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SECTOR AND VALUE CHAIN ANALYTICS

THE ANALYTICAL REPORT
(JANUARY 2022 – JUNE 2022)



Research

ISET

International School of Economics at TSU
Policy Institute



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This report was developed by PMC Research Center and ISET Policy Institute within the USAID Economic Security Program. The 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 from January to June of 2022.

Disclaimer: *This report was made possible through support provided by the United States Agency for International Development. It was supported by The USAID Economic Security Program, implemented by DAI Global. The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.*

CONTENTS

ACRONYMS	I
EXECUTIVE SUMMARY	I
METHODOLOGY	4
DATA	4
QUALITATIVE ANALYSIS	7
1. TOURISM	8
SECTOR TRENDS	9
ACCOMMODATION	20
ADVENTURE TOURISM	24
CULTURAL TOURISM	27
CATERING	31
2. CREATIVE INDUSTRIES	40
SECTOR SUMMARY	40
MEDIA CONTENT PRODUCTION AND POST-PRODUCTION	40
ARTISAN	45
3. LIGHT MANUFACTURING	49
SECTOR SUMMARY	49
FURNITURE	51
CONSTRUCTION MATERIALS	63
PACKAGING	73
PERSONAL AND PROTECTIVE EQUIPMENT (PPE)	82
WOODEN TOYS	87
4. SOLID WASTE MANAGEMENT AND RECYCLING	91
SECTOR SUMMARY	91
5. SHARED INTELLECTUAL SERVICES	98
HUMAN RESOURCE MANAGEMENT (HRM)	100
CUSTOMER RELATIONSHIP MANAGEMENT (CRM)	102
FINANCE AND ACCOUNTING (F&A)	103
ARCHITECTURE DESIGN AND ENGINEERING (ADE)	105
6. CROSS-CUTTING SECTORS	108
SECTOR SUMMARY	108
INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)	108
E-COMMERCE	117
TRANSPORT AND LOGISTICS	123
APPENDIX 1- NACE CODES	136
APPENDIX 2 - SURVEY QUESTIONNAIRE	139
APPENDIX 3 - STAKEHOLDERS	140
APPENDIX 4 - FOCUS GROUP QUESTIONNAIRE	145
APPENDIX 5 - ASSOCIATIONS QUESTIONNAIRE	149

TABLES

Table 1. Main indicators and respective data sources.....	4
Table 2: Value Chain Mapping.....	6
Table 3.1 Economic activities included in the furniture value chain.....	51
Table 3.2 Economic activities included in the construction materials value chain.....	63
Table 3.3 Economic activities included in the packaging value chain.....	73
Table 4.1 Economic activities included in the solid waste management and recycling sector.....	92

CHARTS**Tourism**

Chart 1.1 Monthly visits and its growth rate compared to the average of 2017-2019 (2021-Q3 2022).....	10
Chart 1.2 The distribution of international visits by the main purpose of visit in the first half of 2022.....	11
Chart 1.3 The distribution of international visits by visited regions in the first half of 2022.....	11
Chart 1.4 Total expenditures and average expenditures per visit of international visitors in the first halves of 2019 and 2022.....	12
Chart 1.5 Estimated expenditures by countries in the first half of 2022 and their shares in total estimated expenditures.....	13
Chart 1.6 The number of entries and exits by Russian, Belarusian, and Ukrainians (sum of January-September 2022).....	14
Chart 1.7 Receipts from international travelers from Russia, Ukraine, and Belarus in the first 9 months of 2022.....	15
Chart 1.8 Total number of domestic visits and those visits as a percentage of corresponding pre-pandemic (2019) figure (2019 – Q2 2022).....	16
Chart 1.9 Shares of categories in total expenses of domestic visitors, million GEL (2019-2021).....	17
Chart 1.10 Fall in the international tourist arrivals compared to 2019 (2020-2021).....	18
Chart 1.11 Dynamics of the fall in the number of visitors in benchmark countries in the first half of 2022 (compared to 2019).....	19
Chart 1.12 Fall in the number of visitors in the first half of 2022 in the countries of the region (compared to 2019).....	19
Chart 1.13 Turnover of the accommodation value chain and the corresponding aggregated sector.....	20
Chart 1.14 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector.....	20
Chart 1.15 Output of the accommodation value chain and the corresponding aggregated sector.....	21
Chart 1.16 Annual growth rate of output for the accommodation value chain and the aggregated sector.....	21
Chart 1.17 Employment in the accommodation value chain and the corresponding aggregated sector.....	21
Chart 1.18 Annual growth rate of employment in the accommodation value chain and its aggregated sector.....	21
Chart 1.19 Average monthly salary in the accommodation value chain and the corresponding aggregated sector.....	22

Chart I.20 Productivity in the accommodation value chain and the corresponding aggregated sector	22
Chart I.21 Average hotel prices (USD) for 3, 4, and 5-star hotels	23
Chart I.22 Yearly Hotel Price Index for 3, 4, and 5-star hotels	24
Chart I.23 International visits that include visiting the national parks, nature, landscape, and exploring remote and exotic places and their share in total international visits (2019 – Q2 2022)	25
Chart I.24 Domestic visits that include visiting the national Parks, nature, landscape, and exploring remote and exotic places and their share in total domestic visits (2019- Q2 of 2022)	26
Chart I.25 The dynamics of the number of visitors to protected areas of Georgia (2016-2022 9M)	26
Chart I.26 Top 10 protected areas by number of visitors in the first nine months of 2022	27
Chart I.28 Annual growth rate of turnover for the food services value chain and the aggregated sector	28
Chart I.27 Turnover of the food services value chain and the corresponding aggregated sector	28
Chart I.29 Output of the food services value chain and the corresponding aggregated sector	29
Chart I.30 Annual growth rate of output for the food services value chain and the aggregated sector	29
Chart I.31 Employment in the food services value chain and the corresponding aggregated sector	30
Chart I.32 Annual growth rate of employment in the food services value chain and the aggregated sector	30
Chart I.33 Average monthly salary in the food services value chain and the corresponding aggregated sector	30
Chart I.34 Annual growth rate of productivity in the food services value chain and the corresponding aggregated sector	30

Creative Industries

Chart 2.1 Turnover of the media content production and post-production value chain and the corresponding aggregated sector	41
Chart 2.2 Changes in turnover for the media content production and post-production value chain and the corresponding aggregated sector	41
Chart 2.3 Employment in the media content production and post-production value chain and the corresponding aggregated sector	41
Chart 2.4 Changes in turnover for the media content production and post-production value chain and the corresponding aggregated sector	41
Chart 2.5 Average monthly salary in the media content production and post-production value chain and the corresponding aggregated sector	43
Chart 2.6 Media content production and post-production value chain and the corresponding aggregated sector	43
Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain in Q1-Q2 2022 (y-o-y)	46
Chart 2.8 Average Change in Employment, Q1-Q2 2022 (y-o-y)	47

Light Manufacturing

Chart 3.1 Turnover of the furniture value chain and the corresponding aggregate sector	51
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector	52
Chart 3.3 Turnover of the furniture value chain inputs and its growth rate	52
Chart 3.4 Employment of the furniture value chain and the corresponding aggregate sector	53

Chart 3.5 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector.....	53
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing	54
Chart 3.7 Average monthly salary in the furniture value chain and the corresponding aggregate sector	54
Chart 3.8 Productivity in the furniture value chain and the corresponding aggregate sector (quarterly output per hired employee, annualized)	55
Chart 3.9 Georgian Imports of Furniture.....	55
Chart 3.10 Georgian Imports of Furniture Inputs.....	55
Chart 3.11 Georgian Imports of Furniture Inputs by Trade partners (July 2021 – June 2022).....	56
Chart 3.12 Georgian Imports of Furniture by Trade partners (July 2021 – June 2022)	56
Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs.....	57
Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (July 2021 – June 2022)	57
Chart 3.15 Georgian Exports of Furniture.....	58
Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (July 2021 – June 2022).....	58
Chart 3.17 Regional trade patterns in the furniture value chain.....	59
Chart 3.18 Turnover of the construction materials value chain and the corresponding aggregated sector.....	64
Chart 3.19 YoY growth rate of turnover for the construction materials value chain and the corresponding aggregated sector	64
Chart 3.20 Employment for the construction materials value chain and the corresponding aggregated sector.....	65
Chart 3.21 YoY growth rate of employment for the construction materials value chain and the corresponding aggregated sector	65
Chart 3.22 Average monthly salary in the construction materials value chain and the corresponding aggregated sector.....	66
Chart 3.23 Productivity in the construction material value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized).....	66
Chart 3.24 Georgian Imports of Construction Materials	67
Chart 3.25 Georgian Exports of Construction Materials	67
Chart 3.26 Georgian imports of construction materials by trade partner (July 2021 – June 2022)	68
Chart 3.27 Georgian domestic exports of construction materials by trade partner (July 2021 – June 2022).....	68
Chart 3.28 Regional trade patterns of construction materials.....	69
Chart 3.29 Turnover of the packaging value chain and the corresponding aggregated sector	74
Chart 3.30 YoY growth rate of turnover for the packaging value chain and the corresponding aggregated sector.....	74
Chart 3.31 Employment for the packaging value chain and the corresponding aggregated sector	75
Chart 3.32 YoY growth rate of employment for the packaging value chain and the corresponding aggregated sector.....	75
Chart 3.33 Average monthly salary in the packaging value chain and the corresponding aggregated sector.....	76
Chart 3.34 Productivity in the packaging value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized).....	76
Chart 3.35 Georgian Exports of Packaging Goods.....	77
Chart 3.36 Georgia’s Domestic Exports of Packaging Goods by Trade Partner (July 2021 - June 2022)	77
Chart 3.37 Georgian Imports of Packaging Goods.....	78
Chart 3.38 Georgian Imports of Packaging Goods by Trade Partner (July 2021 - June 2022).....	78

Chart 3.39 Regional trade dynamics in the packaging value chain.....	79
Chart 3.40 Distribution of PPE Companies by Turnover Range, 2022 Q1, Q2 (Gel).....	82
Chart 3.41 Percentage Distribution of Turnover Growth Rates in PPE Value Chain, 2021 Q1, Q2 (YoY)	82
Chart 3.42 Distribution of PPE Companies Growth Rates by Turnover Range, 2022 Q1, Q2 (YoY).....	83
Chart 3.43 Change in Employment, 2022 Q1, Q2 (YoY).....	83
Chart 3.44 Georgia’s Imports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE import (July 2021 – June 2022).....	84
Chart 3.45 Georgia’s Exports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE export (July 2021 – June 2022).....	85
Chart 3.46 Regional Trade in PPE	85
Chart 3.47 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, 2022 Q1, Q2 (YoY).....	87
Chart 3.48 Change in Employment, 2022 Q1, Q2 (YoY).....	88
Chart 3.49 Percentage Distribution of change in Monthly Salary in Wooden Toys Value Chain, 2022 Q1, Q2 (YoY).....	88

Solid Waste Management

Chart 4.1 Turnover of the solid waste management and recycling sector and the corresponding aggregated sector.....	92
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector	93
Chart 4.3 Employment for the solid waste management and recycling sector and the corresponding aggregated sector.....	93
Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector	94
Chart 4.5 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector	94
Chart 4.6 Productivity in the solid waste management and recycling sector and the corresponding aggregated sector (quarterly output per hired employee, annualized)	95

Shared Intellectual Services

Chart 5.1 Distribution of SIS Companies by Turnover Range, 2022 Q1, Q2 (GEL)	98
Chart 5.2 Distribution of SIS Companies Growth Rates by Turnover Range, 2022 Q1, Q2 (YoY)	98
Chart 5.3 Percentage Distribution of Turnover Growth Rates in the SIS Value Chain, 2022 Q1, Q2 (YoY)	99
Chart 5.4 Change in Employment, 2022 Q1, Q2 (YoY)	99
Chart 5.5 Percentage Distribution of change in Monthly Salary in the SIS Value Chain, 2022 Q1, Q2 (YoY)	100

Cross-Cutting Sectors

Chart 6.1 Turnover of the ICT value chain.....	109
Chart 6.2 Annual growth rate of the ICT value chain's turnover.....	109
Chart 6.3 Employment in the ICT value chain	110
Chart 6.4 Growth rate of the ICT value chain’s employment.....	110
Chart 6.5 Average monthly salary for the ICT value chain, divided by software and hardware.....	110
Chart 6.6 Productivity for the ICT value chain, divided by software and hardware.....	110

Chart 6.7 Georgian exports and imports of ICT equipment.....	111
Chart 6.8 Georgian imports of ICT equipment by trade partner (Q2 2022).....	112
Chart 6.9 Georgian domestic exports of ICT equipment by trade partner (Q2 2022).....	112
Chart 6.10 Regional trade patterns in the ICT equipment.....	113
Chart 6.11 Number of online transactions in Georgia decomposed by gambling and e-commerce	118
Chart 6.12 Total value of online transactions in Georgia decomposed by gambling and e-commerce	118
Chart 6.13 GDP of the transport and logistics value chain in Georgia	123
Chart 6.14 Turnover of the transport and logistics	
Chart 6.15 Annual growth rate of turnover for value the transport chain and logistics value chain.....	123
Chart 6.16 Employment in the transport and logistics.....	124
Chart 6.17 Growth rate of employment in the transport and logistics value chain	124
Chart 6.19 Productivity for the transport and logistics	125
Chart 6.18 Average monthly salary for the transport and logistics value chain.....	125
Chart 6.20 Georgian imports and exports of transport services	125
Chart 6.21 Regional trade patterns in the transport and logistics services	127

ACRONYMS

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

EXECUTIVE SUMMARY

This semi-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 from January to June of 2022.

The following is a synopsis of the findings:

Tourism: In the first half of 2022, the significant recovery of the tourism sector became visible in Georgia, which could be attributed to the combination of factors, such as the rapid inflow of international travelers after the beginning of the Russia-Ukraine war, the alleviation of COVID-19 related restrictions, reopening of land borders, the revival of flight routes, high demand sustained by domestic visitors.

The analysis of trends in travel services reveals that both accommodation and food service value chains have experienced a significant recovery in the first half of 2022. However, the recovery was more prominent in the case of the food service value chain, where the turnover of the value chain not only recovered to the pre-pandemic number but exceeded it significantly in the first two quarters of 2022.

Apart from positive changes in the tourism sector in the first half of 2022, some challenges were also observed. The effect of the Ukraine war on the Georgian tourism industry was immense, such as safety concerns on traveling to Georgia; lack of demand on tourist accommodation service providers; disruptions in the structure of the main purpose of international visits; the decrease in the dispersal rate of visitors and Increase in the input prices. Notably, the challenges of regional tourism such as scarcity of input products and tourism service providers, lack of qualified personnel, and quality of tourist services were still maintained.

Creative Industries: Even though in 2021, the media content production and post-production value chain showed considerable growth, as the recovery started from the record-low numbers, most of the key indicators of the value chain were not able to return to the pre-pandemic levels. But in the first half of 2022, the value chain showed growth compared to 2019. The turnover of media content production and post-production showed 187.7% YoY growth in Q1 of 2022 and 10.9% growth compared to Q1 of 2019. In Q2 of 2022, the YoY growth was 80.6%; compared to 2019, the growth reached 27.3%. The artisan value chain also experienced considerable positive changes in the first half of 2022. About 91% of the surveyed companies depicted an increase in turnover in the first two quarters of 2022 compared to the same period in 2021. Moreover, most of the surveyed companies (36.4%) had a high turnover growth, and 27.3% reported a 5-10% turnover growth. Most companies (86.4%) indicated no change in the number of employees in the first half of 2022, and none experienced a decrease in the number of employed people in the first two quarters of 2022 compared to the same period of 2021.

Georgian film production suffered significantly during the pandemic; however, the Russia-Ukraine war caused even more damage to the Georgian film industry as Georgia is no longer perceived as safe. The cash rebate program, renewed in the summer of 2021¹, is still ongoing. In 2022, an agreement was signed with five projects, out of which the shooting of four films has already been completed (the countries financing the projects are Sweden, Switzerland, Germany, Italy, and America). By 2023, negotiations are underway with three companies, and Enterprise Georgia expects many large and

¹ In 2021, only one project took part in the program.

successful projects to participate in the program next year. Although the terms of the cash rebate program have been tightened, putting Georgia in a non-competitive situation, stakeholders still note that the program's renewal is a positive step and hope the country will attract many large-scale projects in the future.

Since the summer of 2021, with the growth of tourism, the demand for artisanal products has increased dramatically and has almost returned to pre-pandemic levels. Sales were also positively affected by the fairs organized by the Association. Although the demand for artisanal products has nearly recovered, the challenges in the value chain in recent years remain - logistical problems related to exports and the lack of availability of raw materials in the local market.

Light Manufacturing: Turnover in all value chains in this sector demonstrated positive nominal growth (YoY) in Q1 and Q2 of 2022 compared to the respective quarters of 2021. Employment also increased (YoY) across all value chains in both quarters of 2022 (except for furniture). The highest number of hired employees as of Q1 and Q2 of 2022 was registered in the construction materials value chain, while the lowest was observed in the furniture value chain. Survey results for the PPE value chain and the wooden toys business activity suggest that majority of PPE (87%) and Wooden Toys (100%) manufacturers report increased turnover in the first two quarters of 2022, compared to the first half of 2021. As for employment, 91% of the PPE value chain and 17% of wooden toy manufacturers reported no YoY change in their number of employees in Q1 and Q2 of 2022, while 5% and 75%, respectively, reported an increase in employment.

Workforce shortage remains the primary impediment restricting growth in all value chains/business activities of light manufacturing which is caused by the scarcity of human resources and a lack of qualifications in the labor force. Furthermore, several other challenges hinder further expansion in the local market: locally manufactured products might lack a competitive advantage against imported products, and there is also a lack of information regarding local production within the supply chains. To boost their exports, two novel policy initiatives might further push the penetration of Georgian light manufacturing products into foreign markets. First, the recent trilateral agreement between Georgia, Turkey, and the EU is worth mentioning – diagonal cumulation, enabling certain products (e.g., packaging, construction materials) to enter the EU market with free trade regime if the entered products are made using Turkish raw materials. Additionally, a recent change related to allowing Georgian producers to participate in the EU's public procurement is also very relevant to mention in this regard.

Solid Waste Management and Recycling: Turnover demonstrated significant positive nominal growth in Q1 of 2022 (31.4%) compared to the pandemic first quarter of 2021; however, the YoY increase in turnover slowed down in Q2 of 2022 and amounted to 9.0%. Employment in the sector has decreased slightly (YoY) in Q1 of 2022 (-0.5%) and increased (YoY) in Q2 of 2022 with an annual growth rate of 1.7%. In contrast to employment, the average monthly salary grew significantly in Q1 of 2022 (25.7% YoY) and Q2 of 2022 (14% YoY).

No significant progress has been made in overcoming the central impediments that have limited the overall upgrade of this sector. However, enacting four technical regulations to introduce Extended Producer Responsibility (EPR) in certain waste streams has some potential to induce a positive change in this sector. Nevertheless, core regulatory challenges are still at the center of private sector attention - implementation of the Georgian Waste Management Code is improper; Extended Producer Responsibility (EPR) legislation has not yet been enacted for packaging products. Nevertheless, growth in all business activity parameters is projected once these regulatory changes are in force. Businesses that make up the solid waste management and recycling sector claim to have significantly higher production capacities than the current scale of their manufacture. However, Georgia's shortage of recyclable waste is a critical barrier in this direction. The permanent waste shortage also scares domestic and foreign investors to get interested and seeking returns in this sphere.

Shared Intellectual Services: In the first half of 2022, the turnover of all surveyed companies increased by 5.3% (YoY) on average. However, the smallest companies with turnover below GEL 0.1 million experienced a slight YoY decline of -2%. Most companies (86.7%) reported an increase in their turnover in the first half of 2022 compared to the same period in 2021. The majority (80%) reported an increase in turnover between 0%-20%, while only 6.7% stated an increase in turnover by 20%-50%. The number of employed persons in surveyed companies varied from 1 to 2500, with a median of 6 employed individuals, and 67.7% of companies indicated no YoY change in employment in the first six months of 2022. As for the average monthly salary, it amounted to GEL 1,903.3. Most surveyed companies (90.3%) reported that the average monthly salary increased YoY in the first six months of 2022, while 9.6% reported a salary decrease.

Qualitative analysis revealed that two stressing challenges remain universal across the value chains within shared intellectual services. The first challenge relates to the lack of qualifications on this value chain's demand and supply sides. The scarcity of relevant market-oriented educational programs has been identified as the root cause of this barrier. What else, intensified drain of human capital from Georgia and the overall lack of human resources availability was named as an additional hindrance in this direction. Another main 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 introducing such standards will elevate the quality of services provided. However, consistent advocacy efforts to tackle described challenges are not observed so far.

Cross-cutting Sectors: In the first half of 2022, almost all key indicators of the ICT and e-commerce value chain remained high or mostly even continued to grow faster, hinting at the possible permanent nature of the shift towards a digital economy. During this period, Georgia's ICT software value chain showed record-high growth, 111.3% and 321.6%, respectively, in Q1 and Q2 of 2022. In Q2 of 2022, the turnover of ICT software, reaching GEL 325 million, has more than doubled compared to even Q1 of 2022, when the turnover was GEL 146.4 million. The average monthly salary in ICT software was lower – GEL 3,014 in Q1 of 2022 and picked at GEL 5,766 in Q2 of 2022, which is higher than the average monthly salary in any other value chain. This rise in salary can be explained by the increased demand for workers from the new companies entering the market. Accordingly, the firms had to raise their salaries to meet the increased competition for the workers.

The e-commerce value chain's growth pace has slowed in the first half of 2022, though, in absolute terms, the value chain remains at the high numbers it has been able to reach during the pandemic. In Q1 of 2022, the total number of e-commerce transactions increased by 6.5% and the total value by 12.1% compared to Q1 of 2021. In Q2 of 2022, the total number of e-commerce transactions decreased by 6.5%, and the total value decreased by 5.7% compared to Q1 of 2021. Interestingly, the share of transactions made via cards issued by foreign banks in online transactions made in Georgian e-commerce terminals has considerably increased in Q1 of 2022 and reached 9.7%.

The transport and logistics value chain, after having experienced a decline from Q2 of 2020 to Q1 of 2021, saw a strong recovery during 2021 and maintained high growth in the first half of 2022 as well. The value chain's turnover grew by 36.9% in Q1 and 33.5% in Q2 of 2022 year-on-year. The growth in 2022, no longer attributed to the low base effect, can be explained by Russia's war in Ukraine. As international transport routes through Ukraine and Russia have been disrupted, Georgia has become a popular alternative, and the demand for transportation and logistics services has been boosted. As a result, the turnover of the value chain picked to GEL 2.2 billion in Q2 2022.

METHODOLOGY

DATA

The quantitative analysis is mostly based on secondary data gathered from multiple local and international sources and a survey administered for the value chains where official data were either unavailable or presented at an uninformative level of aggregation.

Table I summarizes the key indicators used throughout the report to quantitatively assess economic development across the selected value chains and 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 enterprise survey for several objective reasons.

Geostat's statistical survey of enterprises ensures the representativeness of business indicators for most activities at the three-digit level and 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 aggregation level is uninformative for 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 number of active enterprises operating in each value chain is 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 the 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)².

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

Survey

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

Data analysis of Geostat's business survey results shows that a number of relatively small value chains are not representative:

- 1) Artisan value chain (creative industries)
- 2) Personal and protective equipment value chain (light manufacturing)
- 3) Wooden toys value chain (light manufacturing)
- 4) Catering value chain (tourism)
- 5) Customer relationship management value chain (shared intellectual services)
- 6) Human resource management value chain (shared intellectual services)

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

Table 2: Value Chain Mapping

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

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

The survey was conducted by phone. In total, more than 110 companies were surveyed. The obtained data provided information on the situation and trends in the six value chains regarding turnover, employment, wages, and respective year-on-year changes. In order to capture potential differences between companies within each value chain, questions on the level of turnover³ and wages were also asked. Additional comments collected by the interviewers provided interesting insights into certain aspects of the value chains' activities (Appendix 2).

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, 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 to address productivity gaps?
- How has competitiveness been improved?
- Are the required human resources available?
- What are the key determinants of the latest industry trends?

In-depth qualitative interviews through focus group discussions with business associations/individual enterprises will be conducted to provide contextual information, assess possible reasons of current business developments, and obtain short-term business expectations.

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. 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).

What is more, based on the experience acquired during project phase I, the research team will select Key Informant (KI) stakeholders per Value Chain/Sector to be interviewed regularly for project needs. Key Informants will be comprised of several active and informed representatives from the VCs. The presence of KIs will ensure the sustainability of information sources for qualitative assessment.

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).

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, an analysis of international visitor trends amid the Russian invasion of Ukraine on February 24th of 2022 and its impact on tourism sector of Georgia. This study of the tourism sector has been categorized into the following four main value chains: accommodation; adventure tourism; gastronomic tourism; and cultural tourism³.

In the first half of 2022, the significant recovery of the tourism sector became visible in Georgia, which could be attributed to the combination of factors, such as the rapid inflow of international travelers after the beginning of the Russia-Ukraine war, the alleviation of COVID-19 related restrictions, reopening of land borders, the revival of flight routes, high demand sustained by domestic visitors.

In the first half of 2022, the number of international visits⁴ reached 1,439,517 visits, which is 210% higher compared to the first half of 2021 and amounts to 49% of the average number of visits of the corresponding periods of 2017-2019 years. Notably, the recovery was gradual in the first half of 2022 and in June 2022, the number of international visits reached 62% of the pre-pandemic average of the corresponding period.

In the first half of 2022, similar to the previous periods, most international visits were from neighboring countries: Turkey (18% of total visits), Russia (17%), and Armenia (14%). Notably, after the beginning of the war between Russia and Ukraine, comparing the border crossing statistics of international visitors from Russia, Belarus, and Ukraine revealed significant differences, indicating to the intention of the travelers to stay in Georgia long-term.

In the first half of 2022, the total expenditure of international visitors exceeded the pre-pandemic numbers significantly. Apart from that, the average expenditure per visit tripled in Q1 of 2022 and almost doubled in Q2 of 2022 compared to the corresponding periods of 2019. This could be explained by the fact that in the first half of 2022, the average length of stay almost doubled as it increased from 3.8 to 6.4 nights. In absolute value, the expenditures of international visitors reached GEL 3.7 billion in the first half of 2022. It must also be noted that the expenditures on served foods and drinks increased by almost half a billion GEL and reached GEL 1.3 billion in the first half of 2022. By countries, the biggest estimated shares of the total expenditure of international visitors were attributed to visitors from Russia (15%), Turkey (14%), Gulf states (10%), and Israel (10%).

In addition to the positive dynamics in international travel, the number of domestic visits in Georgia exceeded the pre-pandemic number considerably by 25% in Q1 of 2022 and by 15% in Q2 of 2022. In

³ The following methods of quantitative analysis were used: firstly, a study of the industry's general trends for two distinct periods 2015-2022, with a focus on the first half of 2022, expressed in the trends of the number and characteristics of international visitors, contributions to GDP, FDI flows, expenditure by visitors from 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.

⁴ 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 routine. For the purposes of defining "usual environment" in Georgia, travelers conducting 8 or more trips are excluded from the data.

addition to that, the expenditures of domestic visitors also showed positive dynamics compared to the pre-pandemic period, reaching GEL 1.3 billion in the first half of 2022.

