Legal and accounting activities
<b>Human resources</b>			78	Employment activities	N/A	
<b>ICT</b>	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
<b>E-commerce</b>			47.9	Retail trade not in stores, stalls or markets	47.9	Retail trade not in stores, stalls or markets
<b>Transport and logistics</b>	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
<b>Accommodation</b>			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
<b>Food Services</b>			56.1	Restaurants and mobile food service activities	56.1	Restaurants and mobile food service activities
<b>Travel Agency activities</b>			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

<b>TOURISM</b>		
<b>Associations</b>		
GITOA	Ia Tabagari	
Georgian Mountain Guides Association	David Rakviashvili	
HORECA	Shalva Alavredashvili	
<b>DMOs</b>		
Kakheti DMO	Elene Papunashvili	
Samegrelo-Zemo Svaneti DMO	Tea Sajaia	
Samtskhe-Javakheti DMO	Nino Khazalashvili	
<b>Private Sector</b>		
Inn Group Hotels	Erekle Kokaia	
Hotel Collection International	Ketevan Mikashvidze	
Restaurant 'Amo Rame'	Nikoloz Ivanishvili	
Mtserlebi resort	Givi Tchonkadze	
	Salome Sirbiladze	
<b>SHARED INTELLECTUAL SERVICES</b>		
<b>Associations</b>		
<b>BPO</b>	Georgian Federation of Professional Accountants and Auditors (GFPAA)	Lavrenti Chumburidze
	Human Resources Professionals Association (HRPA)	Sergo Nozadze, Salome Ghachava
<b>Private Sector</b>		
<b>Architecture, Design and Engineering (ADE)</b>	Georgian Union of Architects	Pavle Maisuradze
	Designbureau	Nia Mgaloblishvili
	Individual Representative	Giorgi Inasaridze
	Green Studio	Sulkhan Sulkhanishvili
	Center of Contemporary Art (CCA) - Tbilisi	Wato Tsereteli
	Individual Representative	Nano Zazanashvili
	MUA	Devi Kituashvili
<b>Human Resources Management (HRM)</b>	Human Resources Professionals Association (HRPA)	Salome Ghachava
	HR Hub; Student.job.ge	Ana Navdarashvili
	Elvictor Crew	Nino Gujavidze
	Individual Representative	Nino Jinjolava
	HR4B	Irina Shalamberidze
<b>Customer Relationship Management (CRM)</b>	Majorel	Thea Romanova
<b>F&amp;A</b>	Georgian Federation of Professional Accountants and Auditors (GFPAA)	Lavrenti Chumburidze
	LTD Accountant-Outsourcing	David Todua
	LTD Management and Accounting	Tedore Khomeriki
	LTD Business Consultation Center	Shorena Gogua

	LTD Tbilisi Auditors Team	Levan Jangulashvili
<b>CROSS-CUTTING SECTORS</b>		
<b>Associations</b>		
	E-Commerce Association of Georgia	Maia Kheladze
	Voice of E-Commerce	Tamar Gogolashvili
	FIATA	Zurab Shengelia
	Georgian Logistics Association	Giorgi Doborjginidze
	ICT Digital Transformation Consortium	David Kiziria
<b>Private Sector</b>		
<b>E-Commerce</b>	Extra.Ge	Ana Tabatadze
	iMart.ge	Lasha Zautashvili
<b>ICT</b>	Azry	David Japaridze
	Software Architect	Erekle Meskhi
	Iknow	Irakli Gogoladze
<b>Transport &amp; Logistic</b>	Vengo	Levan Nebieridze
	IT Group	Zura Tsinadze
	Lasare	Giorgi Kakashvili
		Giorgi Nadirashvili

## APPENDIX 4 - Focus group questionnaire

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

### 1. ბიზნეს საქმიანობა

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

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

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

### 3. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

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

4. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

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

6. პროგნოზი

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

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

7. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

8. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

## APPENDIX 5 - Association's questionnaire

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

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

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

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

### 11. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

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

12. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

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

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

14. პროგნოზი

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

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

15. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

16. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

## APPENDIX 6 – About the program and project

### ABOUT THE PROGRAM

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

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

Through its four components, the Program:

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

### ABOUT THE PROJECT

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

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

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

The specific objectives of the project are:

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

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

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

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

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

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

## **REPORT OBJECTIVES AND STRUCTURE**

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

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

The report is structured as follows:

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