The analysis of trends in travel services reveals that both accommodation and food service value chains have experienced a significant recovery in the first half of 2022. However, the recovery was more prominent in the case of the food service value chain, where the turnover of the value chain not only recovered to the pre-pandemic number but exceeded it significantly in the first two quarters of 2022. It must also be mentioned that the increasing trend of the average salary in both value chains is present, which could be attributed to the labor shortage in the tourism sector, inflationary trends, and increased demand for accommodation and food services.

SECTOR TRENDS

Number of international visitors in the first half of 2022

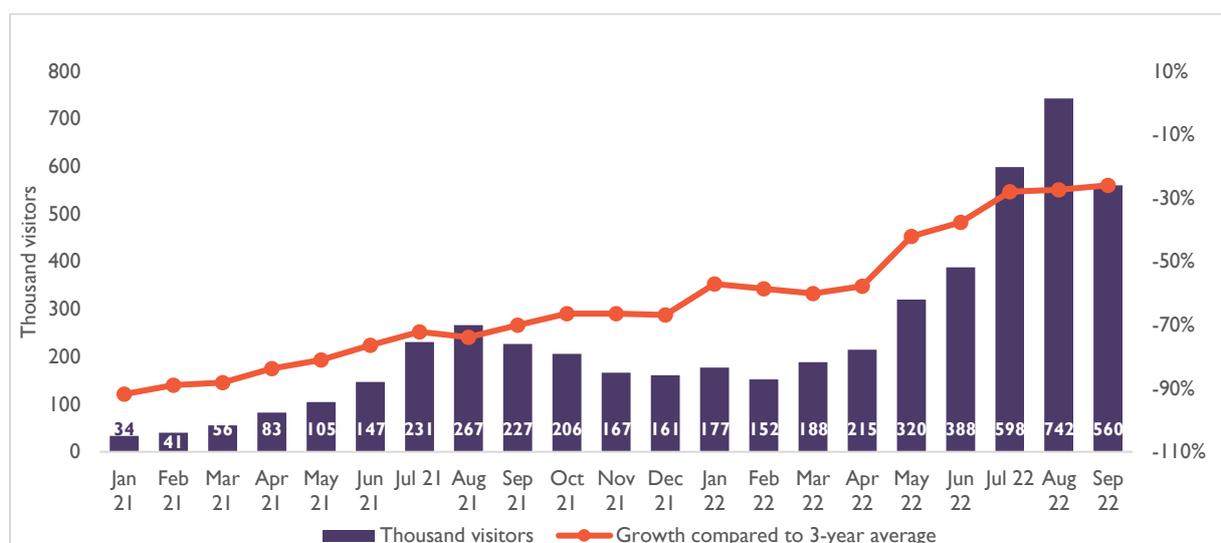
The recovery of international tourism was accelerated in the first half of 2022, following the tremendously negative impact on the number of international visitors to the country after the COVID-19 pandemic and the related restrictions. Notably, the rapid recovery of the quantitative indicators of international tourism was determined by both factors: the general recovery of international tourism since the pandemic and the migration from the affected zoned triggered since the beginning of the Russia-Ukraine war.

In the first half of 2022, the number of visitors recovered significantly reaching 49% of the average number of visits of the corresponding periods 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, since April 2022, the number of visitors showed an increasing recovery compared to the pre-pandemic average. In June 2022, the number of international visits reached 62% of the pre-pandemic average of the corresponding period. In absolute values, in the first half of 2022, the number of international visits reached 1,439,517, in comparison this figure was equal to 464,126 in the first half of 2021, while the average 2017-2019 value for the first half was 2,934,415.

In the first half of 2022, similar to the previous periods, most international visits were from neighboring countries: Turkey (18% of total visits), Russia (17%), and Armenia (14%). Compared to the first half of 2019, in 2022, among the main countries of origin of tourists, international visits from Israel exceeded the pre-pandemic (first half of 2019) amount by 2%. Meanwhile, visits from Ukraine (86% of the corresponding value in 2019), Iran (61%), the EU (53%), and Turkey (52%) also recovered significantly.

In the third quarter of 2022, the recovery of international visits accelerated and reached 72% of the average number of visits of Q3 of 2017-2019 years. The recovery of international visits was even more intensified after the first half of 2022, recovery rate increasing even more in July 2022, when the number of visits amounted to 72% of the pre-pandemic average. In absolute terms, in Q3 of 2021, the number of international visits reached 1,900,021; in comparison, the international visits in Q3 of 2021 were equal to 724,108 visits, and the pre-pandemic average was 2,609,593 visits. As for the future flow 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 I.1 Monthly visits and its growth rate compared to the average of 2017-2019 (2021-Q3 2022)



Source: Georgian National Tourism Administration

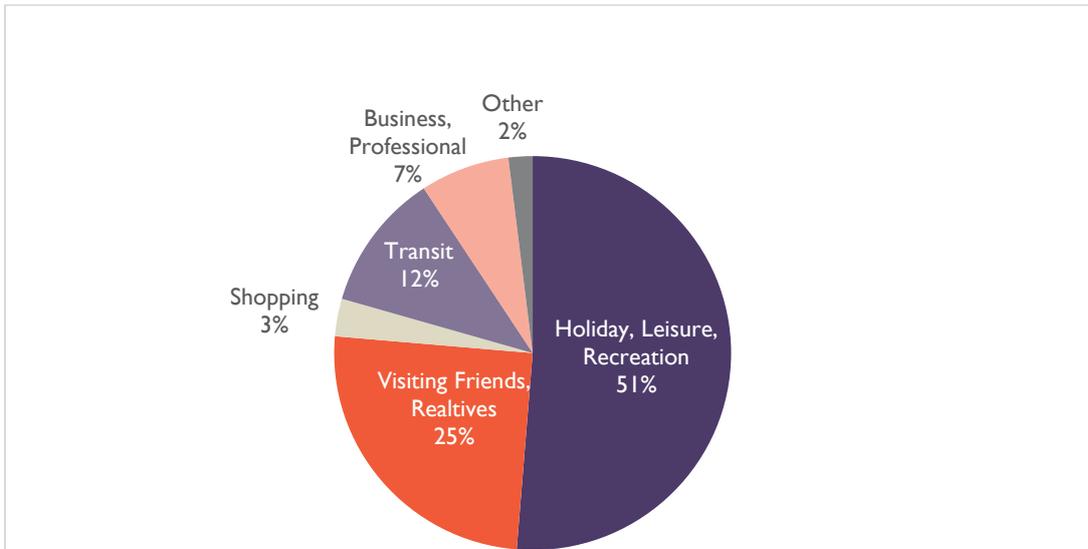
It is worth noting that the pandemic has also changed the pattern of land and air border crossing, as a larger share of visitors were coming by air. In particular, 51% of visitors in 2021 came by air, while 48% came by land. In 2020, the corresponding figures were 17.8% for air and 80.5% for land arrivals (most of them visited Georgia in the first three months of the year, before the COVID-19 pandemic outbreak in Georgia). Compared with the pre-pandemic level of 2019, the proportion of visitors coming by land was 74.8%, while air travelers amounted to 23.7% of total visitors.

In the first half of 2022 larger share of international visitors came by land compared to the previous year. In the first quarter of 2022, 52.6% of visitors came by land, while 46.5% of visitors came by air; for comparison, the respective figures were 72% and 26% in 2019. In the second quarter of 2022, the share of international visitors entering the country by land increased even more and reached 61.6%, and those coming by air declined to 37.4%. Those figures in 2019 were 71% and 27.8%, respectively. The increase in the share of land arrivals in the first half of 2022 could be attributed to the increasing number of visits from neighboring countries (Russia, Turkey, and Armenia). It must also be noted that in contrast to the pre-pandemic pattern, Azerbaijan was not among the top countries 5 countries by the number of international visits, which could be attributed to the closure of the land border between Georgia and Azerbaijan since March 2020.

Purpose of international visits in the first half of 2022

In the first half of 2022 the main purpose of the international visits changed compared to the corresponding period of 2019 with leisure/recreation and visiting friends/relatives increasing significantly. Observing the distribution of international visits according to the primary purpose of visit, in the first half of 2022, the share of leisure/recreation increased by 9.1 pp, and visiting friends/relatives rose by 6.1 pp in total visits compared to the pre-pandemic level. While, the share of transit declined by 4.3 pp, and shares of business (4.1 pp) and shopping (4.0 pp) also dropped.

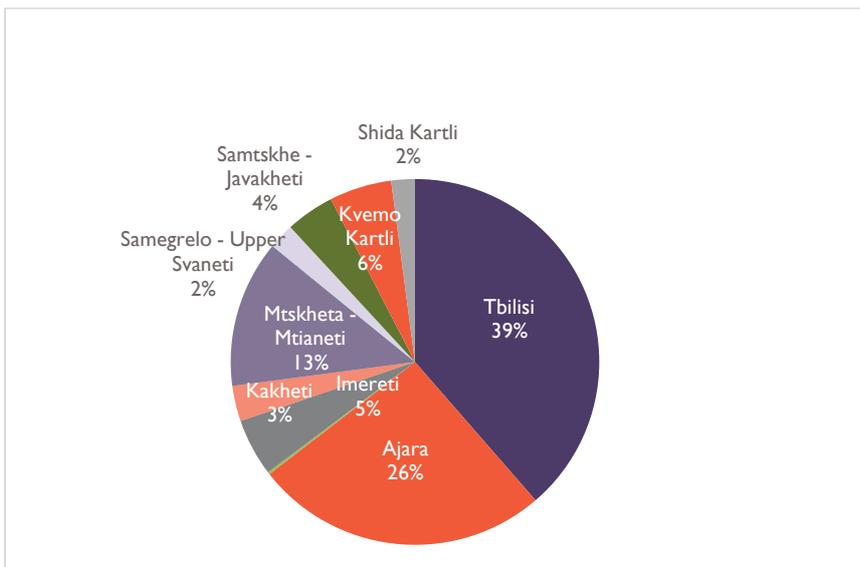
Chart I.2 The distribution of international visits by the main purpose of visit in the first half of 2022



Source: Georgian National Tourism Administration

Looking at the activities in which international visitors were engaged, in the first half of 2022, similar to the pre-pandemic period, tasting local cuisine and wine (74%), shopping (55%) and sightseeing (46%) were among the top 3 conducted activities. It must also be noted that the share of visitors going to the beach increased considerably compared to the pre-pandemic period. Similarly, the share of international visitors who partook in gambling also rose compared to the first half of 2019. However, adventure tourism activities such as hunting, fishing, rafting, mountaineering, and horse riding were the least demanded by international visitors during this period.

Chart I.3 The distribution of international visits by visited regions in the first half of 2022



Source: Georgian National Tourism Administration

The distribution of international visits by regions also changed in the first half of 2022 compared to the re-pandemic pattern. During the first half of 2022, the share of international

visitors going to Adjara increased sharply by 14.9 pp compared to the pre-pandemic period. While, visits to the Kvemo Kartli region declined considerably (by 9 pp). The share of Batumi increased markedly and reached 38.4% of total international visits in the first half of 2022. The shares of Tbilisi and Kutaisi also grew by 4 pp and 3.6 pp, respectively⁵.

Expenditure structure of international visitors in the first half of 2022

In the first half of 2022, the expenditures of international visitors showed significant increases both in terms of total expenditures and average expenditure per visit, considerably exceeding the pre-pandemic values.

Despite only a partial recovery in the number of international visits, in Q1 of 2022, the total expenditure of international visitors reached GEL 1.4 billion and exceeded the pre-pandemic (Q1 of 2019) value by 21%, while in Q2 of 2022, the total expenditure was equal to GEL 2.3 billion and was only 6% lower than Q2 of 2019. One of the determinants of the rise in expenditure could be the increase in the average length of stay of international visitors and general inflationary trends. The average expenditure per visit tripled in Q1 of 2022 and almost doubled in Q2 of 2022 compared to the corresponding periods of 2019. This could be explained by the fact that in the first half of 2022, the average length of stay almost doubled as it increased from 3.8 to 6.4 nights.

Chart 1.4 Total expenditures and average expenditures per visit of international visitors in the first halves of 2019 and 2022



Source: Georgian National Tourism Administration

The distribution of expenditure structure also showed some changes in the first half of 2022 compared to the corresponding pre-pandemic period showing an increase in the expenditures on food and beverages. In absolute value, the expenditures of international visitors reached GEL 3.7 billion in the first half of 2022. In the first half of 2022, a large share of the expenditure of international visitors was spent on food and beverages (36%), followed by accommodation (22%) and shopping (18%). It must also be noted that the expenditures on served foods and drinks increased by almost GEL 0.5 billion and reached GEL 1.3 billion in the first half of 2022. The increase in the share

⁵ For further information on distribution of the visited regions, please refer to the section “The decreased dispersal rate of visitors”

of food and beverages in total expenditure could be explained by especially high inflationary trends for products in that category⁶.

Estimated revenues by country in the first half of 2022

In the first half of 2022, the estimated expenditure was highest for Russian visitors, followed by Turkey, and Gulf states. On the other hand, the average expenditure per visit was highest for Gulf states, Kazakhstan, and Israel.

Since the second analytical report, we are estimating the average expenditure per visit by country of origin based on the expenditure data provided by the GNTA. By multiplying this number by the number of visitors from particular country, we estimate an average expenditure per visit by country in the first half of 2022 have been estimated. In total, according to GNTA, the total expenditure of international visitors amounted to GEL 3.7 billion in the first half of 2022.

Chart 1.5 Estimated expenditures by countries in the first half of 2022 and their shares in total estimated expenditures



Source: GNTA, PMC RC calculations

The biggest estimated shares of the total expenditure of international visitors were attributed to visitors from Russia (15%), Turkey (14%), Gulf states (10%), and Israel (10%). The top 10 countries/regions also included the EU, Kazakhstan, Armenia, Ukraine, Belarus, and Azerbaijan.

It must also be noted that among those countries, the average expenditure per visit was highest for visitors from Gulf States (GEL 4.6 thousand), followed by Kazakhstan (GEL 4.6 thousand), Israel (GEL 4.2 thousand), and Belarus (GEL 3.4 thousand). The average expenditure per visit was the lowest for Armenia (GEL 1.0 thousand) and Azerbaijan (GEL 1.4 thousand).

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

Since the beginning of the Russia-Ukraine war, the number of citizens from Russia, Ukraine, and Belarus entering and not exiting Georgia is high, which is illustrated by the

⁶ For further analysis of the factors of expenditure structure changes please refer to the section “Quality vs. Price Effect on Food and Drink Expenditure” of the report

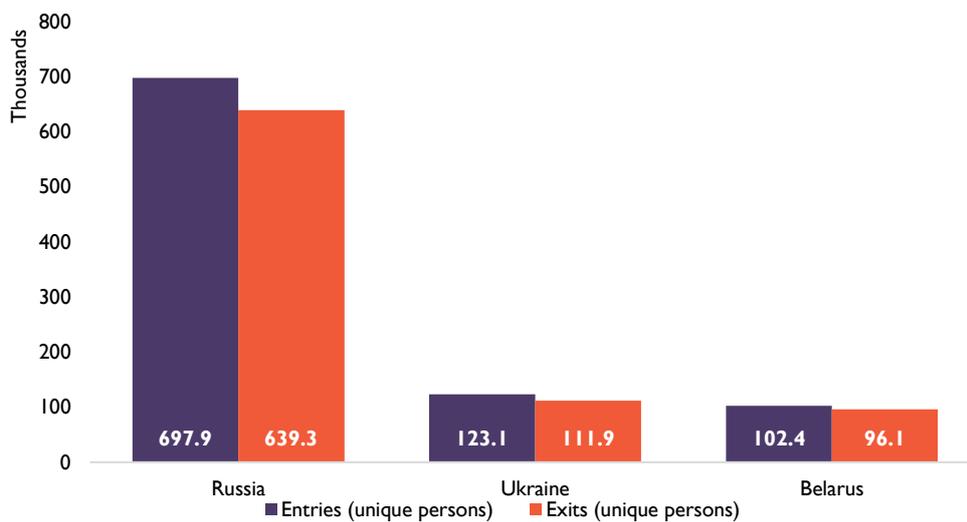
statistics on entries and exits of international travelers and the income from international travel.

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

The data from the Ministry of Internal Affairs could be used to estimate the approximate number of travelers from Russia, Belarus, and Ukraine that have chosen Georgia as a relatively long-stay destination.

From January to September 2022⁷, the difference between entries and exits of citizens of Russia was equal to 58.6 thousand unique persons. Meanwhile, the differences between the entries and exits for Ukraine and Belarus were 11.2 thousand and 6.3 thousand, respectively.

Chart 1.6 The number of entries and exits by Russian, Belarusian, and Ukrainians (sum of January-September 2022)



Source: Ministry of Internal Affairs

Still, even when considering the possible statistical discrepancies, after the beginning of the war between Russia and Ukraine, comparing the border crossing statistics of international visitors from Russia, Belarus, and Ukraine revealed significant differences.

Since the beginning of the war, the receipts from Belarusian international travelers showed a significant increase compared to previous periods; however, the scale of the travel receipts was the largest for Russian travelers, which has also shown a significantly increasing pattern. Since March 2022, the receipts from international travelers from Russia have been showing a significantly increasing trend, reaching USD 133.1 million. In August 2022, amounting to 25% of total travel receipts. The increase in travel receipts could partially be attributed to

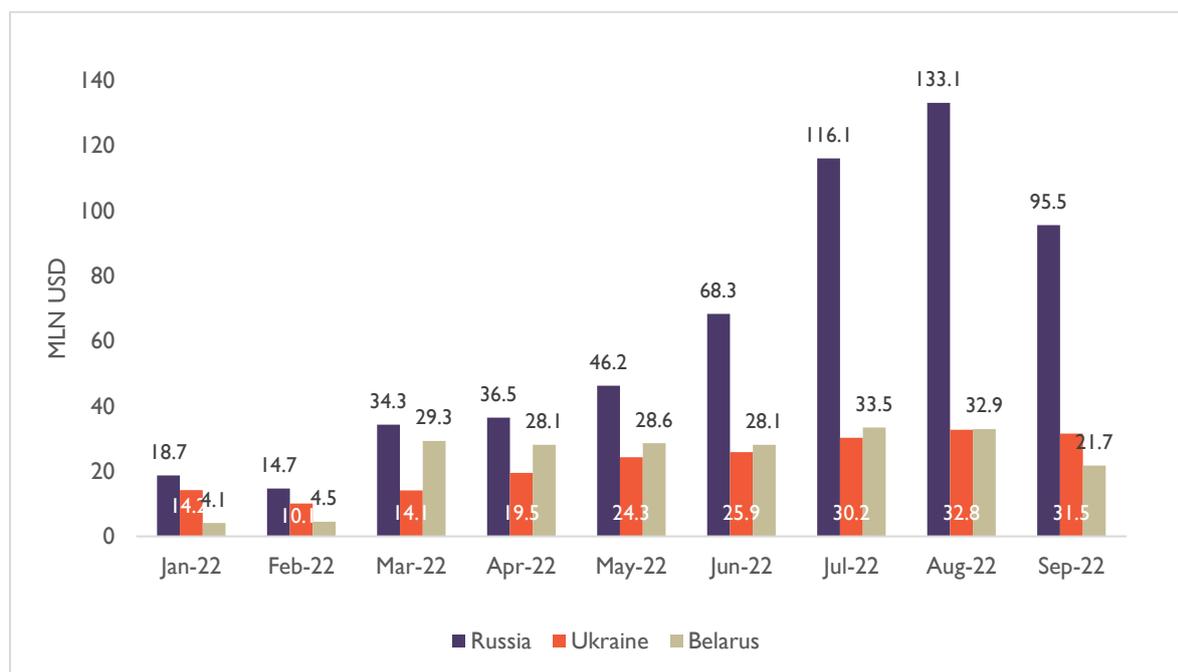
⁷ Aggregated data of entries and exits for January-September of 2022 includes the unique persons that have entered and exited Georgia within this period.

seasonality and inflationary trends; however, in August 2019, the travel receipts from Russia were equal to USD 78.6 million.

In the case of Ukraine, the receipts have also shown an increasing pattern since March 2022, reaching a maximum of USD 32.8 million in August 2022, amounting to 9% of total travel receipts. Notably, in August 2019, the travel receipts from Ukraine were equal to USD 24.6 million.

In March 2022, the receipts from international travelers from Belarus have shown a rapid (551%) increase compared to February 2022, with receipts reaching USD 29.3 million. However, since March 2022, this number has been relatively stable at an average of USD 28.8 million. On average, since March 2022, travel receipts from Belarus contributed 8% of total receipts from international travelers.

Chart 1.7 Receipts from international travelers from Russia, Ukraine, and Belarus in the first 9 months of 2022



Source: National Bank of Georgia

To sum up, the analysis of the abovementioned major indicators revealed that remarkable differences could be noticed between the number of entries and exits. Moreover, those differences are especially vivid for Russia, while for Belarus and Ukraine, it is relatively small. This observation is strengthened by trends of receipts from international travelers in the last months, with significant monthly increases for Russia followed by Belarus and Ukraine.

Domestic tourism in the first half of 2022

In the first half of 2022, the number of domestic visits exceeded the pre-pandemic number, similar to the previous periods, indicating the continuity of increased demand on tourist activities from the side of domestic visitors.

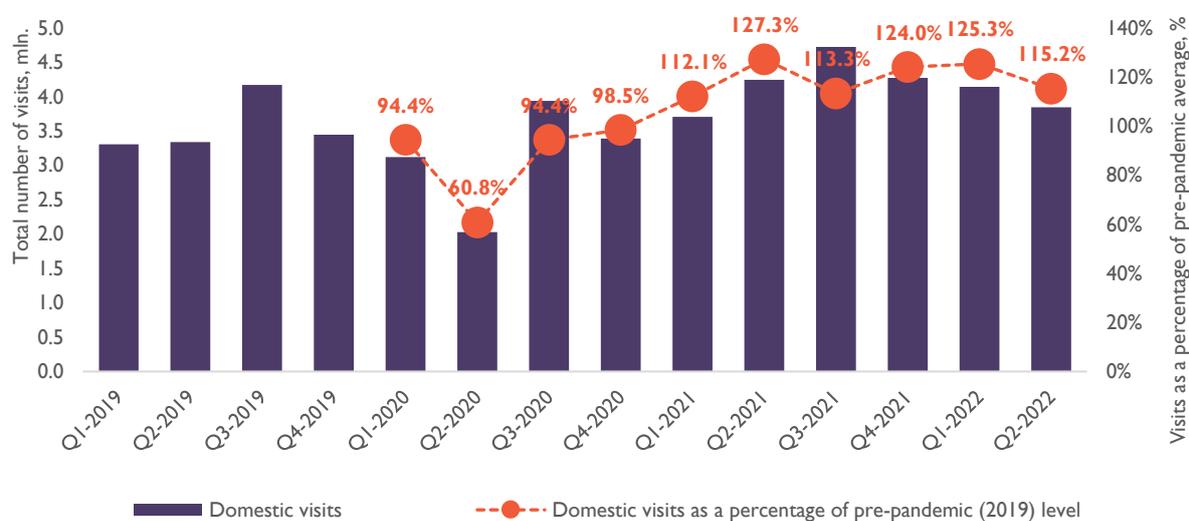
According to United Nations World Tourism Organization (UNWTO), domestic tourism is set to recover faster towards pre-pandemic levels than international travel in selected markets⁸. A similar pattern was present in the case of Georgia too. The number of domestic visits in Georgia not only

⁸ UNWTO (September 2020) – Understanding the Domestic Tourism and Seizing its Opportunities – UNWTO briefing note – Tourism and COVID-19, Issue 3.

reached a pre-pandemic level, but there has been a significant increase. In particular, in 2021 the number of domestic visits increased by 18.9% compared to 2019 and 35.8% compared to 2020. It must also be noted that in all quarters of 2021, the number of domestic visits was higher compared to 2019 (pre-pandemic) and 2020.

In Q1 of 2022, the number of domestic visits was higher than the corresponding period value of 2019, 2020, and 2021. In Q2 of 2022 domestic visits were 9.5% lower compared to the corresponding period of 2021, while when compared to Q2 of 2019, number of domestic visits exceeded the pre-pandemic number by 15.2%.

Chart 1.8 Total number of domestic visits and those visits as a percentage of corresponding pre-pandemic (2019) figure (2019 – Q2 2022)

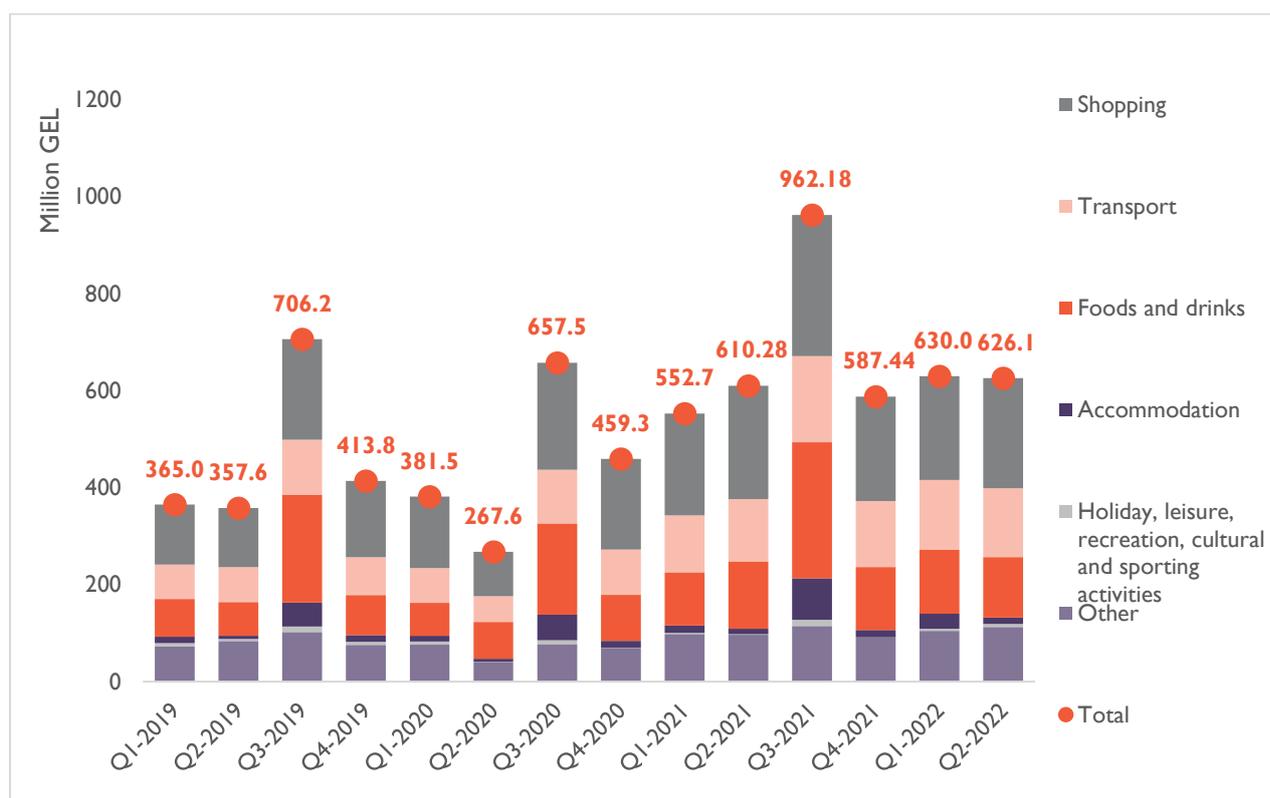


Source: National Statistics Office of Georgia

Since the end of 2020, the expenses of domestic visitors have shown positive dynamics when compared to the pre-pandemic period. The expenses of domestic visitors throughout 2021 reached GEL 2.7 billion, 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, food and beverage, and transport in the total structure of expenses.

In the first half of 2022, the expenditures of domestic visitors reached GEL 956 million. Notably, in the first half of 2022, domestic visitor expenditures were stable, having a similar distribution as in the previous periods. In particular, in the first half of 2022, the share of shopping reached 35% of total expenditure, followed by expenditure on transport (23%) and food and beverage (20%). On the other hand, accommodation (4%) and recreational activities (1%) were the lowest spending categories in Q2 of 2022, consistent with the pattern of previous periods.

Chart 1.9 Shares of categories in total expenses of domestic visitors, million GEL (2019-2021)



Source: National Statistics Office of Georgia

Key macroeconomic indicators in the first half of 2022

In the first half of 2022, the FDI in HORECA sector showed a positive dynamic, however, still staying well below the pre-pandemic values. According to the analysis of annual data of the hotels, restaurants, and cafes (HORECA) sector, in the first half of 2022, the FDI amounted to USD 22.1 million after disinvestment of USD -2.8 million at the end of 2021. For comparison, it must also be mentioned that in the first half of 2019, the FDI in the HORECA sector amounted to USD 86.6 million, which is 3.9 times larger compared to the first half of 2022. To compare the share of FDI in the HORECA sector in total foreign direct investment, in the first half of 2021, this figure was 2.3%, while in the corresponding period of 2019, it reached 15.3% of total FDI.

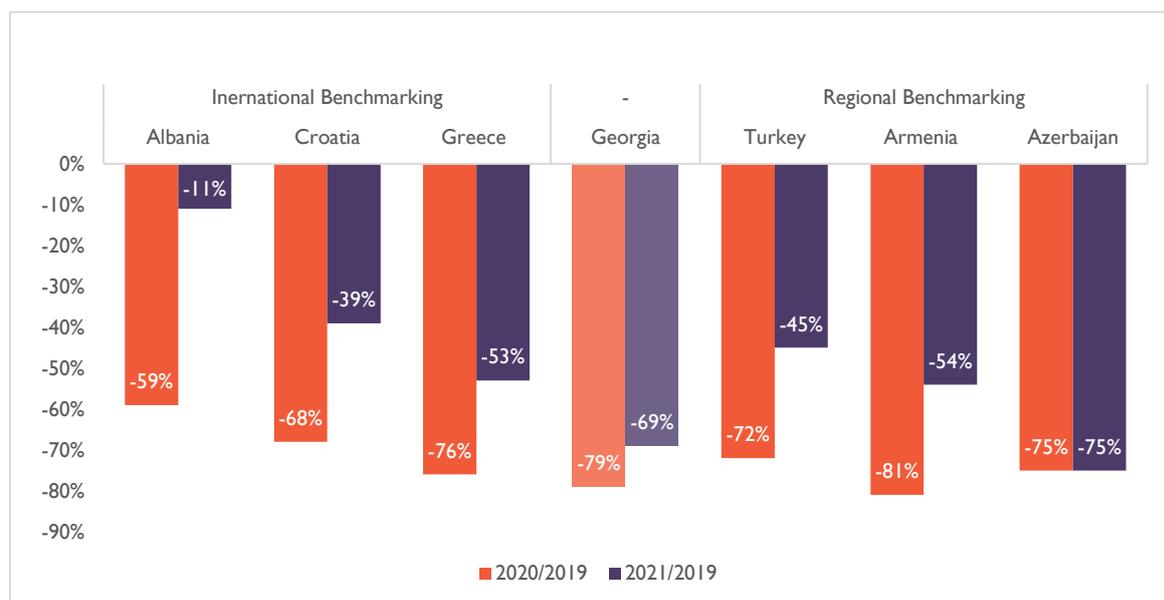
Similarly, the contribution of the HORECA sector to the GDP was not fully recovered to the pre-pandemic number. The analysis of the preliminary GDP patterns in the HORECA sector revealed that it contributed GEL 897.2 million in the first half of 2022, which is 37.5% higher compared to the corresponding periods of 2021 (GEL 652.3 million) and 6.7% lower compared to 2019 (GEL 961 million). In the first half of 2022, the share of the HORECA sector's contribution to the total GDP of 2021 was 2.8%, which is 0.4 pp higher compared to the first half of 2021 and 2.1 pp lower compared to the corresponding pre-pandemic (2019) value.

International and Regional Benchmarking

In this report we also track the performance of the Georgian tourism sector in comparison with three selected benchmark countries: Albania, Croatia, and Greece⁹.

In 2021, among the international benchmark countries the recovery of tourist arrivals was most significant for Albania and least for Georgia. In 2021, the recovery in the number of tourist arrivals was evident in all the countries, with Albania experiencing the most impressive one, almost recovering to 2019 levels (11% lower compared to 2019). Meanwhile, Georgia performed the worst, with its number of visitors recovering to just 31% of 2019 levels. It is worth noting that recovery was mostly strongest for the other three countries in Q3 of 2021, while for Georgia's tourism recovered gradually by only 10% in January, and 46% in December.

Chart I.10 Fall in the international tourist arrivals compared to 2019 (2020-2021)



Source: UNWTO

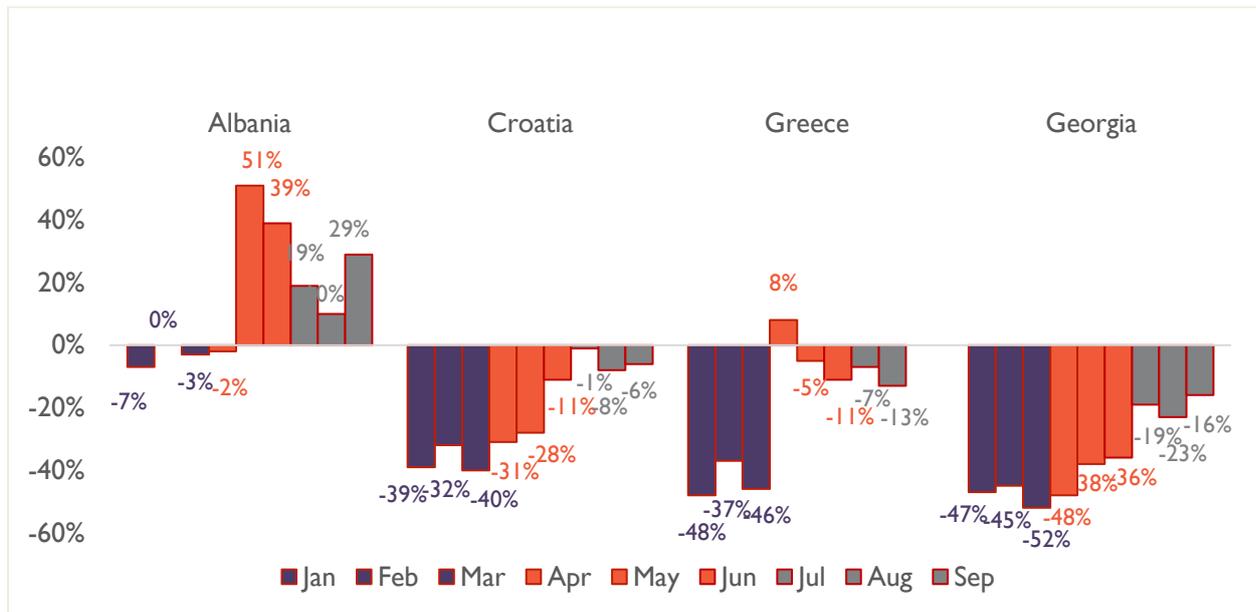
Within the regional context, the recovery rate was highest for Turkey and lowest for Azerbaijan in 2021. Azerbaijan has not experienced a major recovery in tourism (25% of the 2019 number), and Turkey has experienced the highest recovery in 2021 (55%). Armenia's recovery (46%) was considerably higher (15 pp) than Georgia's.

Similar to 2021, in the first nine months of 2022, among the benchmark countries, the recovery was most visible in Albania and least visible in Georgia. In Albania the number of international visits not only recovered but significantly exceeded the pre-pandemic value. The recovery was relatively gradual in other benchmark countries, with some fluctuations. For instance, Greece not only recovered and slightly exceeded pre-pandemic values in April.

It must be noted that the recovery rate of Georgia was the slowest compared to all the selected three benchmark countries. However, in the first quarter of 2022, the recovery rates of Georgia were similar to Greece.

⁹ Please see the details about the selection process in the second analytical report, page 23

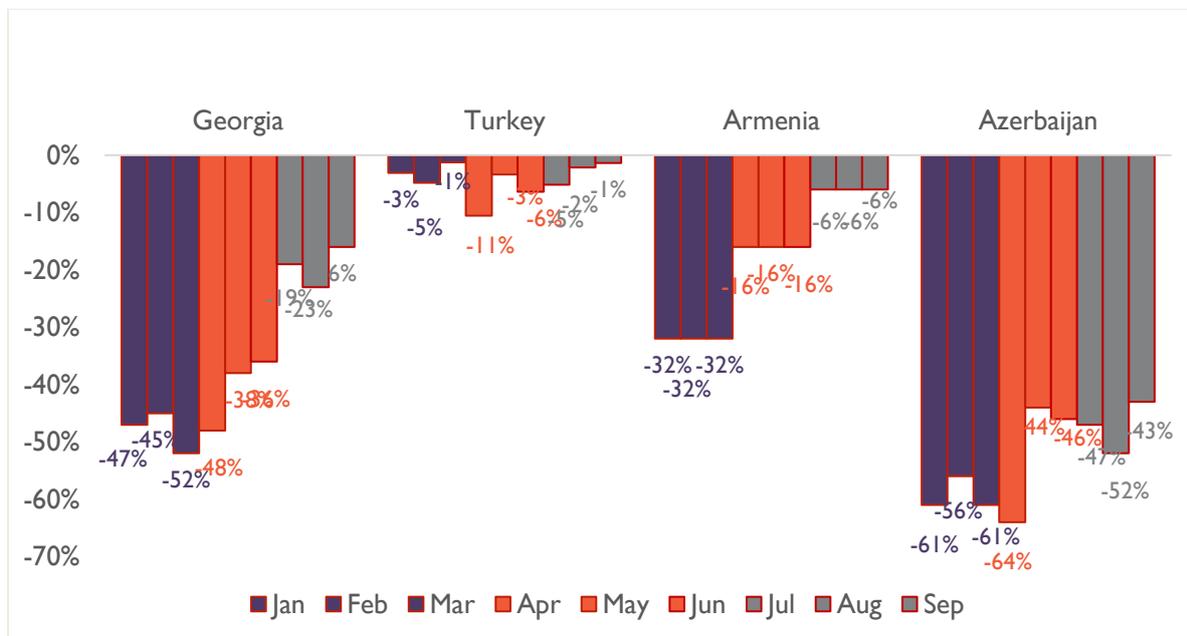
Chart I.11 Dynamics of the fall in the number of visitors in benchmark countries in the first half of 2022 (compared to 2019)



Source: UNWTO

In the first nine months of 2022, within the regional context, Azerbaijan has not experienced a major recovery in tourism, while Turkey almost returned to pre-pandemic values. Georgian dynamics have been quite similar to Armenia; however, the magnitude of recovery has been higher in Armenia. As for Turkey, it performed better than other countries in the region and managed to almost recover to the pre-pandemic values of the corresponding periods of 2022.

Chart I.12 Fall in the number of visitors in the first half of 2022 in the countries of the region (compared to 2019)



Source: UNWTO

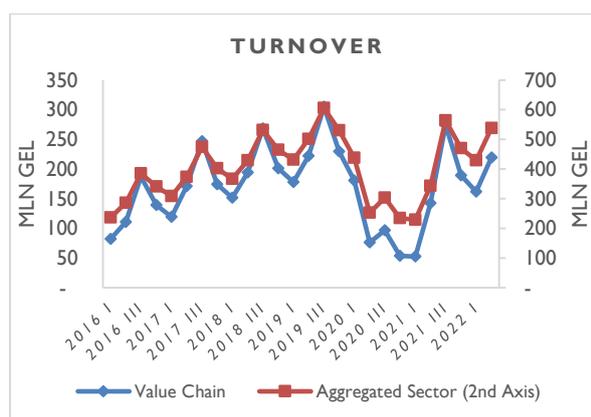
ACCOMMODATION

Value chain trends¹⁰

The quarterly analysis of turnover of the accommodation value chain and comparing it to the corresponding aggregated sector¹¹ revealed that in the first half of 2022 the recovery of the value chain turnover showed a relative slow-down compared to the previous half of the year, which can partially be attributed to the seasonality of the sector. Notably, the value chain faced a massive hit in 2020 and Q1 of 2021 consequently experiencing a significant recovery in 2021. In Q3 and Q4 of 2021, the turnover even exceeded the pre-pandemic (2019) values by 36.3% and 6.4%, respectively.

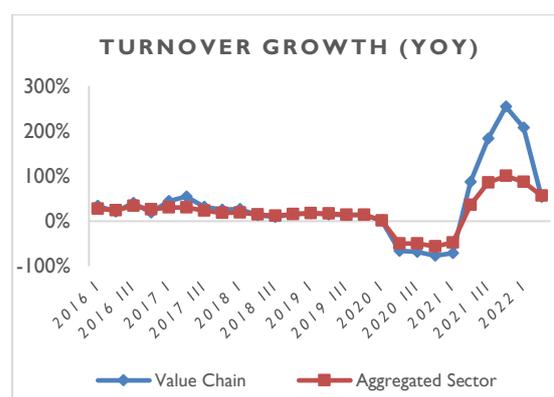
In Q1 of 2022, the turnover reached GEL 162 million, which was equal to 72.8% of the corresponding pre-pandemic number. The turnover for Q2 of 2022 reached GEL 219 million with a similar recovery rate of 72%. Notably, the YoY increase was also high in the first half of 2022, with a jump of 207.5% compared to Q1 of 2021, followed by an 54% YoY increase in Q2 of 2022. It must also be noted that in the first half of 2022, the value chain had a stronger rebound compared to the aggregated sector. This could be attributed to the rapid inflow of Russian, Ukrainian, and Belarusian travelers after the start of the Russia-Ukraine war and the generally increased length of stay of international visitors in the first half of 2022.

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



Source: National Statistics Office of Georgia

Chart 1.14 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector

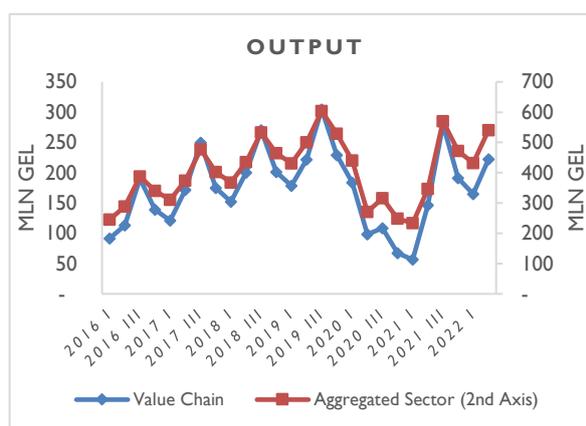


Output in the accommodation value chain has shared the dynamics of its turnover, having increased by 191.7% in Q1 of 2022 compared to Q1 of 2021 and having declined by 7.7% compared to Q1 of 2019. In Q2 of 2022 the output showed a 52.2% YoY increase and 0.2% increase compared to Q2 of 2019.

¹⁰ 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

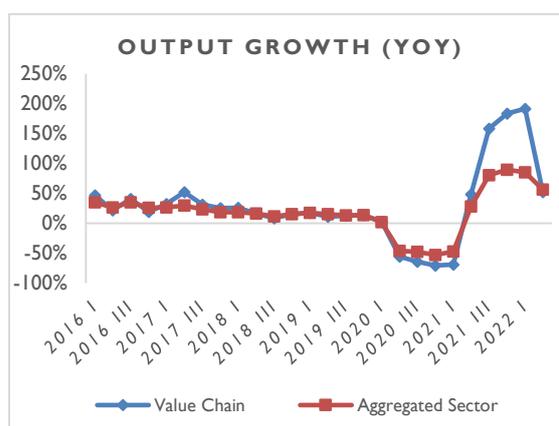
¹¹ Accommodation and Food service activities

Chart 1.15 Output of the accommodation value chain and the corresponding aggregated sector



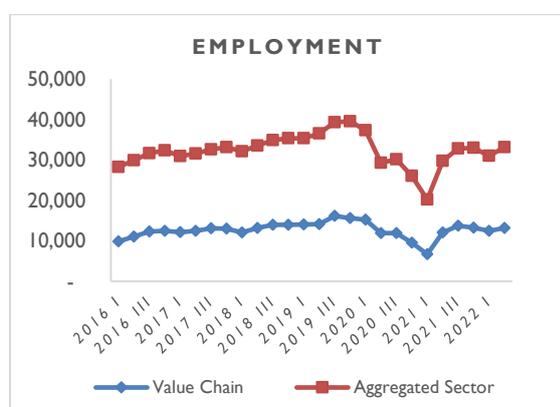
Source: National Statistics Office of Georgia

Chart 1.16 Annual growth rate of output for the accommodation value chain and the aggregated sector



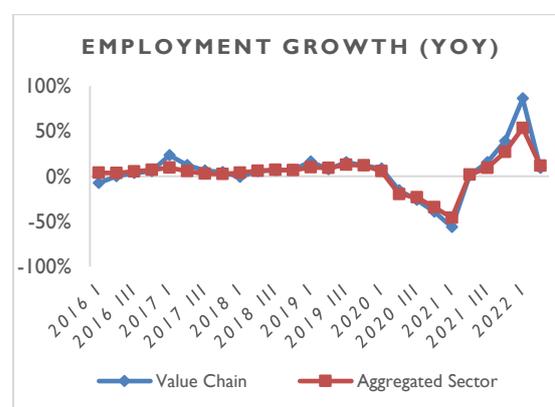
In the first half of 2022, employment¹² in the accommodation value chain has shown a considerable increase compared to 2021. In Q1 of 2022 employment increased by 86.1% compared to Q1 of 2021 and declined by 11.5% compared to Q1 of 2019. The YoY increase slowed down for employment in Q2 of 2022 and amounted to 9.3%, while showing a 6.8% decrease compared to pre-pandemic period. By the end of the first half of 2022 the employment of value chain reached 13,186 employees, almost reaching the pre-pandemic figure. Employment in the aggregate sector shared a similar dynamic.

Chart 1.17 Employment in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 1.18 Annual growth rate of employment in the accommodation value chain and its aggregated sector



The average monthly salary showed a gradual increase after the sharp decline in 2020 after the beginning of the pandemic. 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). In 2021 the average monthly salary reached GEL 1,278 exceeding the pre-pandemic level by 4.5%. In the first half of 2022, the average monthly salary continued to grow by 15.9% in Q1 of 2022 and by 23.3% in Q2 of 2022, compared to corresponding periods. Compared to corresponding periods of 2019, the average salary exceeded pre-pandemic number by 20.1% in Q1 of 2022 and by 23.7% in Q2 of 2022. This could

¹² 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 value chain's employment is not fully reflected by the official statistics presented above.

be attributed to the labor shortage in accommodation value chain, increased demand on accommodation services and inflationary trends.

Productivity of the value chain, calculated as an output per hired employee, also exceeded the pre-pandemic number in the first half of 2022 by 4.3% and 7.5% in Q1 and Q2 of 2022. Notably, the productivity suffered significantly in 2020 and recovered considerably in 2021, with the slightly less significant decline (2020) and recovery (2021) in the aggregated sector.

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 I.19 Average monthly salary in the accommodation value chain and the corresponding aggregated sector

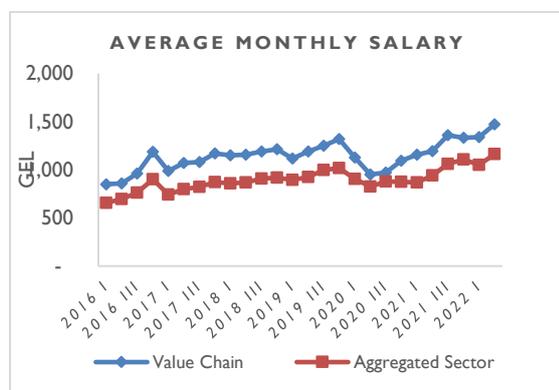
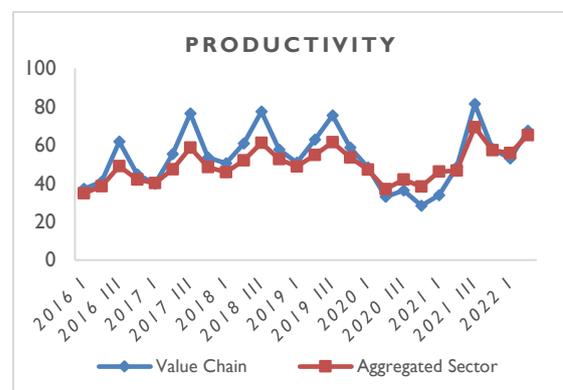


Chart I.20 Productivity in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Hotel price dynamics in Georgia

PMC Research Center conducts monthly research on accommodation prices¹³ based on www.booking.com and publishes the Hotel Price Index, which serves as an indicator of average price changes in hotels.¹⁴ 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 prices¹⁵ within each category peaked in the summer season (June-September) of 2018. Due to abrupt shocks in 2019 (Russian flight ban) and 2020 (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 toward 2019 levels.

Looking category by category, 5-star hotels, which are the most reliant on international tourists, experienced the highest price volatility during the covered period. It must also be noted that the

¹³ Note that the collected average prices and calculated HPI index do not account for inflation and USD/GEL exchange rate volatility.

¹⁴ The study contains a random sample of 71% (312) of all 3, 4, and 5-star hotels and 25% (456 guesthouses) of all guesthouses registered on www.booking.com. The stars were assigned to the hotels due to the booking.com category and did not correspond to the international classification of hotels. The calculation of the Hotel Price Index is based on recommendations from 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)).

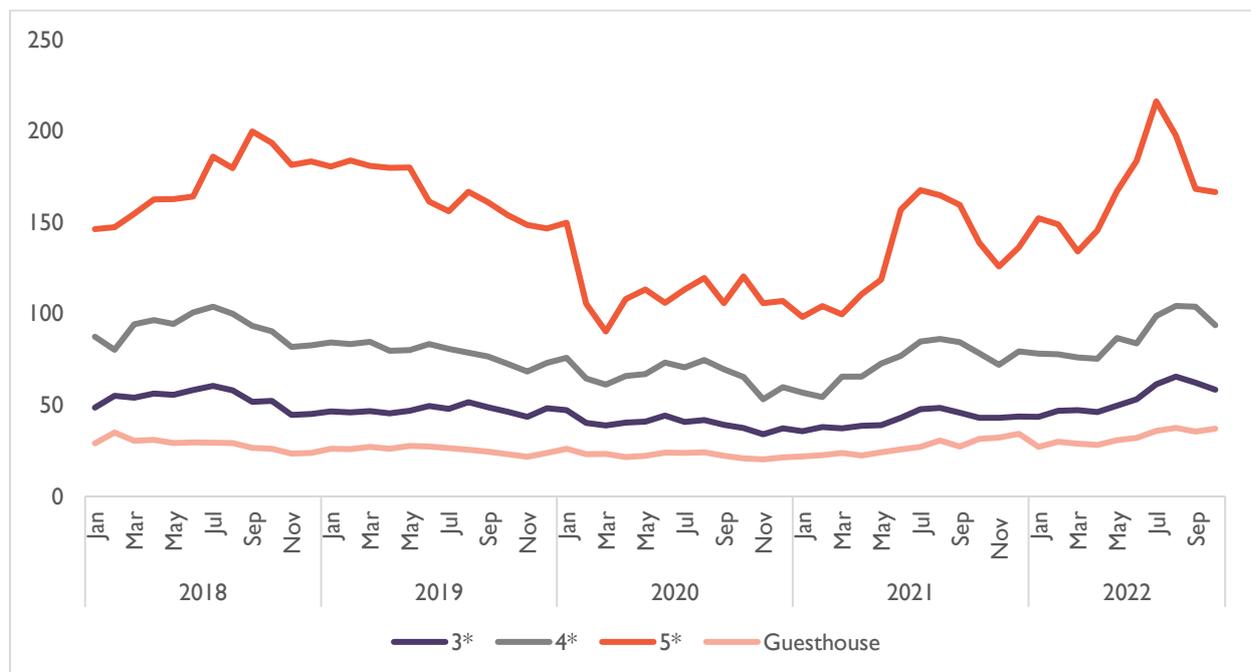
¹⁵ Price is calculated for a 2-person room per night

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 have 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 slightly increasing trend throughout 2021, followed by a minor decline in the first quarter of 2022. Meanwhile, 3- and 4-star hotels shared similar recovery dynamics throughout 2021 and the beginning of 2022.

Since the beginning of 2022, the prices of all types of hotels have increased considerably. The monthly increase was the highest for all hotels in May and July of 2022. It must also be mentioned that after peaking in July and August of 2022, the hotel prices started to decline in the following months, which could be attributed to the seasonality factor.

To compare to the pre-pandemic prices of 2019, the 3-star hotel prices were similar to the pre-pandemic numbers; however, in all other types of hotels, the prices have exceeded the pre-pandemic value. The increase in average prices was most visible in the case of 5-star hotels from May to July of 2022.

Chart 1.21 Average hotel prices (USD) for 3, 4, and 5-star hotels



Source: PMC Research Center

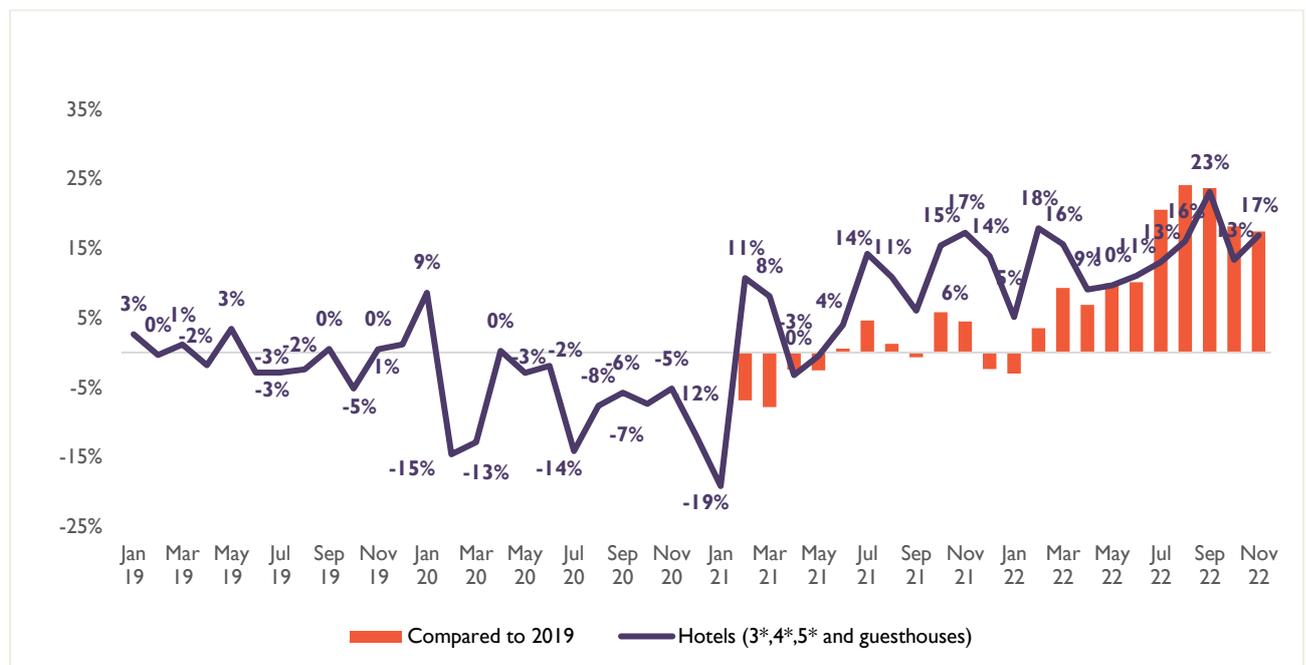
Apart from analyzing the average prices of hotels/guesthouses, PMC Research Center also calculates the Hotel Price Index (HPI) each month. The yearly HPI shows how hotel prices have changed compared to previous years, allowing for month-on-month comparison (e.g., Dec 2020 v. Dec 2021). As mentioned, the average prices peaked in 2018 before dropping in 2019 and 2020. This trend is also reflected in the HPI dynamics, registering a 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 2020. 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 increases can be noticed 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 the 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 tracking the recovery of hotel prices. From February 2021 to May 2021, the HPI index was still negative compared to 2019; however, some positive trends could also be observed at the beginning of the year. 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, in September and December of 2021, the hotel prices were slightly lower compared to the corresponding months of 2019; still, compared to 2020, the prices were showing a significant yearly increase.

Since the beginning of 2022, the YoY HPI index was positive, however, only since March 2022 the HPI index compared to the pre-pandemic figure became positive. In the first quarter of 2022, the yearly HPI index was positive, reaching the highest value (18%) in February 2022. When compared to 2019, the hotel prices were slightly lower than the 2019 figure in January 2022; however, in March 2022, the HPI index (compared to the pre-pandemic figure) reached a maximum of 9% since the beginning of the pandemic. Since April 2022, the positive dynamics were visible for hotel price indices compared to 2021 and pre-pandemic 2019 values. In September 2022, the HPI reached a maximum of 23% compared to 2021 and a maximum of 24% compared to 2019.

Chart 1.22 Yearly Hotel Price Index for 3, 4, and 5-star hotels



Source: PMC Research Center

ADVENTURE TOURISM¹⁶

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.

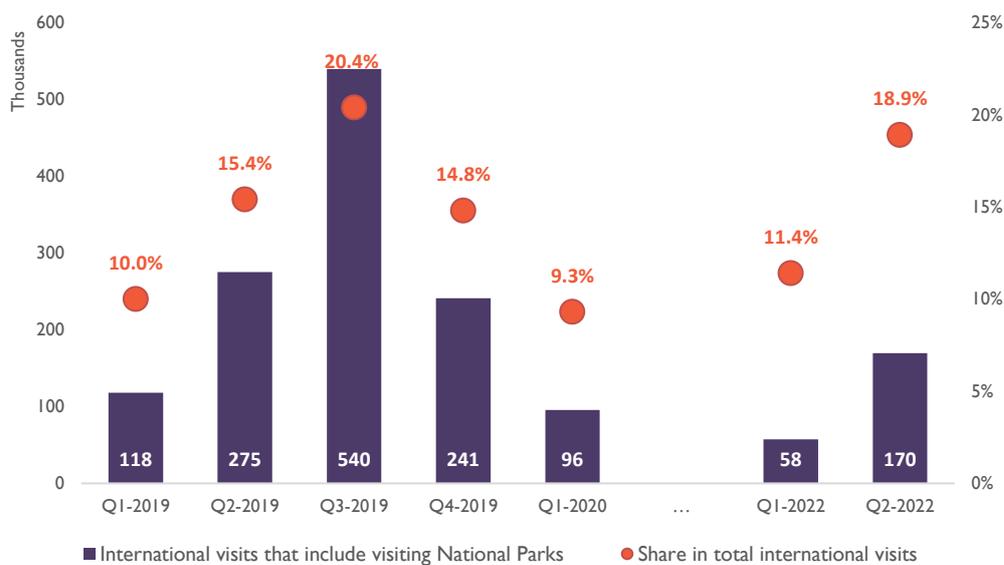
Visitors to national parks, natural monuments, and protected areas of the country

¹⁶ Please see the detailed analysis of activities related to the program's three priority value chains 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 reserves¹⁷.

The number of international visits that include visits to the national parks, natural attractions, and landscapes, as well as those exploring remote and exotic places, is considerably higher than the number of domestic visits. For instance, in 2019, 16.2% of international visits included visits to natural attractions, while the corresponding figure for domestic visitors was 3.6%.

Chart 1.23 International visits that include visiting the national parks, nature, landscape, and exploring remote and exotic places and their share in total international visits (2019 – Q2 2022)

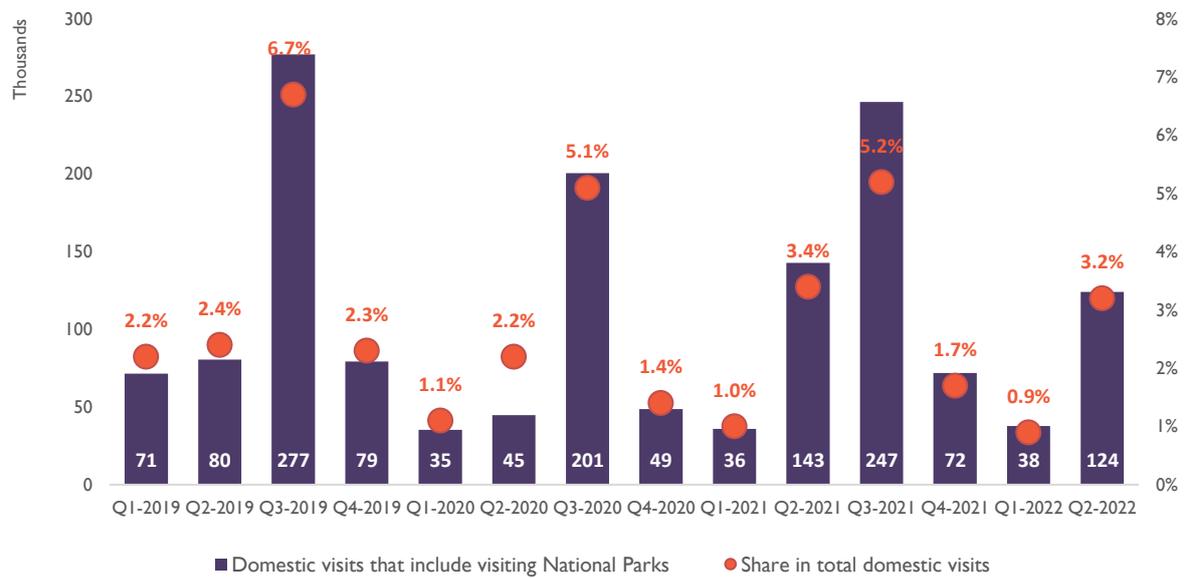


Source: Georgian National Tourism Administration

In 2022, visits by international visitors to natural attractions in Georgia amounted to 49% in Q1 of 2022, compared to the respective pre-pandemic (Q1 of 2019) figure, while in Q2 of 2022, it equated to 62% of the corresponding pre-pandemic figure (Q2 of 2019). Domestic visits also amounted to half of the corresponding pre-pandemic value (53%) in Q1 of 2022; however, in Q2 of 2022, the number of domestic visits exceeded the pre-pandemic (Q2 of 2019) figure by 54%.

¹⁷ In addition, adventure tourism includes skiing and winter sports as well. Please, see the analysis of Georgia’s mountain resorts in the first analytical report, page #39.

Chart I.24 Domestic visits that include visiting the national Parks, nature, landscape, and exploring remote and exotic places and their share in total domestic visits (2019- Q2 of 2022)

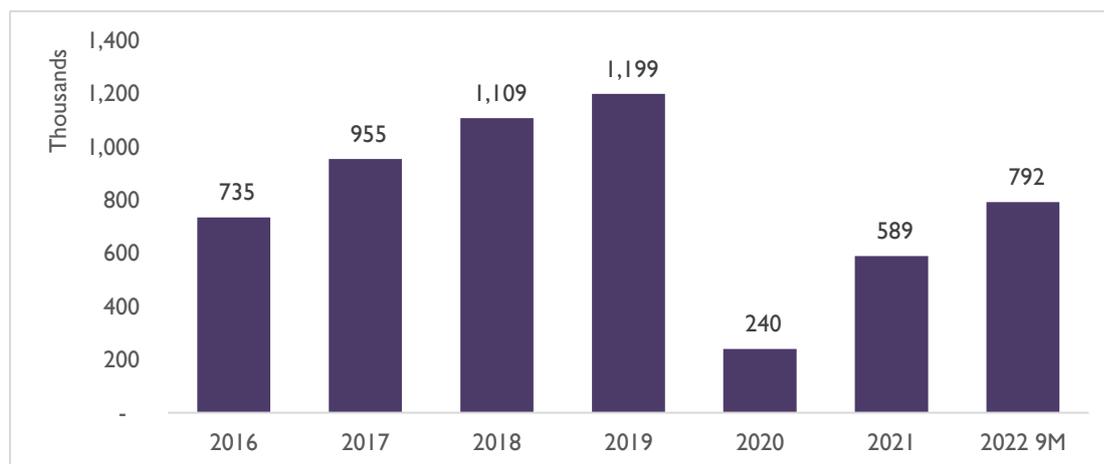


Source: Georgian National Tourism Administration

Based on the data provided by the Agency of Protected Areas, the number of visitors to the protected areas in Georgia was showing a clear upward trend prior to the pandemic. From 2016 to 2019, the average growth rate of visitors was 24%, followed by a YoY drop of 80% in 2020 compared to 2019.

However, in 2021, the number of visitors recovered to 49% of the pre-pandemic (2019) value. In 2022, the recovery intensified, and in the first nine months of 2022, it exceeded the yearly number of visitors in the previous year and recovered to 66% of the total number of visits in 2019.

Chart I.25 The dynamics of the number of visitors to protected areas of Georgia (2016-2022 9M)



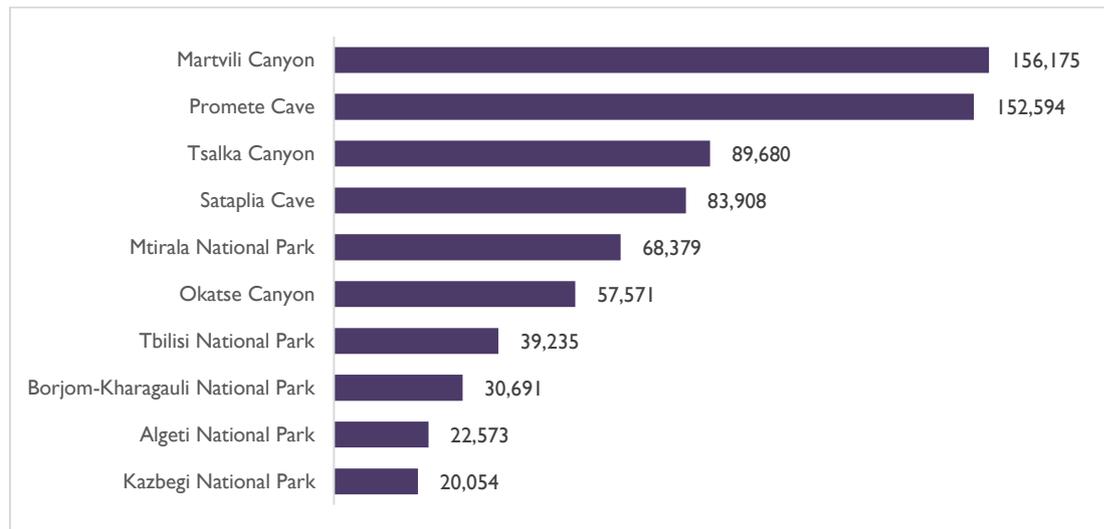
Source: Agency of Protected Areas

In the first nine months of 2022, most of the international visitors to the protected areas were from Russia (83 286 visitors), Belarus (48 422), United Arab Emirates (40 307), Kazakhstan (37 180), and

Saudi Arabia (34 817). While, before the pandemic, in 2019, Russia was followed by Israel, Poland, Germany, and Ukraine as the main countries of origin for international visitors to Protected Areas.

In the first nine months of 2022, the highest number of visitors was recorded in Martvili Canyon, followed by Prometheus Cave, Tsalka Canyon, and Sataplia Cave. While, Pshav-Khevsureti National Park (1 205), Machakhela National Park (661), Mariamjvari Protected Areas (161), and Ajameti Managed Reserve (4) were the least visited.

Chart I.26 Top 10 protected areas by number of visitors in the first nine months of 2022



Source: Agency of Protected Areas

CULTURAL TOURISM

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

Visitors to national museums and historic site museum-reserves of Georgia¹⁸

Uplistsikhe and Vardzia emerged as two top sights in this regard, with the average share of the two visitors to museum-reserves standing at 57% and 32% in 2019, respectively.

While Uplistsikhe and Vardzia remained the top museum-reserves to visit in the first half of 2022, the number of visitors has not been comparable to those of 2019. In Q3 2021, 41 528 visitors visited Uplistsikhe, and 34 003 visitors went to Vardzia. In total, 91 516 visitors explored historic Georgian museum-reserves. For comparison, in 2019, Uplistsikhe and Vardzia were visited by 312 and 173 thousand visitors, respectively.

Travelers interested in cultural tourism, apart from visiting museum-reserves, tend to visit museums. Based on the data from the Georgian National Museum, a total of 102,941 visitors explored museums managed by the Georgian National Museum in the first half of 2022. The Simon Janashia Georgian National Museum in Tbilisi, visited by 31,498 visitors in the first half of 2022, was the most popular among visitors followed by the Dimitri Shevardnadze National Gallery in Tbilisi (21,481 visits), the

¹⁸ In the first analytical report, we analyzed the number of visitors to Georgian museum-reserves from 2015 to 2019 (page #45).

Tbilisi Open Air Museum of Ethnography (19,884), and the Signaghi Historic-Ethnographic museum (7,354).

Trends in food services

The turnover of enterprises in the food services value chain showed a significant recovery in the first half of 2022, following the considerable YoY (22.6%) decline in 2020 and partial recovery in 2021 (being 8.5% lower compared to 2019). In Q1 of 2022, the turnover increased by 52% compared to the corresponding period of 2021, meanwhile, this indicator for Q2 of 2022 was equal to 58.7%. When comparing to the corresponding periods of 2019, the turnover of the value chain exceeded the pre-pandemic number considerably by 21.2% in Q1 of 2022 and by 15.6% in Q2 of 2022.

It must also be noted that the turnover YoY growth rate was lower compared to the aggregate sector, however, the recovery to the pre-pandemic number was of a much higher magnitude in the food value chain compared to the aggregate sector of accommodation and food services. This could be explained by the high demand for food services and increasing prices of commodities.

Chart 1.28 Turnover of the food services value chain and the corresponding aggregated sector

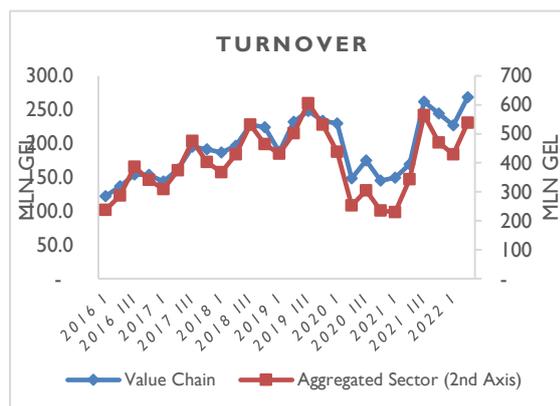
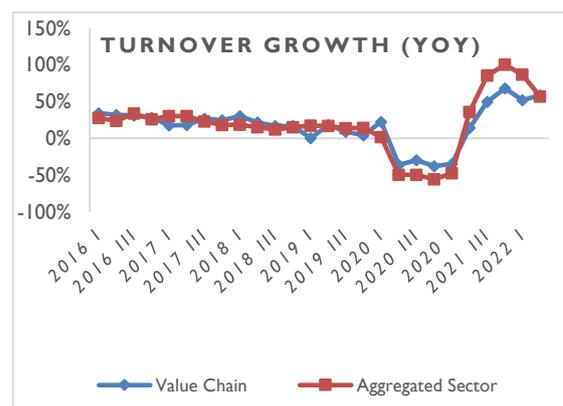


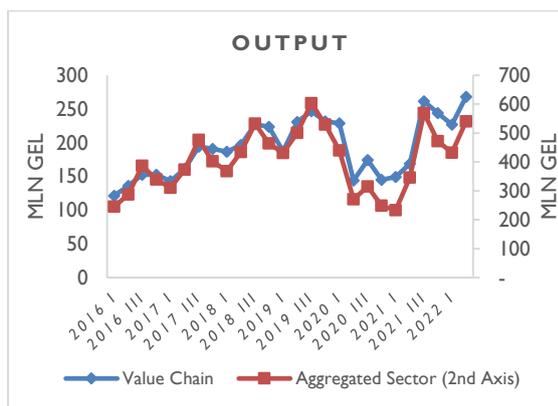
Chart 1.27 Annual growth rate of turnover for the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

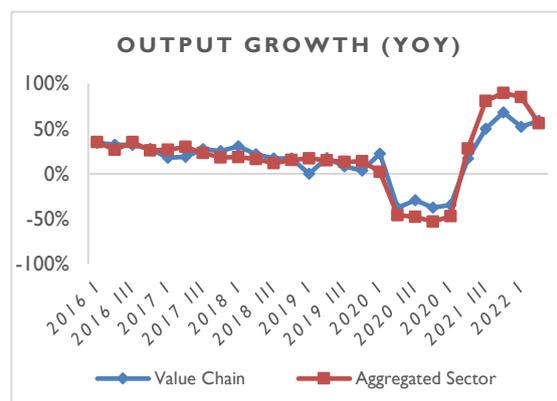
Output in the food services value chain mirrored the dynamics of the value chain's turnover. In Q1 of 2022, the output exceeded the pre-pandemic number by 21.4%, while in Q2 of 2022 the increase was equal to 16.2%, reaching GEL 495.3 million by the end of the first half of 2022. Notably, in the first half of 2021, the output was equal to GEL 318 million, which is 56% lower compared to the first half of 2022. As in case of turnover, the aggregate sector registered higher YoY growth compared to 2020, on the other hand showing a smaller scale of recovery compared to 2019.

Chart I.29 Output of the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart I.30 Annual growth rate of output for the food services value chain and the aggregated sector

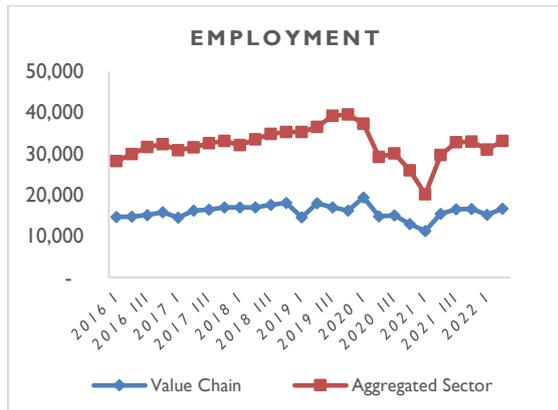


Increasing trend of employment¹⁹ in the food services value chain, following the steady decline from 2020 to first half of 2021, was maintained in the first half of 2022. In Q1 of 2022 the employment increased by 34.8% compared to Q1 of 2021, while in Q2 of 2022 this number was equal to 8.1%. It must also be noted that the YoY increase in employment of the value chain was significantly higher compared to the aggregate sector in Q1 of 2022.

When comparing to pre-pandemic numbers, the employment exceeded pre-pandemic number by 4.4% in Q1 of 2022, while showing a decline of 7.5% in Q2 of 2022, which can be explained by the seasonality of the demand for food services. By the end of the first half of 2022 the average employment reached 16,670 average quarterly employees, which is the maximum of the post-pandemic period (Q2 of 2020-Q2 of 2022).

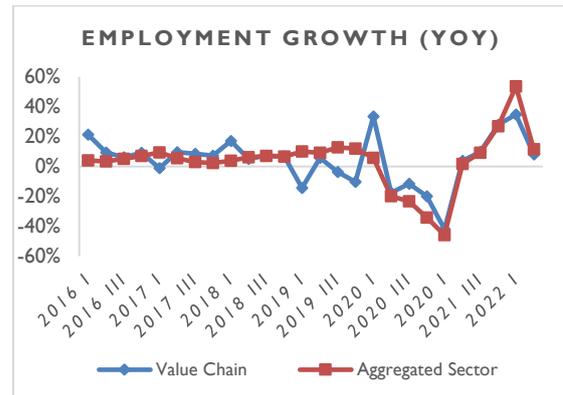
¹⁹ It has to be noted that a substantial amount of value chain employment is unobserved, as many food service facilities are not officially registered.; thus, the impact of the pandemic on the value chain's employment is not fully reflected by the official statistics presented above.

Chart I.31 Employment in the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

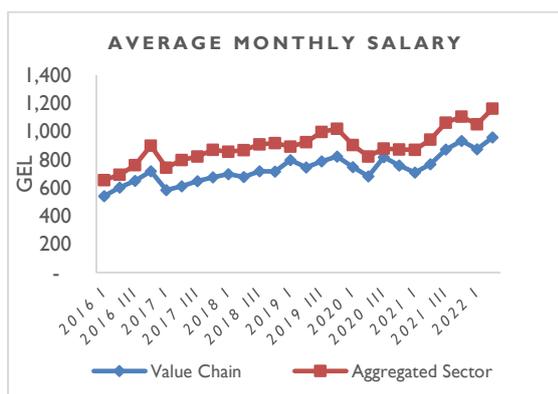
Chart I.32 Annual growth rate of employment in the food services value chain and the corresponding aggregated sector



In the first half of 2022, the average monthly salary showed a significant YoY increase, increasing by 23.2% in Q1 of 2022 and by 24.7% in Q2 of 2022. Notably, average salary increase was similar to the aggregate sector. Apart from that, it must also be noted that the salaries have exceeded the pre-pandemic values significantly (by 9.7% in Q1 of 2022 and by 28.6% in Q2 of 2022). In aggregate sector the recovery numbers were equal to 17.5% in Q1 of 2022 and 25.7% in Q2 of 2022.

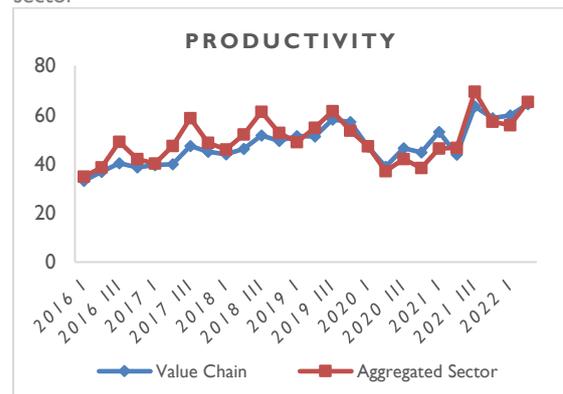
In the first half of 2022, the productivity of the value chain, as measured by output divided by the number of employed people, showed a considerable YoY increase of 12.7% in Q1 of 2022 and 46.9% in Q2 of 2022. The increase in productivity was similar for the aggregated sector (20.6% increase in Q1 of 2022 and 40% increase in Q2 of 2022). Notably, the productivity of the value chain also exceeded the pre-pandemic number by 16.2% in Q1 of 2022 and by 25.6% in Q2 of 2022. This sharp increase in productivity could be directly attributed to a higher magnitude increase in output of value chain and aggregated sector compared to the number of employed in 2021.

Chart I.33 Average monthly salary in the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart I.34 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. For the most part, main economic activities of surveyed companies are 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 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, meanwhile in 2021 there were significant recoveries following the easing of restrictions on events since Q2 of 2021. However, the number of firms operating in the catering value chain have decreased as some operators decided to not reopen their catering divisions even after eased restrictions in 2021.

In the first half of 2022, the majority of the companies state the improvement in their business operations compared to previous periods. In the first half of 2022, the majority of the companies stated that their turnover has increased compared to the first half of 2021, out of which a significant part noted that the increase in turnover was between 10-20%. Approximately half of the surveyed companies state that their turnover was less than GEL 100,000, while the other half states that it was between GEL 100,000-500,000.

The average employment of the surveyed catering companies was about 25 employees, out of which 70% were female, while the share of youth (aged 15-29) was only 33%. Notably, majority of the surveyed companies stated that the number of employees increased in their companies in the first half of 2022. The average monthly salary of the employees was equal to GEL 960, which is also higher compared to the first half of 2021.

Overview of the existing challenges and opportunities

The qualitative analysis of tourism led to the following insights:

The interviews with tourism industry representatives focused on the effects of the Ukraine war on the tourism industry of Georgia, as it was the most significant factor affecting tourism after COVID-19. According to the respondents, the drivers of international tourism after the full-scale war in Ukraine included a mix of tourism-related and non-tourism-related (migration from conflict zones) factors. Tourism industry representatives observed several trends and findings during the first half of 2022 that will have short and long-term effects on Georgian tourism:

- **Rapid and large-scale entry of foreign citizens from Russia, Ukraine, and Belarus in Georgia:** A large number of foreign citizens arrived in Georgia due to war. As a short-term effect, they increased the demand for hotels and flats renting daily. Later, some of them left the country for better alternatives to migrate. At the same time, another part decided to migrate to Georgia, causing a significant increase in accommodation prices rented monthly and prices of residential flats for sale. The large flow of migrants mainly affected Tbilisi and Batumi. They also used the hotels of Kazbegi and Gudauri on the way to their final destinations.
- **Safety concerns on traveling to Georgia by international visitors:** Europeans and US visitors traveling with organized tours canceled their bookings to Georgia due to safety issues caused by the war. The decrease in group travel was observed in all segments of visitors; as a result, tour operators reported a 15%-20% recovery rate significantly lower than their expectations. According to them, their target visitors plan the tour one year in advance. They are sensitive to the political situation at the destination. The announcement in mass media that Georgia could be the next target of Russia resulted in the immediate cancellation of several tours from Europe. Tour operators call for action from GNTA to position the country as a safe destination. According to them, the platforms of ITB Berlin and the World Championship in Bakuriani, both events held in 2023, can be used effectively for this purpose.
- **Disruptions in the characteristics of international visitors:** Some tourism industry representatives fear that migrants bringing their businesses to Georgia and working as tourism operators will focus on attracting visitors from CIS countries, changing the anatomy of Georgian tourism. According to the respondents, the strategy of Georgia is to focus on western high-value markets, and the country striving to adapt the service quality to these markets will develop faster. The visitors attracted by Russian operators will negatively affect the tourism industry, setting low standards for their service quality.
- **Disruptions in the structure of the main purpose of international visits:** Migrants may boost the number of visitors traveling for visiting friends and relatives (VFR) purposes. According to industry representatives, migrants might invite friends and relatives to their new homes boosting the VFR visitor segment in the country in the future. According to the international visitor survey, the VFR segment spends lower than average as they seldom need to pay for accommodation during their stay.
- **Lack of demand on tourist accommodation service providers:** Russians owning many homes in the Adjara region significantly affects the Georgian tourism structure, especially in crisis periods.
- **Hospitality industry representatives sympathizing with Ukraine Refugees:** Hospitality industry representatives were active in supporting Ukraine, providing free stays for Ukrainian migrants in their hotels

- **Changes in domestic tourism pattern:** Immigrants from the conflict zones will join domestic tourism by becoming residents of Georgia. The private sector already reports about the new segment of international visitors from conflict zones traveling from Tbilisi to the regions. Migrants travel to the regions to learn more about their new country of residence.
- **Changes in characteristics of visitors from Gulf States:** Hospitality industry representatives observe the changes in the characteristics of visitors from Gulf countries. Previously traveling individually mainly for entertainment, they now choose to travel with groups and family members. Their main destinations were the resorts of Samtskhe Javakheti, Bakuriani, Borjomi, etc.
- **Disruption of the inflow of visitors from Azerbaijan:** The closed land border with Azerbaijan negatively affected the flow of international visitors. Furthermore, Azerbaijanis used to travel to Bakuriani and other winter resorts in Georgia for New Year with family members. With the closed border, this number will decrease significantly, negatively affecting Georgia's winter tourism.
- **Labor force issues in the hospitality industry:** Due to harsh economic conditions, Georgian hospitality representatives report a high drain of Georgian tourism service employees to other countries. COVID-19 made many employees change their fields and never return to the tourism industry. Furthermore, Other industries competed for qualified personnel by offering higher salaries. Some service workers, mainly housekeepers, chose to create their own companies as the demand and price for flat housekeeping have increased significantly. The shortage of employees in the tourism industry has put further pressure on tourism service quality. At the same time, there is an increasing demand from migrants to work in the Georgian tourism industry, both in management and service positions.
- **The decrease in the dispersal rate of visitors:** According to statistics, the number of nights spent by international visitors outside the main tourism getaways (dispersal rate) decreased due to the Ukraine war. According to the regional DMOs, the dependence level of the region on the Russian and Ukraine tourism markets determined the size of the negative effect on regional tourism. For example, the Imereti DMOs reported that direct flights primarily drive Imereti region tourism source markets through the Kutaisi Airport, which is dominated by the European markets. Furthermore, the recent introduction of flights to Kazakhstan and the UAE boosted the number of visitors from these destinations. Still, the security issues among the European markets due to the war made the recovery level slower. On the other hand, the immediate effect of the war in the Kakheti region, in which Russian visitors dominated, was a sharp drop in bookings
- **Increase of the input prices:** The tourism representatives observe the price increase in tourism services, mainly driven by the increase in input prices. The high prices affect the competitiveness of the Georgian tourism sector negatively. Tour operators argue that along with high prices, service quality also decreased. The explanation behind the quality decrease was that tourism service providers began adapting to Russian visitor characteristics who are much less demanding than European visitors.

The Challenges of Regional Tourism

The interviews with the tourism private sector representatives and DMOs showed additional impediments concerning regional tourism, including the scarcity of regional companies as intermediate product providers in the supply chain, insufficient bed places and the lack of detailed tourism statistics on the regional level.

According to hospitality sector representatives, regional companies cannot satisfy large orders from the tourism industries leading to significant leakage effects. The leakage effect happens when there is excessive use of imported goods and services in the supply chain, leading to the drain of money in other countries. Although the tourism businesses are local product-oriented, they cannot distribute their order for agricultural products among several suppliers for two reasons. First, the quality will suffer; second, most local producers lack the official documents for such operations. The cooperatives created to address the problem did not work as planned. The problem worsens during the active tourism season, even in agriculturally rich regions like Kakheti. Due to increased regulations, the number of pork producer enterprises has been closed, leading to decreased pork supply on the market and subsequent price increases.

Furthermore, the DMOs report that local products are expensive. For example, most hotels prefer to order furniture from Tbilisi rather than locally, as wooden furniture prices are too high. Another example is agriculture. The shortage of high-quality Georgian cheese causes high prices making it difficult to compete with the imported product even during the high season.

Several DMOs report the scarce bed places, making it challenging to satisfy large, organized travel groups from different countries. Although the demand is apparent, the supply is lagging. According to the DMOs, the primary reason for the lagging supply is associated with accessibility to financing. Another problem could be the non-frequent nature of the flow of the large groups in the region, which makes keeping the large hotel ineffective.

Due to the lack of detailed statistics, most DMOs struggle to evaluate the current market situation, including the effect of the Ukraine war on regional tourism. In response to this problem, several tourism objects started to keep records of international and domestic visitors. For example, Dadiani Museum and botanical garden introduced a system that allows counting the number of domestic and international visitors, including their demographic and social characteristics.

ADVENTURE TOURISM

The qualitative analysis of adventure tourism led to the following insights:

Challenges of Fraud near Tourism Attractions

The DMOs report fraud cases near the Martvili canyon and argue that it became common practice near other attractions. The so-called "tourist hunters" offer the tourism groups arriving at Martvili canyon alternative tours to nearby locations for the inflated prices and low quality of service. They convince visitors not to enter the attractions as their offer is much better. According to the DMOs, the guides responsible for taking tourist groups to the canyon are also part of the scheme. Such practice significantly drops the revenue of attractions and effects negatively service quality, including the destination's reputation.

The Adventure Tourism Effected by Migrants' Businesses

According to the ecotourism association, there is a clear trend of migrants bringing their tourism businesses to Georgia, including adventure tourism services (rafting, diving, bike, motorbike, etc.). The respondents see the positive sign in this process as the diversity of services in adventure tourism increases, and the competition in the sector strengthens. The association stresses the importance of additional research to determine the percentage of market share of migrant businesses in all forms of tourism.

Traffic Jams Are a Colossal Problem Not Only for Locals

The Georgian Incoming Tour Operators Association members report that the worsened traffic jams translate into a terrible experience for visitors. According to them, visitors have to stay in buses for hours to get to hotels. Furthermore, there is a parking problem for unloading tourists' luggage from cars or other vehicles. As a solution, association members request permission for tourist cars to use bus lanes. According to them, worsened traffic jams are also the result of migration as the population of cities became much larger.

Tourism Sectoral Skills Organization – Specific Outcomes for Adventure Tourism

According to tourism sector representatives, the associations and professionals of the field created the Tourism Sectoral Skills Organization (SSO), which is in its final stage of development. The organization will be responsible for identifying the skills needed in the sector, defining the skills policy in the field, and participating in its implementation. Furthermore, they will also work on national vocational standards to lower the skills gap between labor demand and supply.

According to tourism associations, creating SSO will have specific results for vocational adventure tourism education. The different directions of adventure tourism will be consolidated, and the certification procedures of adventure tourism guides will be formalized. Furthermore, to address the problem of frequent accidents in adventure tourism, mountain lifeguard qualifications will be introduced in cooperation with foreign universities.

Domestic Adventure Travelers Kept Traveling During the Post-COVID-19 period

According to tourism industry representatives, despite all the adverse effects of the pandemic on Georgian tourism, it still had some positive influences on domestic visitors' behavior. During the pandemic, Georgian citizens learned a lot about the rich nature of Georgia as they traveled within the country due to COVID-19-related restrictions on outbound travel. Their traveling behavior did not change after the end of the pandemic. They mostly travel for adventure tourism stimulating domestic tourism and contributing to regional economies. Some hospitality industry representatives think the increase in domestic tourism resulted from the establishment of the middle class in Georgia, ready to pay the average price and stay in regional hotels. Tourism industry representatives expect this trend to continue in the long term.

Service Quality in Adventure Tourism

Georgian ecotourism, with the assistance of the USAID economic security program and with the support of Samtskhe-Javakheti DMO, held the Training for Bird watching Guides. The training included theoretical and practical components. Eighteen guides participated in online meetings that included the topics: introduction to birdwatching, planning the birdwatching tour, birds of Samtskhe-Javakheti, interpreting nature, wild nature visiting guide, and others. A practical component at the protected areas of Samtskhe-Javakheti followed the theoretical teaching. The successful participants were awarded certificates, books, and binoculars. There is a need for further efforts to train adventure tour guides and, as a result, increase the service quality and the share of satisfied visitors.

ECOTOURISM

The qualitative analysis of ecotourism led to the following insights:

The Supplemental Documents for Ecotourism Strategy

The Ecotourism Strategy was approved in 2021, with the objective of making Georgia a top ecotourism country in the Caucasus by 2030. According to the Ecotourism Association, three manuals supplemented the ecotourism strategy: Universal Design Strategy, Cost-benefit Analysis, and Trail Planning and Development Guidelines.

The Universal Design Strategy is the methodological manual for developing ecotourism infrastructure. It includes information about suggested building materials, design, and other relevant issues. The document also includes high technological solutions, such as augmented reality, in places where historical traces are wiped out.

Cost Benefit Analysis will be a mandatory part of all ecotourism products. It will clearly show the benefits and costs of the project. The introduction of this document will lead to information-based decisions which are not common in modern Georgian Tourism planning.

The third project concerns the methodology of planning the trails and will be actively used by government and private organizations.

Ecotourism Committee Monitoring Body of Ecotourism Strategy

According to private sector representatives, value creation in the tourism sector requires coordination of the stakeholders and efficient management. These functions in Georgia are under the responsibility of the Georgian Tourism Administration on the country level and DMOs on the regional. The mentioned organizations serve as the primary coordinator for achieving tourism strategy goals and implementing action plans. It is crucial to develop interagency structures that will monitor the process of solving the long-standing tourism challenges in the country with particular attention to regional development. The private sector should be the key stakeholder in that process. The ecotourism committee consisting of the Agency of Protected Areas of Georgia, National Forestry Agency, Georgian National Tourism Administration, and Ecotourism association for monitoring the activities to achieve strategic goals could be an excellent example of such efficient coordination.

Increasing Demand for Responsible and Sustainable Tourism

The members of Georgian inbound tour operators observe the increasing demand for sustainable tours in Georgia. According to them, European visitors are ready to pay extra money for sustainable tours, including sustainable practices from different service providers within the tour package or value chain. However, as sustainable practices are not well developed in Georgia, this demand cannot be satisfied. Tour operators forecast increasing demand for such tours and call upon service providers to take a green direction in business.

Ecotourism Projects for the Sustainable Tourism Development

Ecotourism Association, with the assistance of UNDP within the project "Ensuring the Sustainability of the Ktsia-Tabatskuri Protected Area through the Development of Ecotourism Products in the Local Community," researched and marked the interpretive route of endangered ducks and White-winged Velvet Scoter. A conclusive info tour was held to inform the tourism product providers about the project details.

Within another project, "Mountain and Ecotourism Development in Samtskhe Javakheti region," financed by the US Embassy, the local DMO conducted several activities. As the first step, they marked the hiking routes within the region, followed by several marketing efforts to popularize the product. The activities included: the publication of the Guide of Hiking Routes in Georgian and English languages, marketing video of marked hiking routes, Hiking VLOG, which is available on youtube, info tours, and

the Hiking Application, which became available for Android and IOS operating systems. Furthermore, the hiking route was posted on the popular hiking website Wikiloc.

CULTURAL TOURISM

The qualitative analysis of cultural tourism led to the following insights:

Cultural Tourism as a Poverty Reduction Tool

Tourism is considered one of the essential tools to reduce poverty by giving access to residents of regions to the tourism markets. According to tour operators, already a well-tested mechanism for this is the info tours organized by GNTA, which allows the region residents to showcase their products for different business deals with tour operators. Associations of Tour Operators acknowledge the importance of info tours; however, they call for elaborating additional mechanisms to connect visitors with regional small businesses. Handicrafts, as cultural souvenirs, play a significant role in tourism and can effectively engage rural communities in the tourism business. In many countries, handicrafts are considered the core of tourism development. They build selling points near significant visitor attraction centers, where rural communities can sell their handicrafts to visitors. Tour operators are actively involved in this process by adding these places to the tours in these countries.

Tourism Law in the Final Stage of Development

Tourism association members report their active involvement in the discussion of tourism law. According to them, several issues are still not solved, as part of their comments have not yet been addressed. The main issues for GITOA members are the certification of cultural guides and the organizations responsible for issuing these certificates. They argue that uncertainties concern responsible agencies for certification, the qualifications needed for guides to be certified, and the rights and responsibilities of guides. The Ecotourism Association stressed that the public sector is unwilling to take responsibility and shifts excessive responsibilities to the private sector. Although there are several disagreements, tourism associations and companies are still optimistic about the working process and hope their concerns will be considered.

Tourist Routes as a Cultural Tourism Development Tool

According to tourism sector representatives, developing cultural routes can be an excellent way to boost cultural tourism in the country. They argue that cultural routes became an effective tool for developing cultural tourism products in many countries. Along the route, visitors receive unique experiences, including fun, discovery, and education. Tour operators report increased demand for experienced-based tourism and promoting cultural tourism can well serve this purpose. Cultural tourism contributes economically to local communities as visitors use different accommodations along the route. It is an excellent way to diversify visitor flows from the main tourism gateways, concentrating mainly on sun and beach tourism. Furthermore, this type of tourism uses highly qualified labor, including (researchers, conservatives, and translators) and the salaries are much higher than in other tourism segments. Another advantage of cultural tourism is that seasonality does not affect it; it is an excellent way to diversify tourism products and strengthen the destination brand. They argue that GNTA and DMOs should be the coordinators in this process as the main government bodies responsible for tourism development.

Importance of Transnational Tourism Product Development and Promotion

There is an increasing demand among tourists traveling to Georgia or other Caucasus countries to visit more than one regional tourism destination. In response to this trend, DMOs of two countries, Georgia (Samtskhe Javakheti, Kakheti), and Armenia (Shirak, Vayots Dzor, Syunik, and Lori) collaborated on the tour development with the financial assistance of USAID EDGE. The tour includes three types of products cultural, adventure, and gastro tourism. The project tested positive in both countries and is already in the final stage of development. It has a logo, brochures, social network domain, and informational materials. The next step is to present the tour to the tour operators of the two countries before it becomes available for the target markets.

GASTRONOMIC TOURISM

The qualitative analysis of gastronomic tourism led to the following insights:

Service Quality Enhancement in Collaboration with Academic Sector in Regions

Every tourism stakeholder mentions service quality as one of the main challenges of Georgian Tourism. According to them, collaboration efforts that include academic institutions and DMOs are essential for solving this problem. Within the framework of the Caucasus University and Marani Khetsuriani joint project, 'Khetsuriani Sommelier & Wine School | Caucasus University,' the school has launched a branch in the Imereti region. The school conducted two study programs for representatives of the hospitality, tourism, and wine industry. The first course was for the sommelier to start wine production, while the second was for those interested in creating their wine cellar –the course of the wine-cellar keeper. The participants of both courses were awarded special certificates, and those successfully passing the sommelier exams were given the status of Assistant Sommelier.

Promoting Gastronomy Tourism in Regions

One of the Georgian gastronomy's main strengths is its diversity, with each region representing its cousin. It is essential to offer tourists Georgian Gastronomy and present its unique regional future. The project "Imeruli Gemo," administered by Imereti DMO in collaboration with the Business Association of Gastronomy Tourism, serves this purpose. The project includes twelve marketing video clips starring famous Chefs. The video presents authentic Imeretian cousin culture; the Imereti region positions itself on the world tourism map, along with adventure, extreme, eco, wine, cultural, and agrotourism. The video clips were shared on Facebook and YouTube. They will be used as promotional material for domestic and international markets.

Quality vs. Price Effect on Food and Drink Expenditure

The tourism sector representatives during the interview were asked to comment on the latest observations from the International visitor survey showing improvement in international visitor characteristics. According to the data of Q1 and Q2 of 2022, the tourism indicators significantly improved - the average length of stay from 3.8 to 6.3, average spend per visit from 1,108 to 2,562 GEL, and spend per night from 291 to 406 GEL. Furthermore, the structure of visitor expenditure showed almost half a billion GEL more expenditure on food and drinks compared to the same period in 2019. The tourism industry representatives agreed that two effects were in place - price and quality effects. However, they differed in their position on the size of these effects.

According to them, the above-increasing indicators could result from economic factors- inflation and exchange rate, in other words, the "Price Effect." On the one hand, the devaluated GEL could stimulate increased expenditure from Eurozone and USA. On the other hand, the high inflation might have increased visitor expenditure from all countries. The significant expenditure increase on food and

beverage without quantity effect further supports the "price effect" argument. The hospitality industry representatives confirmed the increase in price in restaurants by 70-80%.

On the other hand, the increase in the average length of stay is the supporting argument for "Visitor quality improvement." To support this argument, industry representatives mentioned the changed behavior of some visitor segments. E.g., Gulf countries and Russians. Russia, a large country comprising different segments, including high spenders, was left with a limited choice of destinations to travel to. With the limited choice, many high-spending segments chose Georgia as a travel destination. Some respondents think the increase in airline prices led to a more extended stay of visitors, which later translated into higher spending. Furthermore, tourism industry representatives report a sharp drop in business travelers as many meetings are now held online. As this segment stayed in the country for one or two days, their exclusion from visitors led to an increased average length of stay. Lastly, in their opinion, the foreign citizens from the conflict zone choosing to leave the country after the extended stay in Georgia could be the essential driver of expenditure increase.

The challenge is identifying which factors to "blame" more for increased expenditure, as both arguments seem logical.

2. CREATIVE INDUSTRIES

SECTOR SUMMARY

The creative industries were affected by the pandemic by a significant margin. Thus, even though in 2021, the media content production and post-production value chain showed considerable growth, as the recovery started from the record-low numbers, most of the key indicators of the value chain were not able to return to the pre-pandemic levels. But in the first half of 2022, the value chain showed growth compared to 2019 as well. The turnover of media content showed 187.7% YoY growth in Q1 of 2022, but also 10.9% growth compared to Q1 of 2019. In Q2 of 2022, the YoY growth was 80.6%; compared to 2019, the growth reached 27.3%. Similar trends were observed by looking at productivity and average monthly salary in the media content production and post-production value chain. As for employment, the trend was different as the number of people employed in the media content production and post-production value chain continued to grow in 2020 (though only by 5.5%) but substantially declined in 2021 (-20.0%). This could be explained by the hesitance of the companies to let go of their employees at the early stage of the pandemic. Accordingly, in the first half of 2022 the employment in the value chain was higher only compared to Q1 and Q2 of 2021 (higher by 21.8% and 2.4%, respectively, in Q1 and Q2), remaining lower compared to the first half of 2020 (lower by 35.1% and 14.5%, respectively, in Q1 and Q2).

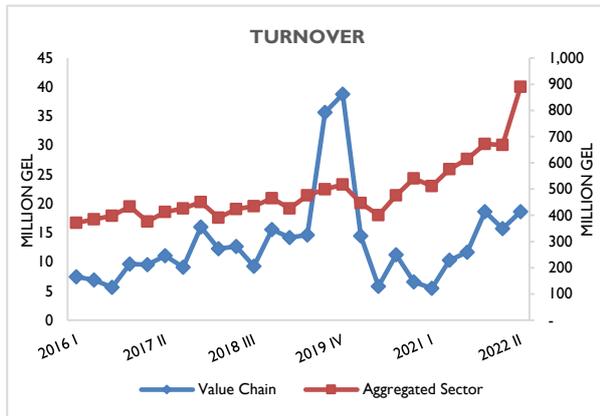
Meanwhile, in the aggregated sector of information and communication, which recovered and even surpassed pre-2020 levels already in 2021, turnover continued to show high growth in the first half of 2022 (YoY 30.5% and 54.5% in Q1 and Q2, respectively), while employment and average monthly salary in the sector not only just recorded high growth but reached values higher than in any previous period – employment reached 30,702 persons in Q1 of 2022 and 34,114 persons in Q2 of 2022. Average monthly salary reached GEL 2,381 in Q1 and GEL 3,210 in Q2 of 2022.

The artisan value chain also experienced considerable positive changes in the first half of 2022. About 91% of the surveyed companies depicted an increase in turnover in the first two quarters of 2022 compared to the same period in 2021. Moreover, most of the surveyed companies (36.4%) had a high turnover growth (10-50% increase in turnover), and 27.3% reported a 5-10% turnover growth. Most companies (86.4%) indicated no change in the number of employees in the first half of 2022, and none experienced a decrease in the number of employed people in the first two quarters of 2022 compared to the same period of 2021.

MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

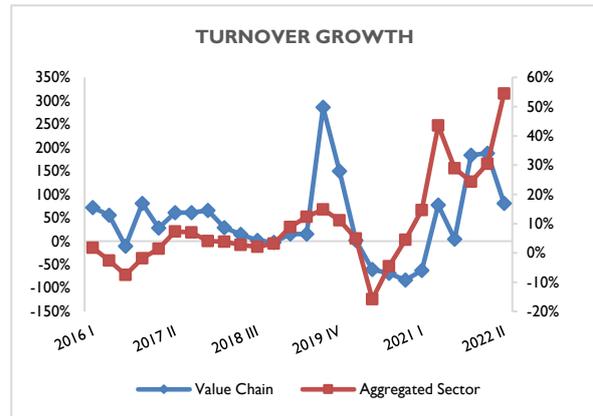
Media content production and post-production value chain has been consistently expanding before 2020, growing much faster than its aggregated sector (ICT sector). However, it was heavily damaged by the pandemic in 2020, though from 2021, started to return to its high growth trend and, as a result, recovered to the pre-pandemic performance in the first two quarters of 2022.

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



Source: National Statistics Office of Georgia

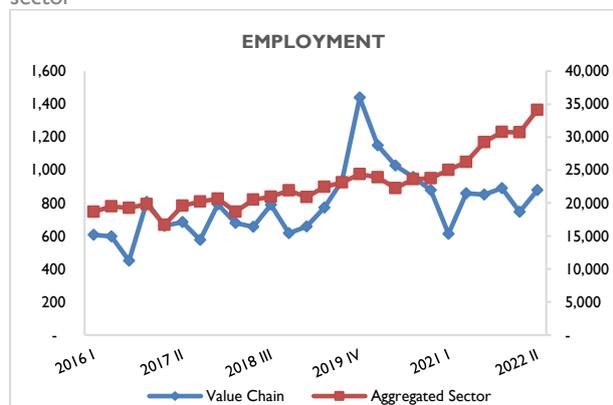
Chart 2.2 Changes in turnover for the media content production and post-production value chain and the corresponding aggregated sector



Turnover of media content and production showed positive growth before the pandemic, recording an exceptionally 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. Fortunately, the turnover of media content production started to recover in 2021, and in Q1 of 2022, YoY growth of the turnover was as high as 187.7%, and in Q2 of 2022, the YoY growth was 80.6%. Even though such high growth is mainly due to the low base effect (turnover of media content and production was low in the first half of 2021 when the pandemic-related restrictions were still in place), the turnover of the value chain in 2022 has increased compared to 2019 as well, by 10.9% and 27.3% respectively in Q1 and Q2.

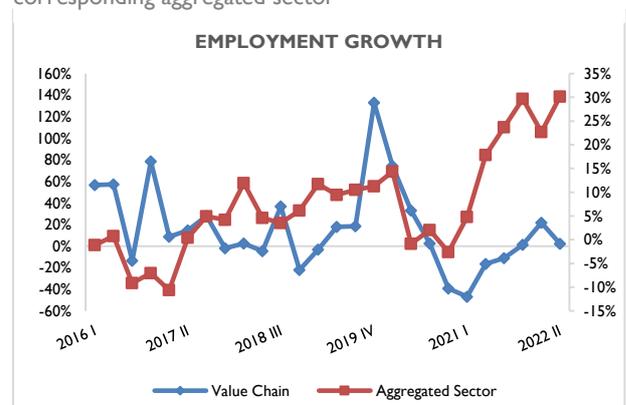
For comparison, the growth of the turnover of the aggregated sector in the first half of 2022 was lower compared to the previous year (30.5% and 54.5% in Q1 and Q2, respectively). Though the aggregated sector recorded higher growth than the pre-pandemic period - in Q1 of 2022, the turnover increased by 57% compared to Q1 of 2019 and in Q2 of 2022 by 87% compared to Q2 of 2019.

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



Source: National Statistics Office of Georgia

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



The number of people employed in media content production and post-production value chain steadily grew before the pandemic showing 38.8% YoY growth in 2019. 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 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%).

In the first half of 2022 the employment in the value chain and the aggregated sector showed substantial growth. In Q1 of 2022, employment in media content production and post-production value chain increased by YoY 21.8% and in the aggregated sector by YoY 22.7%. In Q2 of 2022 the employment growth in the value chain was YoY 2.4%, in the aggregated sector – YoY 30.2%. However, in the media content production and post-production value chain, employment was higher only compared to 2021, remaining lower compared to the first half of 2020 (lower by 35.1% and 14.5%, respectively, in Q1 and Q2) when employers were hesitant to reduce the number of workers. Meanwhile, employment in the aggregated value chain reached higher numbers than in any previous period – 30,702 persons in Q1 of 2022 and 34,114 persons in Q2 of 2022.

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

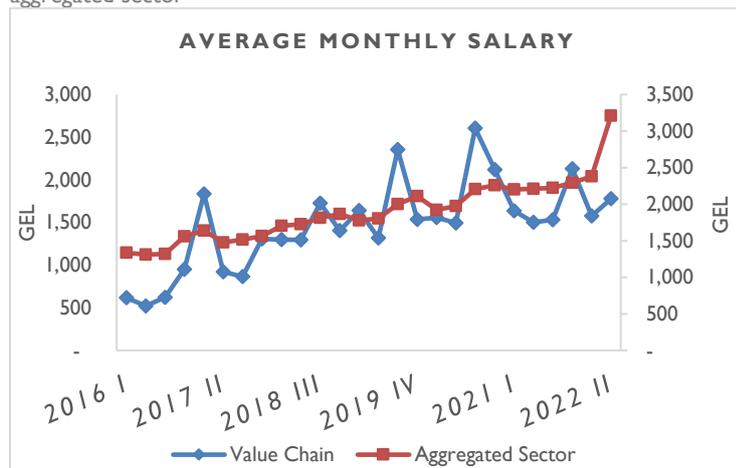
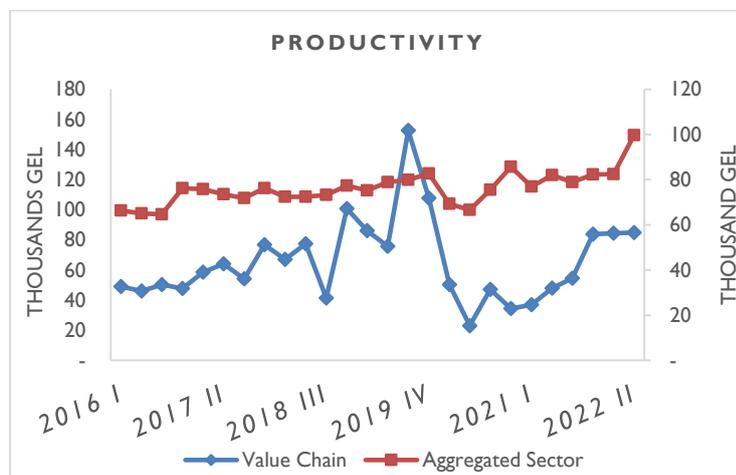


Chart 2.6 Media content production and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Average salaries in both the value chain and the aggregate sector were not heavily impacted by the pandemic, at least compared to the other indicators of the value chain. In Q2 of 2022, the average salary in the media production and post-production value chain was GEL 1,777, which was 18.3% higher compared to Q2 of 2021. The average salary in the aggregated sector has shown much higher growth – 45.3% compared to the same period of the last year and reached GEL 2,381 in Q1 and GEL 3,210 in Q2 of 2022.

The productivity of the media production and post-production value chain has been significantly affected by the COVID-19 pandemic, decreasing by 64.0% in 2020. In 2021, the productivity of the value chain started to recover, increasing by 47.2%. In the first half of 2022, the productivity of the value chain continued to increase - 127.9% in Q1 of 2022 and 76.5% in Q2 of 2022 compared to the corresponding periods of 2021.

Overview of Existing Challenges and Opportunities

The COVID-19 pandemic has changed people's behavior and habits, directly affecting the film industry. Content consumption increased dramatically during the stay-at-home period, and this trend continues even after the end of the pandemic. Content production is also growing in response to increased demand, although, according to the stakeholders, even US production fails to meet the increased demand.

Georgian film production suffered significantly during the pandemic; however, the Russia-Ukraine war caused even more damage to the Georgian film industry as Georgia is no longer perceived as safe, and European and American companies refrain from starting projects in the entire region, not only in Georgia. The war also halted private sector initiatives to build pavilions, as the country's ability to undertake large-scale projects has diminished, at least for the next few years. For other countries, such as India and the United Arab Emirates, the security factor is less of an obstacle; however, Georgia lost its attractiveness for them as well because, over the years, the projects of these countries were considered less prestigious for the Georgian market, and favorable conditions were not created for them to establish long-term partnerships. As a result, these countries have shifted to alternative markets, such as Azerbaijan and Serbia (Azerbaijan is currently hosting a huge Indian project). However, according to the respondents, the development of post-production remains a significant opportunity for Georgia that will attract many international projects to the country.

Hollywood production is a priority for the country, but Bollywood is no less profitable in various aspects. For example, in huge US projects, where personnel in middle and high positions come from America, Georgians were employed in the lowest positions; however, in contrast, Georgian professionals are primarily engaged in high positions at Indian productions, which adds significant experience to them. According to the stakeholders, the country needs to set priorities very carefully according to the current needs and capacities of the industry. Even though Hollywood projects are uniquely successful for both the economy and the Georgian film industry, attracting projects from Asian markets is also essential for rapid development in the short term.

The cash rebate program, renewed in the summer of 2021²⁰, is still ongoing. In 2022, an agreement was signed with five projects, out of which the shooting of four films has already been completed (the countries financing the projects are Sweden, Switzerland, Germany, Italy, and America). By 2023, negotiations are underway with three companies, and Enterprise Georgia expects many large and successful projects to participate in the program next year.

According to the interested parties, the terms of the cash rebate program have been tightened. In those conditions, the competition from other countries in the region has increased, putting Georgia in a non-competitive situation. However, the respondents note that the program's renewal is a positive step and hope the country will attract many large-scale projects in the future.

For the first time, the Georgian National Film Center has announced a competition for financing TV series and shows. Until now, TV series were not a priority for the Georgian film industry; however, now that they have become trendy and successful globally, Georgia needs to follow the trend. In addition, TV series are financially more profitable than feature films. Also, there are many alternative ways of financing, for example, selling original ideas or remakes. According to the stakeholders, now, as there is a shortage of original stories worldwide, Georgia has potential in this regard - we have stories never being filmed in other countries. If managed properly, Georgia can shoot TV series on these stories or sell the ideas.

The production of Georgian cinema has decreased; however, we still have individual success cases, for example, in the direction of documentary films. Also, the Oscar campaign for David Firtskhalava's film, 'A Long Break,' is currently successfully underway. The Oscar campaign involves organizing film

²⁰ In 2021, only one project took part in the program.

screenings for the American Film Academy members and holding meetings with the creative team. The Oscar campaign is critically important for spreading information about the submitted film; for example, as mentioned by a Deputy Director of a Georgian National Film Center (GNFC) a few years ago, the success of the film, 'Tangerines' was primarily conditioned by the Oscar campaign. The GNFC finances the Oscar campaign for Georgian cinema. While several screenings have already been held in Los Angeles, online screenings and meetings are also planned for December 2022. The world premiere of David Firtskhalava's film was held at the Toronto Film Festival. The film was also shown at the Bosphorus Film Festival, where it was awarded the best director.

Significant steps have been taken to promote the Georgian film industry. With the support of Enterprise Georgia and the USAID Economic Security Program, two visits by Georgian film producers to the US were organized in June and November. In June, meetings were held with such companies as HBO, Paramount, Warner Brothers, Disney, and Universal Pictures. In addition, an event was held at Motion Picture Associates, where the companies could present their companies and services. Also, a networking event was held with the participation of American film producers who were potentially considering transferring their projects to Georgia. From 1 to 5 November 2022, four Georgian companies attended the American Film Market. Enterprise Georgia sponsored the Georgian stand, and participating companies had to cover their travel expenses. The networking event with Georgian companies' participation was also held during the second visit. 4 Georgian companies were present. To select festivals and different networking platforms, Enterprise Georgia consults with the private sector in advance and researches to find new opportunities. Visits to the Berlinale, Cannes Film Festival, and the American Film Market are also planned for next year. Tokyo, Toronto, and London will be offered to the companies as optional.

According to stakeholders, significant progress has been made in blocking popular piracy sites. Although using these sites through various means is still possible, they must no longer be easily accessible. According to the respondents, this will increase consumer awareness regarding the legal consumption of creative content over time, positively impacting cinemas and the film industry. However, according to the respondents, the consumer needs to have various choices as an alternative. The legal alternative appearing on the market is not ready to meet user demand in this respect; however, stakeholders hope its content will gradually become more diverse.

ARTISAN

As the data for the artisan value chain is not available due to the niche and diverse nature of the field, a survey has been conducted. Most of the surveyed companies are sole entrepreneurs operating from Tbilisi. The products that the surveyed artisans in vary from ceramics to jewelry, of which custom furniture and miniature figures are the most common.

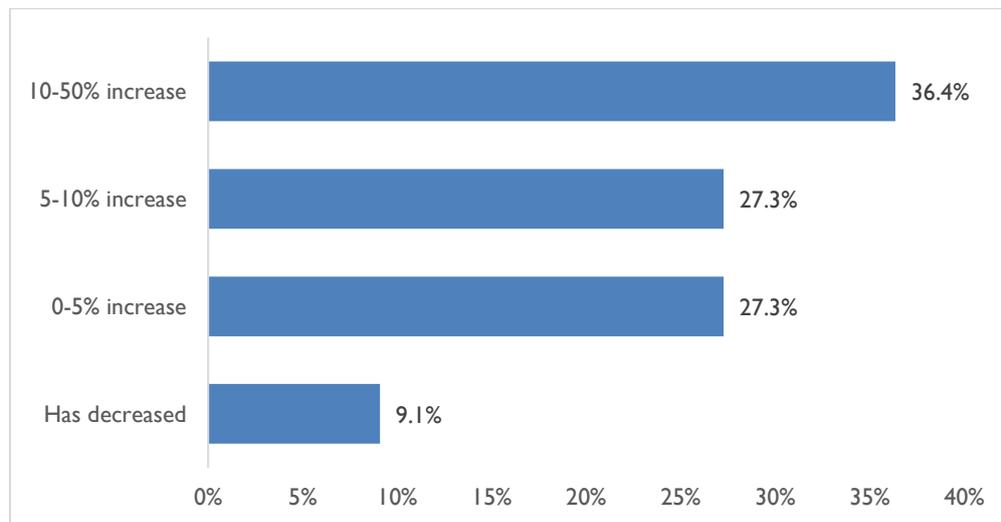
As mentioned in the previous reports, during the pandemic, the artisan value chain has been hit hard, threatening to completely halt the activities of most of the businesses in the field. High freight costs, insufficient advertisement, and lack of foreign customers have been the artisan representatives' main issues. However, with the relative rebound of tourism in Georgia in 2021, the harsh conditions were eased for the abovementioned businesses. In the first half of 2022, the survey results improved further, suggesting that the value chain finally survived the pandemic and has been positively influenced by the tourism rebound.

The size of companies in the artisan value chain is relatively small. All of the surveyed companies indicated that their turnover for the period from January to June 2022 was lower than GEL 100,000.

As the chart below shows, about 91% of the surveyed companies depicted an increase in turnover in the first two quarters of 2022 compared to the same period of 2021 and only 9.1% reported that their turnover has decreased in this period compared to the last year. Moreover, most of the surveyed

companies (36.4%) had a high turnover growth (10-50% increase in turnover), 27.3% reported 5-10% turnover growth, and another 27.3% had a turnover growth of less than 5%.

Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain in Q1-Q2 2022 (y-o-y)

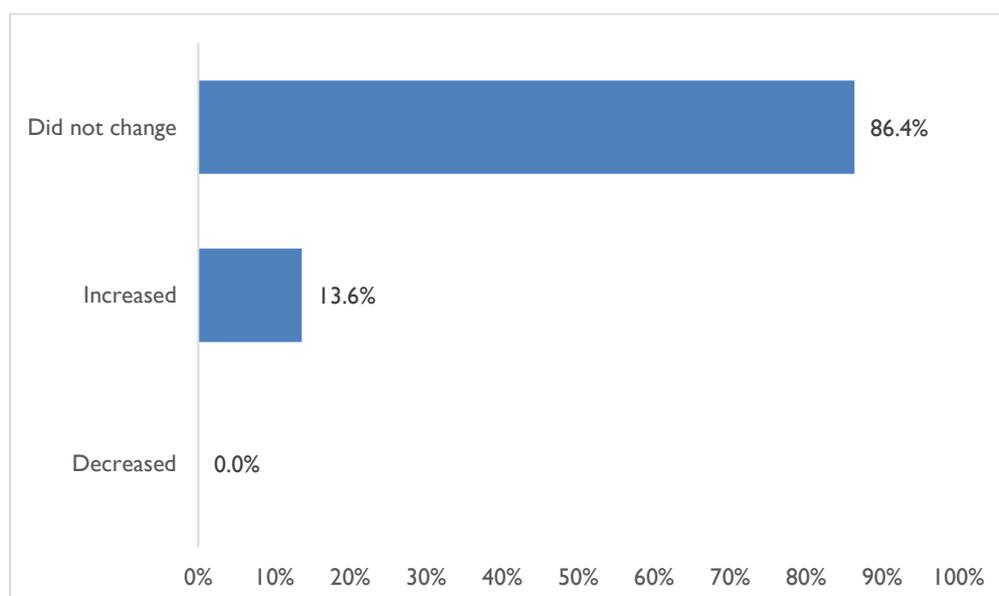


Source: Authors' calculations

In the first half of 2022, number of employed personnel in surveyed artisan companies varied from 1 to 10, with a median of 1.5. Half of the surveyed respondents are sole entrepreneurs with no additional employees. Women accounted for 81% of employed individuals on average in the first half of 2022, while the share of young people (under 30 years old) made up just 17% of the total employees of the surveyed companies.

Meanwhile, most companies (86.4%) indicated no change in the number of employees in the first half of 2022 (Chart 2.8). On average, 13.6% of firms reported a decline in employment. At the same time, none experienced a decrease in the number of employed people in the first two quarters of 2022 compared to the same period of 2021. The average salary amongst the surveyed companies equaled GEL 920.5 in the first half of 2022.

Chart 2.8 Average Change in Employment, Q1-Q2 2022 (y-o-y)



Source: Authors' calculations

Overview of Existing Challenges and Opportunities

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

The critical association within the value chain, namely the Georgian Heritage Crafts Association, has over 250 active members. The Association aims to safeguard Georgian heritage craft traditions through the creation of a networking platform for individuals, craftspeople, organizations, and guilds; the promotion of heritage craft sectors among the wider public; the enhancement of the sector's economic potential and raising the competitiveness of Georgian heritage craft products; and supporting heritage crafts through technical assistance and fundraising and facilitating research in the industry. Throughout 2022, the Association continued supporting its members by organizing exhibitions and trade fairs. For example, starting December 10, the Association, with the support of the USAID Economic Security Program, is organizing a Christmas Fair at City Mall (a similar fair was organized last year in the same venue, which, according to its participants, was the most successful among the fairs held in the previous several years in terms of several buyers and sales revenue received). The Association hopes this year's Christmas Fair will be successful and that sales will even increase compared to last year (last year's sales reached 85,000 GEL, and each artisan received approximately GEL 2,000-3,000).

The Association runs craft shops (Ethnodesign) in Tbilisi and Vardzia, selling products made by selected Georgian artisans to promote local heritage crafts among tourists. The Association continues to operate the shop in Tbilisi. However, it has not yet opened a store in Vardzia, which closed at the beginning of the pandemic. Sales in the Tbilisi store have increased since the borders opened in the face of 2021, especially after the shop's address was added to a Google map. • The Association plans to register the shop's trademark (logo, name). Also, the Association plans to offer intellectual property support services to its members. We also want to raise the issue of geographical indication.

The Association has recently started partnering with the Skills Development Agency to create a Sector Skills Organization (SSO) - Artisan SSO. A pre-SSO has been created at this stage, and a memorandum

of readiness to create an SSO has been signed. To establish an SSO, the Association cooperates with other organizations, such as Abkhazian Wood Processors and Wooden Furniture Manufacturers Association, Furniture Cluster, etc. In addition, the Association plans to respond to a grant announcement by the USAID Industry-led Skills Development Program that aims to support the start-up and sustainability of SSOs. The Association plans to create a sector map²¹ that identifies long-term and short-term program needs by region.

With the support of the European Union connecting companies program, this year, the Association attended meetings and exhibitions in Europe. As mentioned by its representative, a participation in such programs is critically important to the promotion of the Georgian artisan industry and individual artisans. As a result, the awareness of the artisans about how to introduce their products to the international community is gradually increasing. Based on the experience of this visit to Europe, Georgian ceramics, ceramics, jewelry, woolen textiles, and wood are particularly in demand.

In the reporting period, the Association has also finished preparing the export manual with USAID's help, which will be publicly published. The guide, an illustrated comprehensive document, includes Western trends, demand, consumer habits, etc. Also, the HS codes guide, which explains how these codes are assigned to specific artisan products.

The pandemic and subsequent lockdown have devastated the artisan sector, which depends heavily on tourism. Therefore, the high dependence on tourists as consumers meant that artisans' sales declined massively in 2020. According to stakeholders, many companies could not maintain their business and had already left or were about to leave the market. Those continuing their operations had to make layoffs or reduce staff salaries. However, since the summer of 2021, with the growth of tourism, the demand for artisanal products has increased dramatically and has almost returned to pre-pandemic levels. Sales were also positively affected by the fairs organized by the Association.

Although the demand for artisanal products has almost recovered, the challenges in the value chain in recent years remain - logistical problems related to exports and the lack of availability of raw materials in the local market.

In recent years, most artisans and crafts enterprises in the value chain have actively started taking the first steps toward exporting their products, mainly using online trading platforms. Although there have been some successful cases, this process remains challenging for the value chain's actors. The high cost of transporting products from Georgia to other countries is a critical hindering factor for online sales. According to the respondents, the cost of transportation often exceeds the price of the product several times, significantly reducing the competitiveness of their effects on the international market.

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

²¹ The sectoral map is a consultative document of the qualification formation/revision process, which integrates the structure of qualifications and relevant competencies within the framework of the sector. The purpose of the sectoral map is that, based on this document, the standards of the profession and professional educational standards are more clearly connected and consistent. In addition, the sector map guides how to transfer information from the professional and vocational education standards.

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. In contrast, for the wooden toys business activity and the PPE value chain, phone surveys were conducted, the result of which are also presented. The section also integrates a summary of qualitative findings obtained through focus groups and individual interviews with sector representatives.

According to the quarterly data, turnover in all value chains in this sector demonstrated positive nominal growth (YoY) in Q1 of 2022 compared to Q1 of 2021, with the highest growth observed in the packaging value chain (33.8%). A similar tendency can be observed in the Q2 of 2022, with the packaging value chain displaying the highest YoY turnover growth (30.9%). Employment also increased (YoY) across all value chains in both quarters of 2022. The only exception was the furniture value chain, which experienced -3.6% and -9.2% YoY declines in the first and second quarters of 2022, respectively. The highest number of hired employees as of Q1 of 2022 was registered in the construction materials value chain (9,118 employees), while the lowest was observed in the furniture value chain (3,131 employees). In the second quarter of 2022, construction materials employment increased slightly in both value chains, reaching 9,646 and 3,118, respectively.

The average monthly salary for Q1 of 2022 ranged between GEL 984 (in the furniture value chain) and GEL 1,472 (in the packaging value chain). Similarly, the furniture value chain has been characterized by the lowest labor productivity²² (GEL 81,051), while the highest productivity was identified in the packaging value chain (GEL 181,664). These tendencies persisted in the second quarter of 2022, with the furniture value chain (GEL 1,119) and packaging value chain (1,682) displaying the lowest and highest average salaries, respectively. Moreover, the packaging value chain was characterized by the highest labor productivity (GEL 202,076) in Q2 of 2022, while furniture was the value chain with the lowest productivity (86,000) during the same period.

Survey results for the PPE value chain and the wooden toys business activity suggest that majority of PPE (87%) and Wooden Toys (100%) manufacturers report increased turnover in the first two quarters of 2022, compared to the first half of 2021. As for employment, 91% of the PPE value chain and 17% of wooden toy manufacturers reported no YoY change in their number of employees in Q1 and Q2 of 2022, while 5% and 75%, respectively, reported an increase in employment.

The qualitative assessment has revealed that the workforce shortage is the primary impediment restricting growth in all value chains/business activities of light manufacturing. As interviewees suggest, there is a general scarcity of human resources and a lack of qualifications in the labor force. Two core factors explain this. The first contributing factor is the high internal turnover of employees. On top of that, recently, and especially amidst the post-pandemic period, there has been a clear tendency of labor migration from Georgia to Europe and the United States.

Regarding workforce availability, the Georgian Skills Agency, in partnership with the private sector, aims to formulate national standards required for the workforce operating in specific fields (e.g.,

²² Quarterly output per hired employee, annualized.

construction materials, furniture, etc.). The agreed standards will then be used to run dual VET programs co-managed by existing VET schools and the private sector.

Businesses operating in this sector have the potential to expand both in local and international markets. However, several challenges are mentioned for further expansion in the local market. Primarily, locally manufactured products might lack a competitive advantage against imported products. In this regard, there is not much that can be done except, if needed, supporting these businesses in improving their technological base (some of them report lacking effective technologies that might improve quality along with the quantity of their manufacture); or implementing effectively the relevant regulatory changes that would directly impact the revenues of light manufacturing sector representatives (e.g., separate waste collection practices, technical regulation on toys safety, ban on plastic bags). There is also a lack of information regarding local players within the supply chains – some potential Georgian purchasers of light manufacturing products do not know much about local suppliers. Thus, raising awareness regarding domestic production might benefit the future development of the value chains.

Regarding their export potential, Georgian producers might necessitate more opportunities for applying for product certification. This challenge is particularly prominent in construction materials' value chain and wooden toys' business activity. Regarding the former, the Georgian Construction Materials Cluster (GCMC) is quite active, attempting to advocate this topic at the state level and offering specific certification services for its member companies. However, in the case of the wooden toys business activity, no targeted association is active. Thus this business activity lacks an institutional resource to voice the concern.

To boost their exports, two novel policy initiatives might further push the penetration of Georgian light manufacturing products into foreign markets. First, the recent trilateral agreement between Georgia, Turkey, and the EU is worth mentioning – diagonal cumulation, enabling certain products (e.g., packaging, construction materials) to enter the EU market with free trade regime if the entered products are made using Turkish raw materials. Additionally, a recent change related to allowing Georgian producers to participate in the EU's public procurement is also very relevant to mention in this regard.

FURNITURE

The following section provides quantitative economic indicators for the furniture value chain and its corresponding aggregate sector, manufacturing.

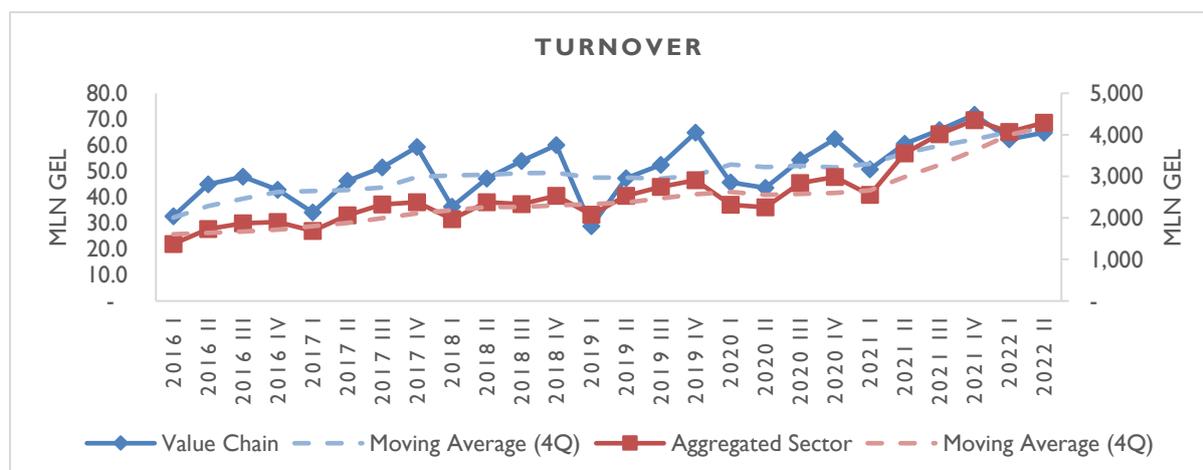
According to Geostat’s Enterprise Survey data, the furniture value chain includes the following economic activities as defined by the statistical classification of economic activities (NACE Rev. 2), available at 2- or 3-digit levels (Table 3.1):

Table 3.1 Economic activities included in the furniture value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code for quarterly analysis	Description of Economic Activity	Additional Classification
31	Manufacture of furniture	31	Manufacture of furniture	Furniture Output
16.1	Sawmilling and planning of wood	16.1	Sawmilling and planning of wood	Inputs of Furniture
16.21	Manufacture of veneer sheets and wood-based panels	16.2 ²³	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			

Following the pandemic-induced contraction and the subsequent recovery, the turnover growth rate for furniture value chain amounted to 22.7% (YoY) in Q1 of 2022. The increase slowed down in Q2 of 2022 and settled at 7.1% (YoY). At the end of Q2 of 2022, turnover in the value chain amounted to GEL 64.8 million. As for the aggregated sector, the indicator has exceeded the furniture value chain pattern in both quarters. The growth rates reached 59.3% (YoY) in Q1 of 2022 and 20.7% (YoY) in Q2 of 2022 (Chart 3.1 and 3.2).

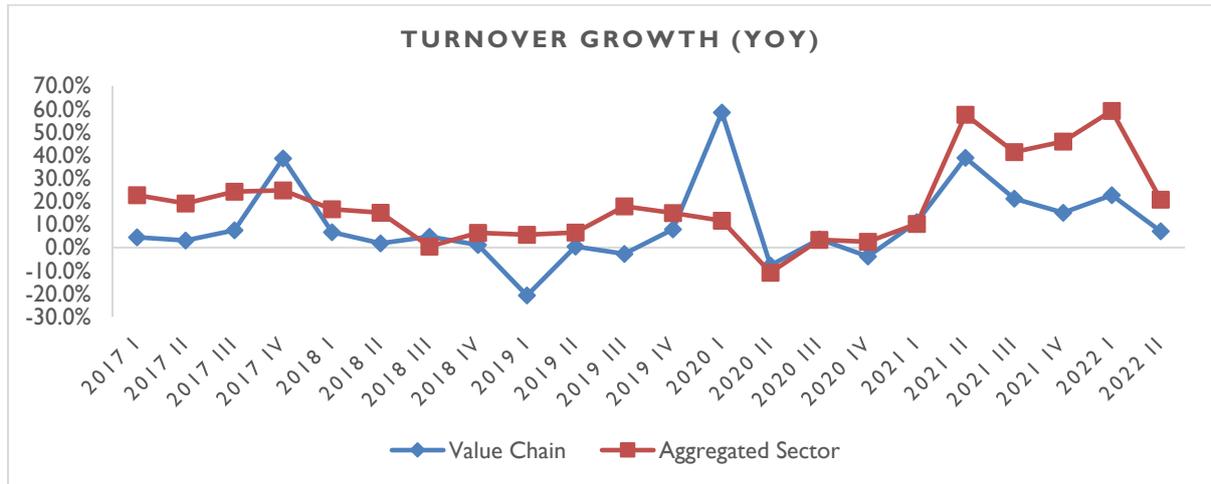
Chart 3.1 Turnover of the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

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

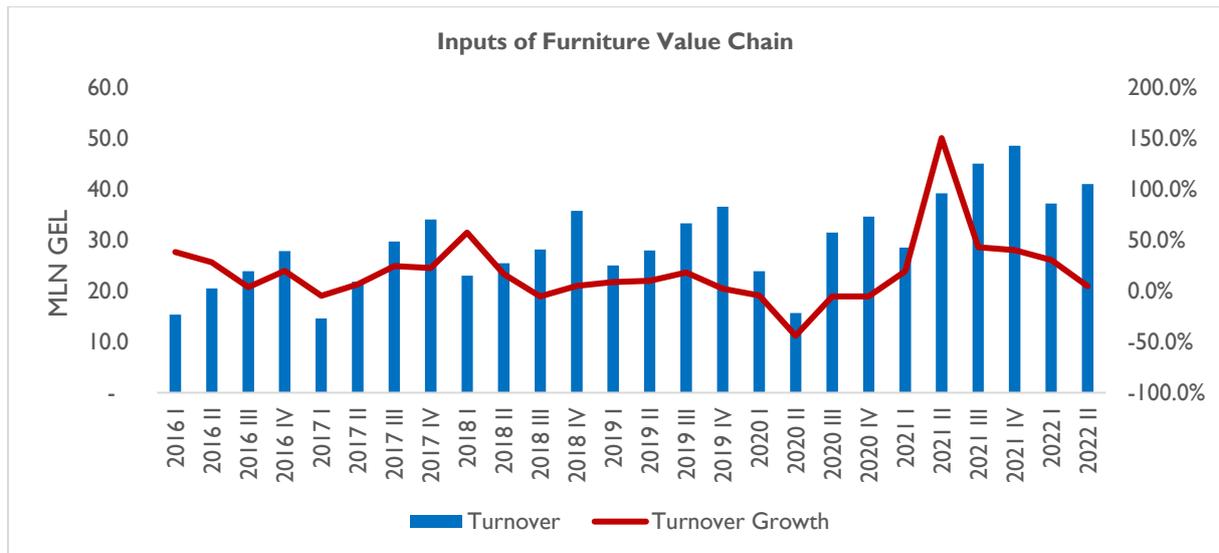
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Furniture inputs depicted a 30.5% turnover growth in Q1 of 2022 compared to Q1 of 2021. The YoY growth rate was lower in the second quarter of 2022, amounting to 4.6%. However, turnover in Q2 of 2022 was 10.2 % higher than in Q1 of 2022 and stood at USD 41 million.

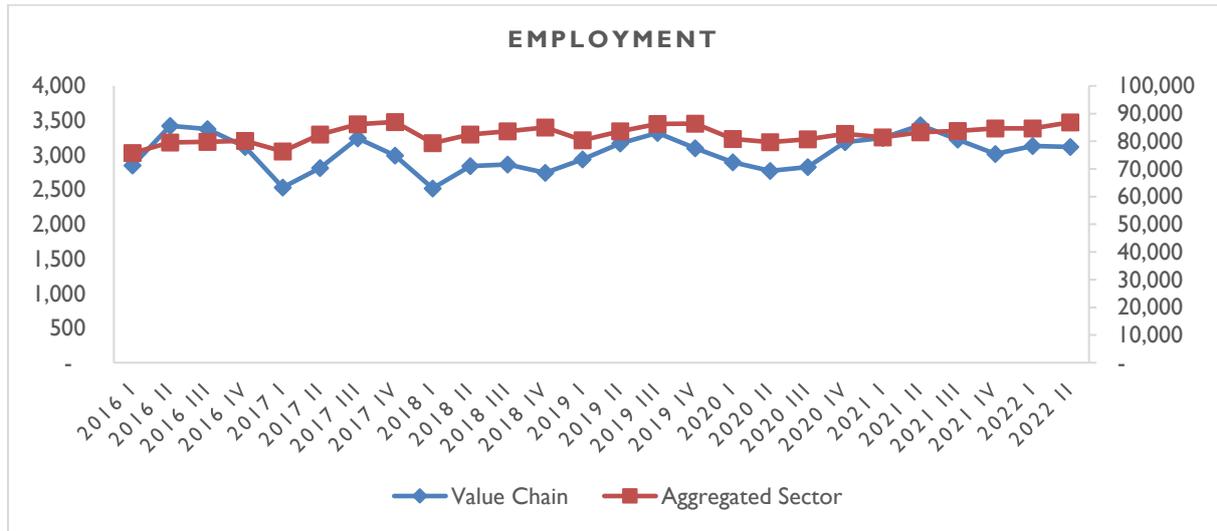
Chart 3.3 Turnover of the furniture value chain inputs and its growth rate



Source: National Statistics Office of Georgia

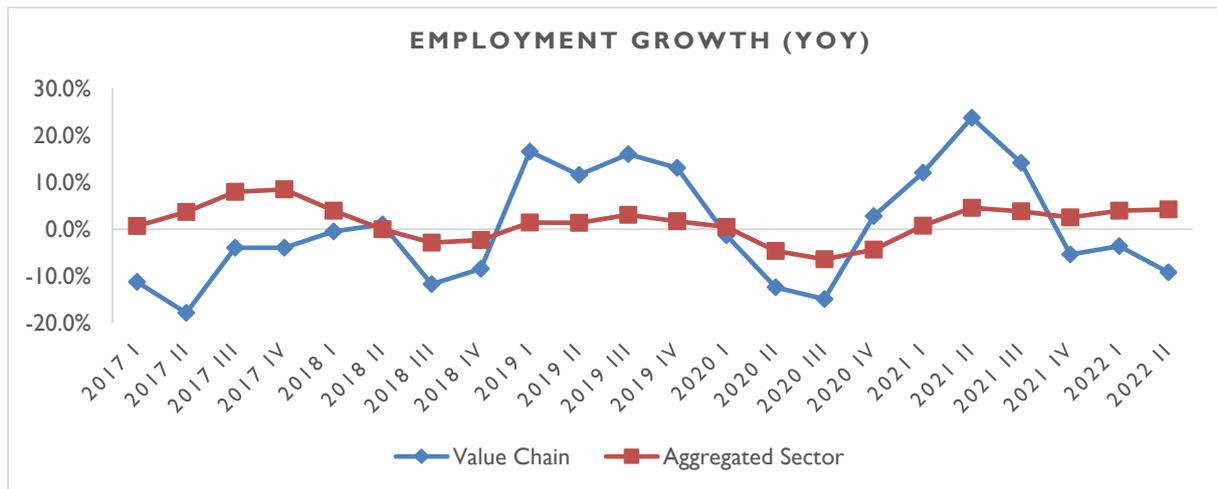
Employment in the furniture value chain was characterized by a YoY decline of -3.6% in Q1 of 2022. In Q2 of 2022, employment decreased even further compared to the previous quarter (-0.4%) and to Q2 2021 (-9.2%) and amounted to 3,118. On the other hand, positive trends are observed in the aggregated sector, where employment has increased in Q1 of 2022 (4.0%) as well as in Q2 of 2022 (4.2%) compared to the comparable periods of the previous year (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

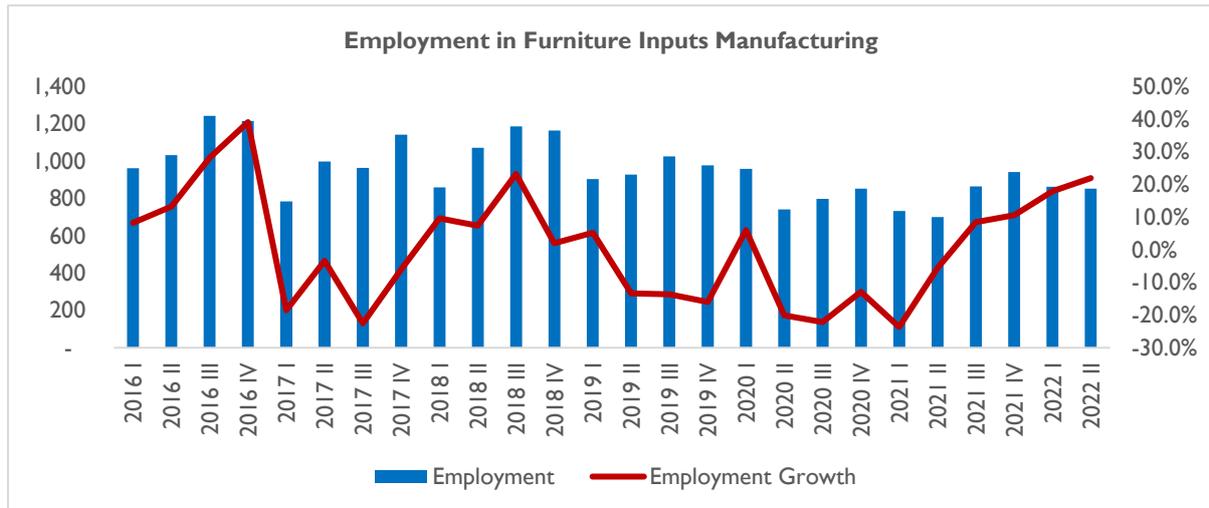
Chart 3.5 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

The employment growth rate in the furniture inputs value chain was consistently increasing (YoY) for most of 2021 and in the first half of 2022 (Chart 3.6). The number of hired individuals increased by 17.9% in Q1 of 2022 compared to Q1 of 2021. Meanwhile, the YoY growth rate of employment in Q2 of 2022 reached 21.9%, and employment rose to 853 individuals.

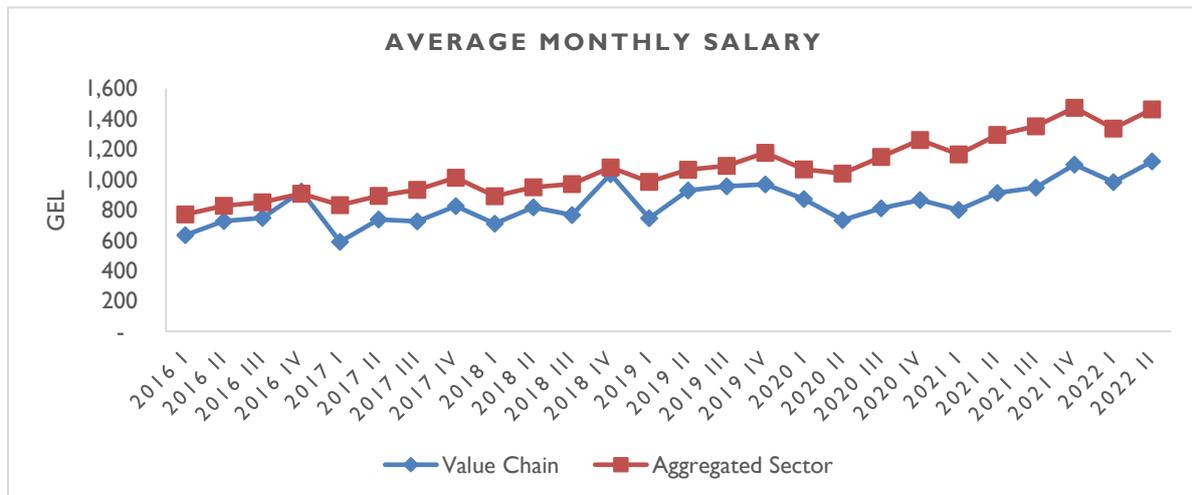
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing



Source: National Statistics Office of Georgia

After the 22.8% YoY growth of the average monthly salary of the furniture value chain in Q1 of 2022, the indicator increased further in Q2 of 2022 by 22.8% YoY and amounted to GEL 1,119. As for the aggregated sector, the average salary amounted to GEL 1,337 in Q1 of 2022 and GEL 1,462 in Q2 of 2022, representing a 14.6% and 12.9% increase concerning comparable periods of the previous year (Chart 3.7).

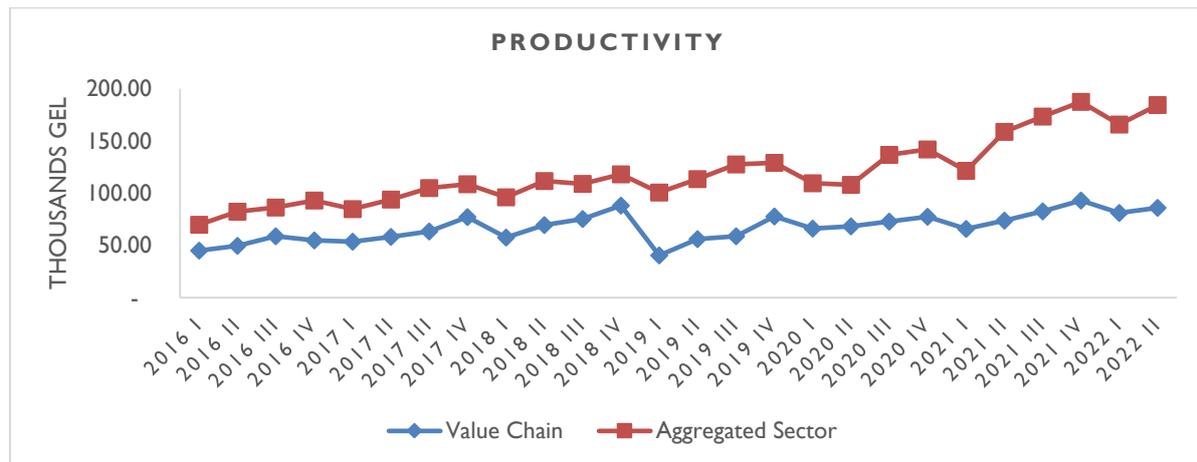
Chart 3.7 Average monthly salary in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Similar to the average monthly salary, labor productivity for the furniture value chain increased in Q1 of 2022 (23%, YoY) and reached GEL 81,051. The YoY growth rate of labor productivity was somewhat lower in the subsequent quarter and equaled 16.5%. As for the aggregated sector, productivity increased by 36.6% YoY in Q1 of 2022 and 16.1% YoY in Q2 of 2022, amounting to GEL 184,341 in Q2 of 2022 (Chart 3.8).

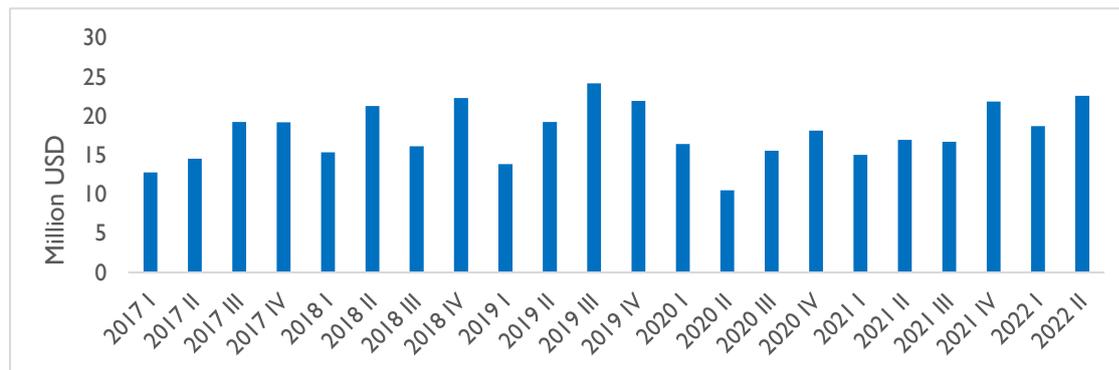
Chart 3.8 Productivity in the furniture value chain and the corresponding aggregate sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

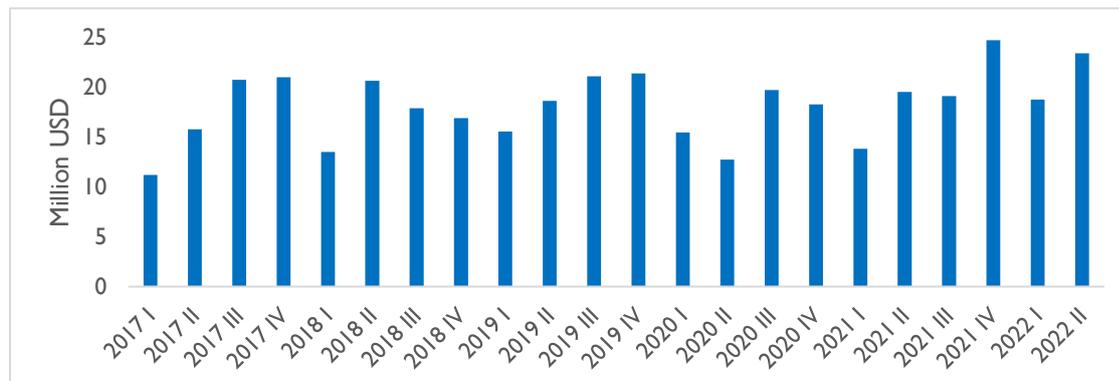
Based on the observed trade tendencies in the furniture value chain, Georgia’s furniture imports increased in Q1 of 2022 (24.4% YoY) and in Q2 of 2022 (33.2% YoY), reaching USD 22.6 million. Imports of furniture inputs demonstrated a similar trend in Q1 and Q2 of 2022 and increased to USD 23.4 million after the first half of 2022 (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

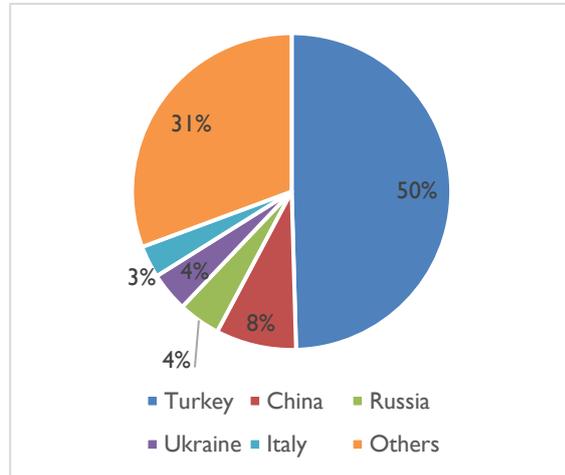
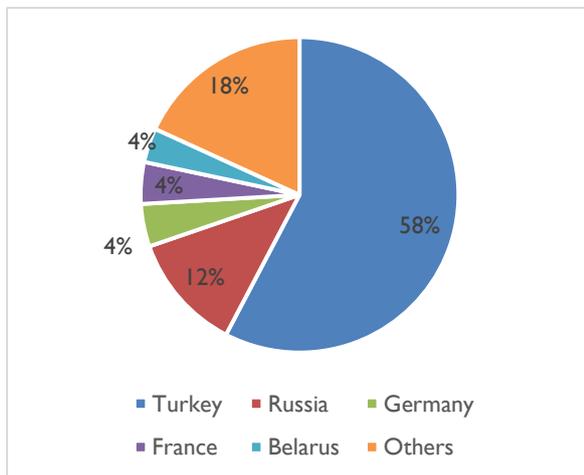


Source: National Statistics Office of Georgia

Chart 3.11 and Chart 3.12 below show the top import partners of Georgia for furniture and its inputs in the last 12 months. In the case of furniture import, the main trade partners for Georgia were Turkey (50%) and China (8%). Meanwhile, the main trade partners for furniture inputs from July 2021 - June 2022 were Turkey (58%), Russia (12%), and Germany (4%).

Chart 3.11 Georgian Imports of Furniture Inputs by Trade partners (July 2021 – June 2022)

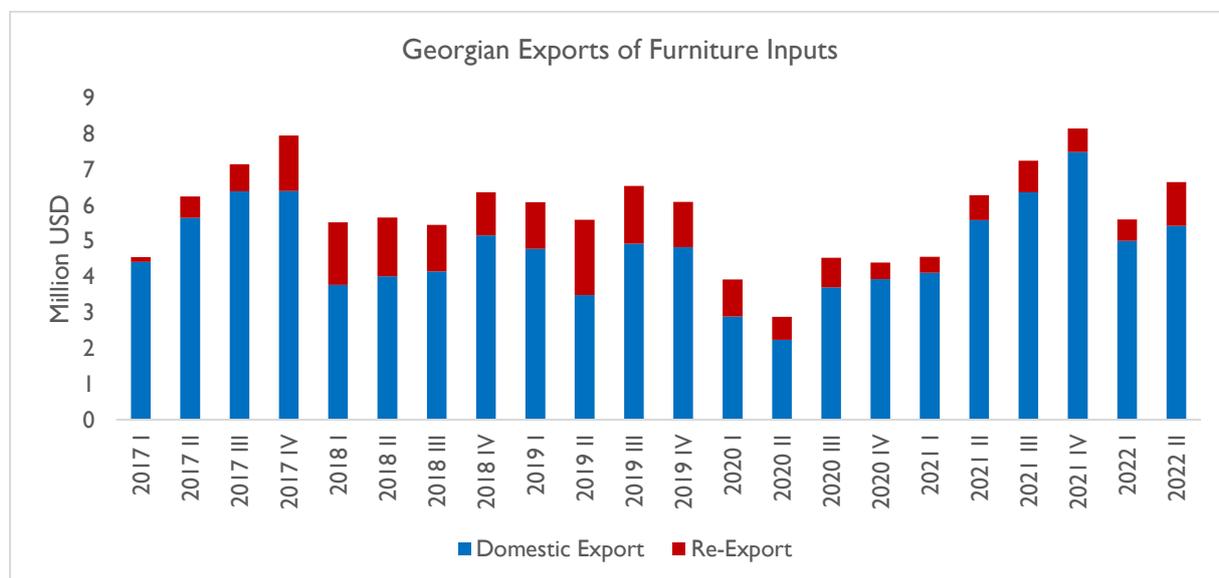
Chart 3.12 Georgian Imports of Furniture by Trade partners (July 2021 – June 2022)



Source: National Statistics Office of Georgia

In Q1 of 2022, domestic exports²⁴ of furniture inputs increased by 21.8% YoY. The positive tendency was reversed in Q2 of 2022, when domestic exports decreased by 2.9% and reached USD 5.4 million. Meanwhile, re-exports displayed YoY growth rates in both quarters (32.7% and 75.0% YoY, respectively) and amounted to USD 1.2 million.

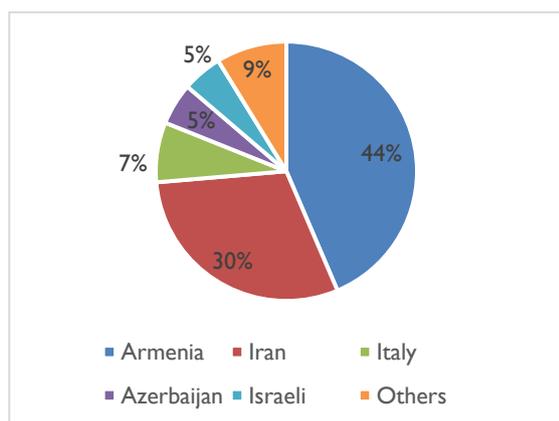
Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.14 shows the top exporting markets for Georgian furniture inputs for the last 12 months. Armenia (44%) and Iran (30%) are the leading export destination countries, followed by Italy (7%), Azerbaijan (5%), and Israel (5%).

Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (July 2021 – June 2022)



Source: National Statistics Office of Georgia

Starting from Q4 of 2021, a sharp increase can be observed in the share of re-exports in Georgian furniture exports (Chart 3.15). In line with this observation, we see that in Q2 of 2022, re-exports increased (82%, YoY), while domestic exports decreased (-51%, YoY) compared to the same quarter of the previous year.

²⁴ Domestic exports are defined as goods that are manufactured in Georgia as well as commodities of foreign origin that have been changed, enhanced in value or further improved in condition within the territory of Georgia.

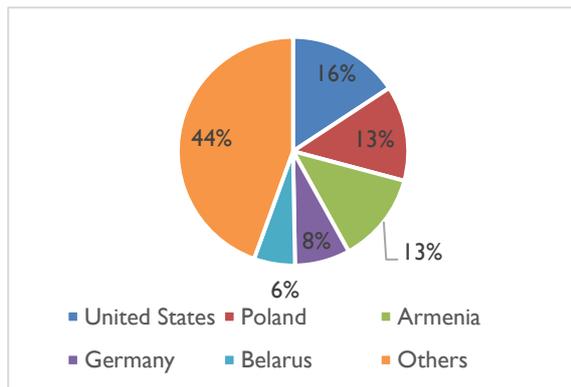
Chart 3.15 Georgian Exports of Furniture



Source: National Statistics Office of Georgia

Chart 3.16 shows the top trading partner countries in the last 12 months for Georgia’s domestic exports of furniture output. The major export destinations from July 2021 – June 2022 were the United States (16%) and Poland (13%), followed by Armenia (13%), Germany (8%), and Belarus (6%).

Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (July 2021 – June 2022)

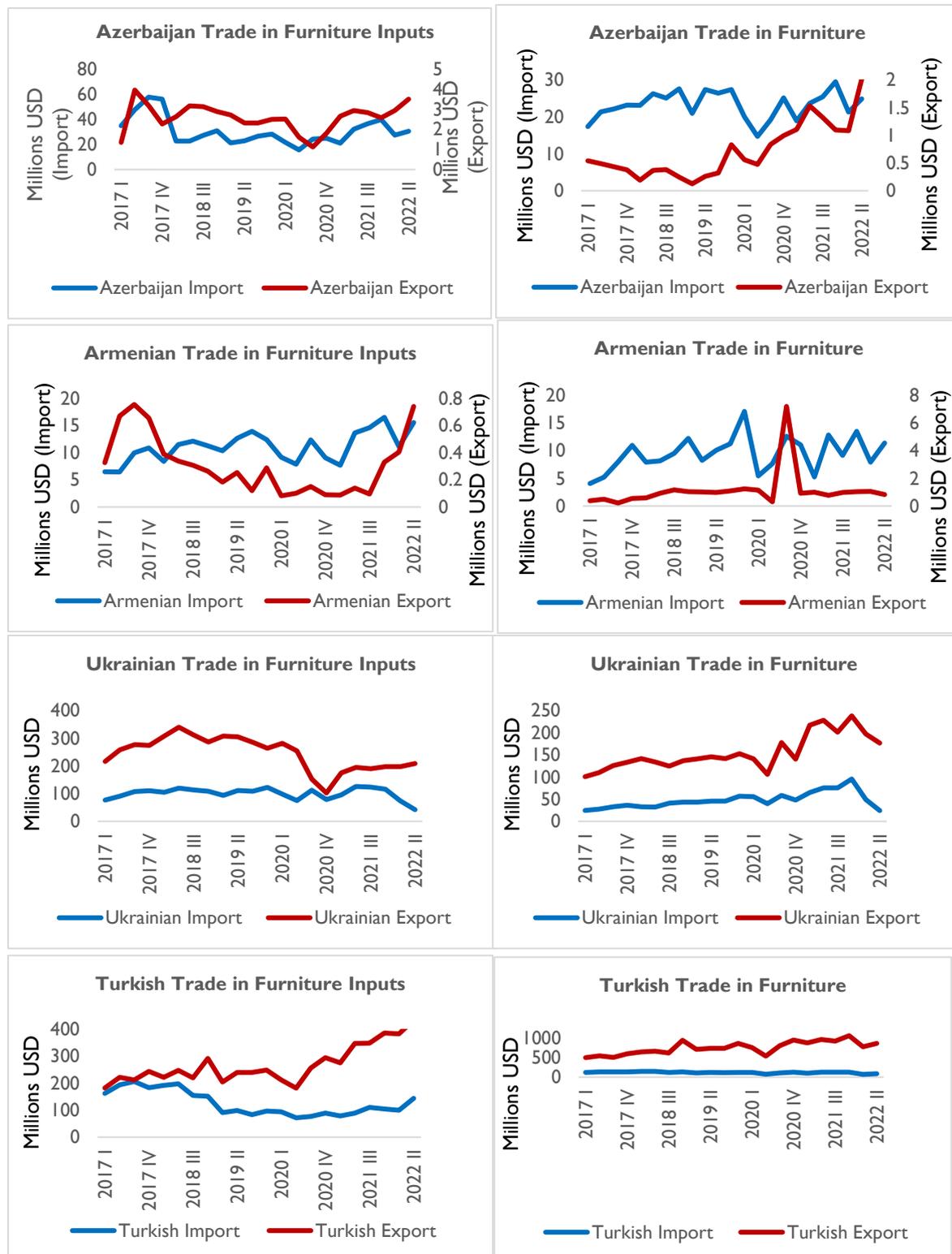


Source: National Statistics Office of Georgia

To analyze regional trade flows, the following countries are considered: Armenia, Azerbaijan, Turkey, and Ukraine. In Q1 of 2022, exports of furniture have decreased for Azerbaijan, Turkey, and Ukraine, compared to Q1 of 2021. Q2 of 2022 exports increased in Armenia and Azerbaijan and decreased in Ukraine and Turkey compared to Q1 of 2021. Import of furniture expanded in Azerbaijan and Armenia in Q1 of 2022 compared to Q1 of 2021, while in the subsequent quarter, only Azerbaijan was characterized by a positive YoY growth. It should be mentioned ongoing war contributed to decreasing trend in exports and imports of furniture for Ukraine, starting from Q1 of 2022.

Imports of furniture inputs decreased for only Ukraine in Q1 of 2022 (YoY), while in Q2 of 2022, YoY growth was also negative for Azerbaijan. Meanwhile, exports increased YoY in all four countries in the first two quarters of 2022.

Chart 3.17 Regional trade patterns in the furniture value chain



Source: UN Comtrade²⁵

²⁵ Q1 of 2020 values for Armenian trade presents sum of January and February 2020, since trade for March is not reported for Armenia on UN Comtrade. Moreover, Q4 of 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

Overview of Existing Challenges and Opportunities

Insights from focus group discussions and individual interviews suggest that the developmental pace of the Georgian furniture value chain has been slow. Overall, furniture production in the country has a clear orientation on the domestic market and is characterized by a high dependency on imported inputs. Even though there is some potential for upgrading the value chain, it does not show a significant capacity for substantial expansion, especially on the global level. There are certain success cases, however, that create exemplary precedents.

Most Georgian producers face similar challenges concerning the unavailability of a skilled workforce, low access to finance, lack of relevant technologies, and limited access to high-quality raw materials. As for December 2022, these challenges persist in the value chain, and no significant steps have been taken to address them. Moreover, initiatives that might have the potential to improve the status quo are scattered across the industry representatives, and many of them are not yet actualized.

Concerning the unavailability of a skilled workforce, several projects have been initiated by representatives of the furniture value chain. However, the majority of such initiatives have not yet achieved desired outcomes. For instance, Georgian Furniture Cluster was engaged in designing the curricula of VET programs in collaboration with the National Center for Educational Quality Enhancement. As a result, this initiative has been suspended as of December 2022.

In addition to the lack of a qualified workforce, the sector is characterized by a high internal staff turnover that further constrains furniture manufacturers' operations. Furthermore, due to the insufficient skills of vocational school graduates, manufacturers usually have to train and impart technical knowledge to their employees at their own expense, only for many such employees to then leave and start their enterprises, frequently working as unregistered individual entrepreneurs thereby giving them what could be considered an unfair competitive advantage versus their corporate counterparts.

What else, according to interviewed furniture manufacturers, over time, not only the skilled workforce but any type of workforce becomes scarcer in Georgia. Furthermore, a high level of human outflow to the East European countries (e.g., Poland, Czech Republic, etc.), engendered by uncompetitive wages in Georgia, was named as an additional challenge in this regard. The latter hindrance has become more critical in the post-pandemic period, as borders have been re-opened.

In this regard, however, recent attempts championed by the Skills Agency are worth highlighting. The Agency aims to contribute to human capital development in the country by partnering with the private sector. Several significant associations and the Agency have collaborated through the project to agree on national standards related to the furniture value chain qualification requirements. The national qualification standards will then be utilized to launch dual VET programs co-managed by authorized VET colleges and private sector companies. As of now, the latter initiative seems promising as all significant players of this value chain consistently praise its potential impact.

According to our interviewees, the problem concerning low access to high-quality local hardwood materials is still relevant. As discussed during the qualitative interviews, well-processed wooden inputs are frequently exported from Georgia and sold for a higher price in foreign markets. In turn, the dependency of the Georgian furniture value chain on imported wooden inputs is high. On the other hand, due to illegal logging, furniture manufacturers face problems related to the unstable supply of domestic timber resources. The arrangement of "business yards" under the new Forest Code adopted in May 2020 seems to have provided no significant relief for manufacturers. According to the interviewed stakeholders, the processing of wood to be placed in business yards is often delayed. It is not immediately delivered to sawmills for processing; this results in a low quality of raw materials obtained from the business yards, making them less attractive for furniture manufacturers. As stated, it frequently happens when inadequately processed wooden inputs damage the credibility of Georgian furniture manufacturers, as, over time, low-quality raw materials damage finished furniture.

As the interviewees suggest, the problem of limited accessibility of local raw materials originates from a lack of strategic vision in the country towards developing wood processing as a separate business activity. The absence of an institutional base for educating carpenters was primarily an impediment.

Moreover, the furniture cluster and associations under this value chain were criticized for not prioritizing the long-term development of wood processing in their operational activities.

Although the competition among Georgian producers was rated moderate by respondents, Georgian furniture products face stiff competition from imported goods, especially those imported from countries where manufacturers have easy access to inputs domestically and have low per-unit prices due to economies of scale (mainly Turkey and China). It was stated that the competition was highly significant in terms of bedroom and office furniture. However, imported furniture quality was noted as relatively low compared to local production.

It was widely stated during the stakeholder interviews that Georgia has the potential to replace imported furniture to some extent, especially regarding cabinet furniture, internal doors, kitchens, or wooden panels that are later used to construct furniture or for interior design works. This potential has been vivid following the pandemic-driven disruptions to global supply chains (involving China, Turkey, and Europe significantly) and the subsequent increase in transportation costs when domestic demand for Georgian furniture increased. Such a tendency also continues to be in place during the post-pandemic period. Precisely, kitchen furniture was once again claimed to have a high import-replacement potential for December 2022.

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

These are mainly imported input materials, such as laminates, medium-density fiberboard (MDF), veneer, textile, and other components. In addition, several manufacturers use locally produced products for some components, such as glue.

In general, dependence on imported inputs is a persistent challenge for furniture producers. Such a tendency often makes Georgian furniture producers vulnerable to any disturbance in the supply of imported inputs. For example, Turkey's current restrictions on furniture raw materials export (e.g., MDF, particle boards) adversely affected some Georgian manufacturers.

Significantly, by the time of the previous analysis, the manufacturers reported volatility of the national currency (GEL) as a significant contributor to rising raw material prices. However, in the current reporting period, strong appreciation tendencies of GEL have cheapened imported input prices for Georgian furniture manufacturers.

The interviewed stakeholders claimed that replacing imported inputs with local materials would be impossible without substantial investments in this sector. Nevertheless, the production of veneered panels is considered to have good potential for Georgia as it is made of beech wood (a prevalent species in Georgia). At the same time, its production requires significant labor resources (therefore, potentially generating vast employment opportunities in the country). Furthermore, producing solid wood panels, drawers or slides, rotary veneer, plywood shells, and plywood sheets and selling them as semi-finished products to international markets was also recommended in a study by GIZ26. According to the same study, such semi-finished goods have a higher export potential for Georgia than finished furniture.

There are two companies in Georgia, Madera Georgia and CRP Wood, producing wooden panels locally. Madera Georgia has been a continuous success story, exporting mainly to the US and Europe. Madera reported a quadrupling demand from one of its European partners in 2021. On the other hand, LTD Madera launched a workbench knife-sharpening service in Western Georgia in February 2022. Such equipment and services are of particular importance in wood processing. The company plans to significantly expand its operations as it will soon open a new factory in Western Georgia. The new factory site will enable the company to unify its panel production and knife-sharpening service in one space and upscale its current panel production. In addition, the company will supply the market

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

with its in-house wood-drying service. Another distinguished success story is that of Georgian Products (GEOP), a local pet furniture manufacturer rapidly growing and expanding to new export markets. GEOP exports to the UK and the EU.

There have also been some successful precedents in selling furniture through e-commerce. In general, this value chain has a clear tendency towards sales digitization. The focus group participants claimed to benefit from operating online not only at the international level but also at the local level. One of the focus group participants representing furniture manufacturer LTD Conibe declares that digital sales constitute around 90% of their annual sales.

Once again, it has been highlighted that while Georgia does not have the capacity for large-scale production to become established on global markets, it is vital for Georgian furniture producers and designers to work together and offer niche and innovative products of high quality. A good example and successful case of such niche production are that of Rooms Studio, which is already well-established on the European market and exports products to the US as well. What else, there is a recent addition to the Georgian market in high-value furniture production – Conceptor.ge, that specializes in selling design furniture pieces, such as "Nabadi Chair." As declared by the stakeholders, Conceptor also has the potential to attract foreign purchases. According to many interviewees, such instances of collaborating furniture manufacturers and designers have intensified lately as more manufacturers begin to employ designers at their production sites and more designers become motivated to be associated with furniture manufacturers. However, this tendency is not universal across the value chain. Most furniture producers still refuse to integrate furniture designers into the manufacturing process.

In this regard, private sector efforts are supported by the Association Design Georgia, which has been operating in the field since 2019. The association increased its membership with four companies in 2022. Currently, the association unifies 20 members, constituting private companies and individual members. Along with other activities, all of them work on furniture design, which includes an obligatory membership criterion. However, the association plans to expand and collaborate with Georgian firms producing kids' wear. Among other services, the association actively supports the private sector in the creation of Georgian identity and niche directions in furniture design and assists the value chain's members in participating in international exhibitions (such as a recent exhibition in Estonia). Benefitting from donor support, the association is due to launch a new concept store that will unify niche design products created by the association members. Elsewhere, the Georgian Heritage Crafts Association operates in the broader field and enhances networking opportunities between different crafts actors, including those working on furniture. However, its main focus is still on handmade and cultural crafts. Such initiatives, connecting designers to furniture manufacturers, need to be developed further, though, since there are still many Georgian manufacturers who instead produce copies of famous furniture brand items and supply them to the local market.

The Association Design Georgia cooperates with the Georgian Furniture Cluster (established in 2017), which currently unites 40 member companies, with five new members in the last quarter. Since its establishment, the cluster has been actively looking for new partnership opportunities with companies operating in the furniture value chain. Most of the cluster members are manufacturers of furniture, but it also includes producers of semi-finished wood products, trade companies, and different service providers. The cluster's declared mission is to enhance the competitiveness and profitability of its members in local and export markets. At the same time, it acts as a platform for dialogue between the public and private sectors. However, this direction was said to be relatively passive recently. Overall, as of now, the cluster's positioning in the value chain is weak – there are not many active projects that engage furniture manufacturers. Advocacy efforts of the cluster are also evaluated as inactive. The organization functions through membership fees, and there is no strong institutional capacity.

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

organizations is absent due to the limited scope of their operations and apparent differences in their advocacy interests.

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

CONSTRUCTION MATERIALS

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

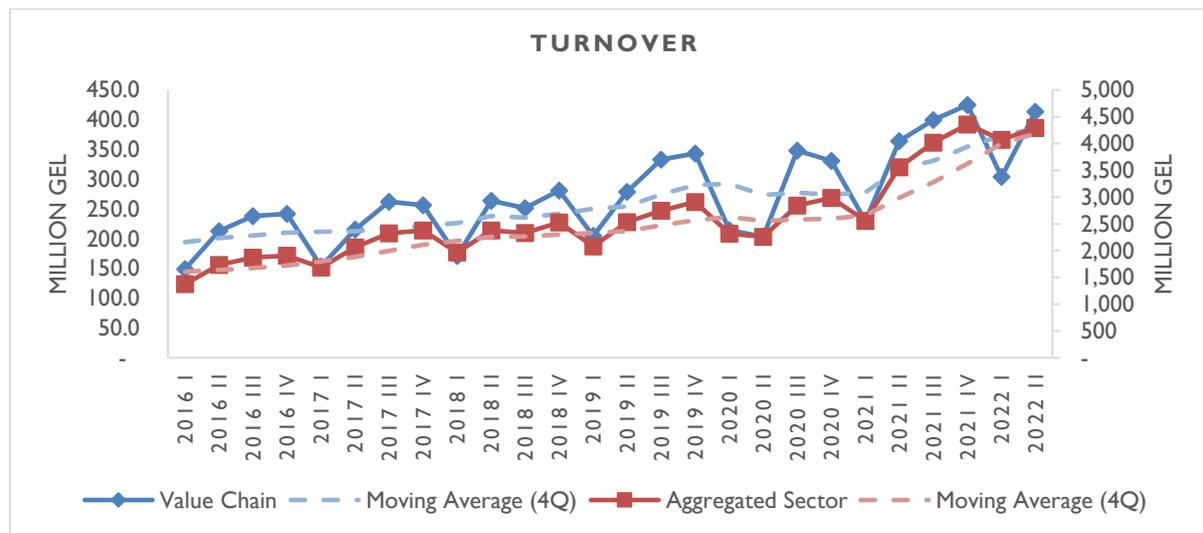
Table 3.2 summarizes the economic activities within construction materials manufacturing. In addition, the table demonstrates the limitation of our study by comparing preferred/inquired data with the available/gathered information.

Table 3.2 Economic activities included in the construction materials value chain

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

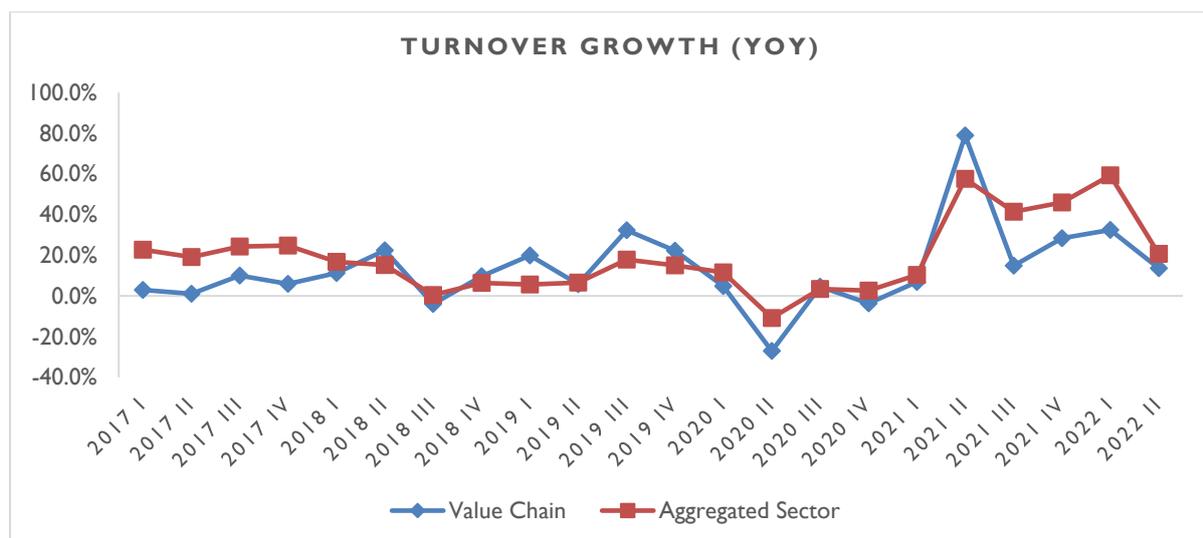
Chart 3.18 and Chart 3.19 present the dynamics of turnover and its annual nominal growth for the construction materials value chain. The turnover of the value chain showed a significant YoY increase in Q1 of 2022 (32.4%). Turnover increased further in Q2 of 2022 compared to Q1 of 2022 and amounted to GEL 413.3 million. Moreover, the turnover in Q2 of 2022 increased compared to Q2 of 2021 (13.5% YoY). As for the aggregated sector, turnover also increased in Q1 of 2022 and Q2 of 2022 compared to the same period of the previous year (59.3% and 20.7% YoY, respectively).

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



Source: National Statistics Office of Georgia

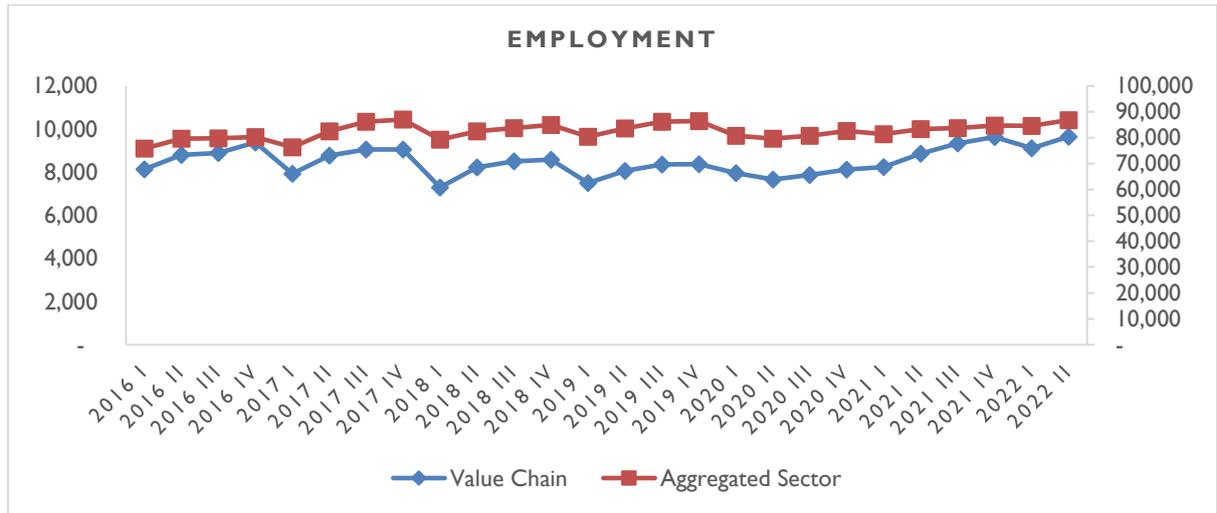
Chart 3.19 YoY growth rate of turnover for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

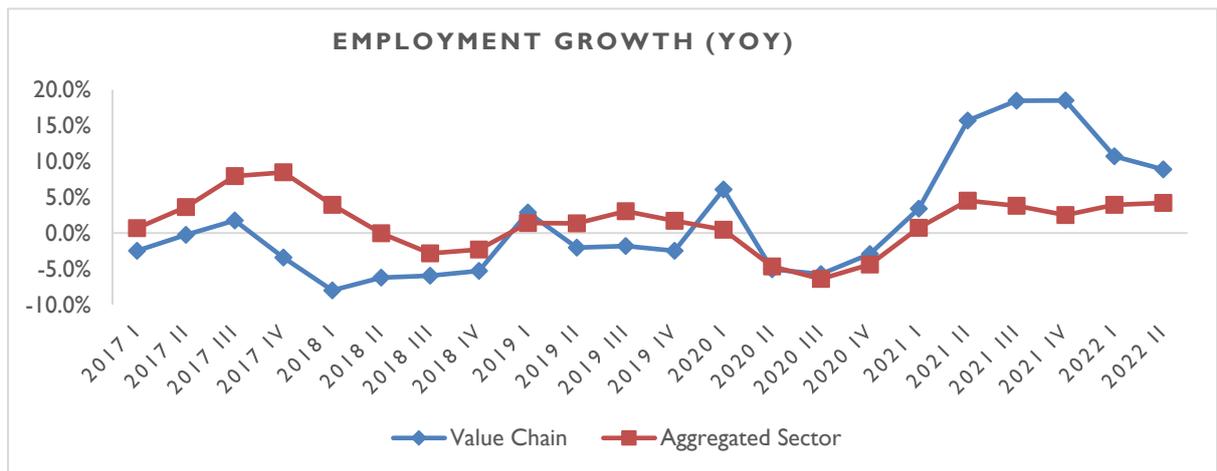
Charts 3.20 and 3.21 present the number of hired employees and their growth rate in the construction materials value chain and the respective aggregated sector. According to the data, in Q1 of 2022, employment increased by 35.0% YoY in the value chain, and in Q2 of 2022, the number of hired employees increased by 8.9% compared to Q2 of 2021. For Q2 of 2022, employment amounted to 9,646 people. A similar trend has been observed in the aggregated sector as employment rose in Q1 and Q2 of 2022, compared to the same periods of 2021.

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



Source: National Statistics Office of Georgia

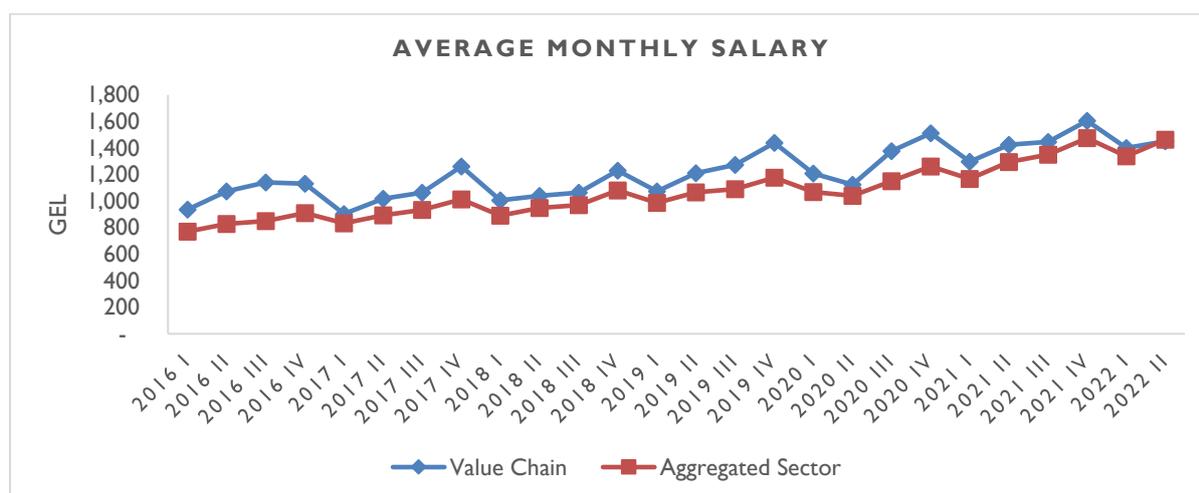
Chart 3.21 YoY growth rate of employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the construction materials value chain increased YoY in Q1 of 2022 by 7.9% and amounted to GEL 1,401. The Q2 of 2022 indicator increased to GEL 1,451 and presented a 1.9% YoY change. The aggregated sector also showed an increasing YoY trend in Q1 and Q2 of 2022. Moreover, the average monthly salary of the aggregated sector rose above that of the value chain in Q2 of 2022 and amounted to (GEL 1,462) (Chart 3.22).

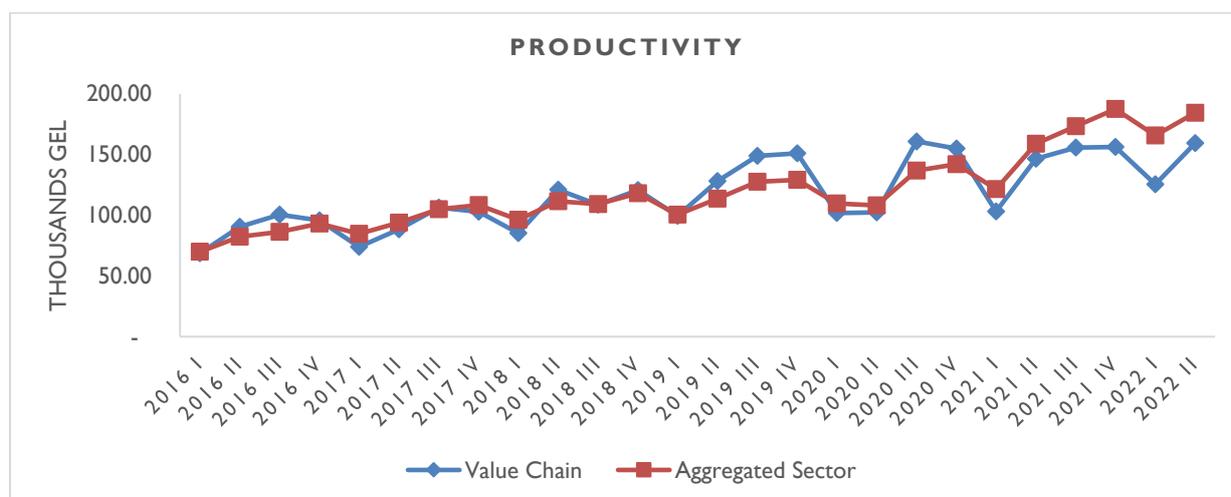
Chart 3.22 Average monthly salary in the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.23 shows that labor productivity in the construction materials value chain increased YoY by 21.9% in Q1 and 8.8% in Q2 of 2022. For Q2 of 2022, productivity amounted to GEL 159,452. For the aggregated sector, productivity increased compared to 2021 in the first two quarters of 2022.

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



Source: National Statistics Office of Georgia

The following charts present the trade dynamics of the construction materials value chain. Chart 3.24 depicts the figures regarding Georgian imports of construction materials. The value of imports increased in Q1 of 2022 by 66% and in Q2 2022 by 30% compared to Q1 and Q2 of 2021. Imports amounted to USD 45.7 million and USD 55.1 million in Q1 and Q2 of 2022, respectively.

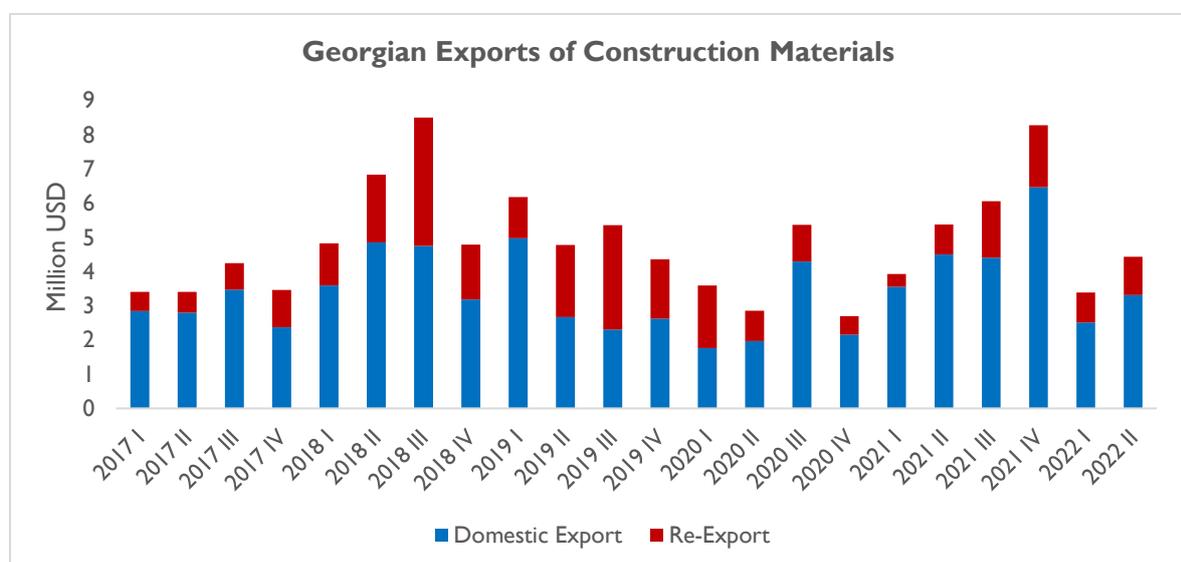
Chart 3.24 Georgian Imports of Construction Materials



Source: National Statistics Office of Georgia

Georgian domestic exports of construction materials declined in Q I of 2022 (-29% YoY) and Q2 of 2022 (-26% YoY). Domestic exports increased in Q2 of 2022 compared to the previous quarter and reached USD 3.3 million. Re-exports grew significantly in Q I 2022 compared to Q I of 2021 (134%); however, YoY increase slowed down in Q2 of 2022 (27%), and re-exports amounted to USD 1.1 million (Chart 3.25).

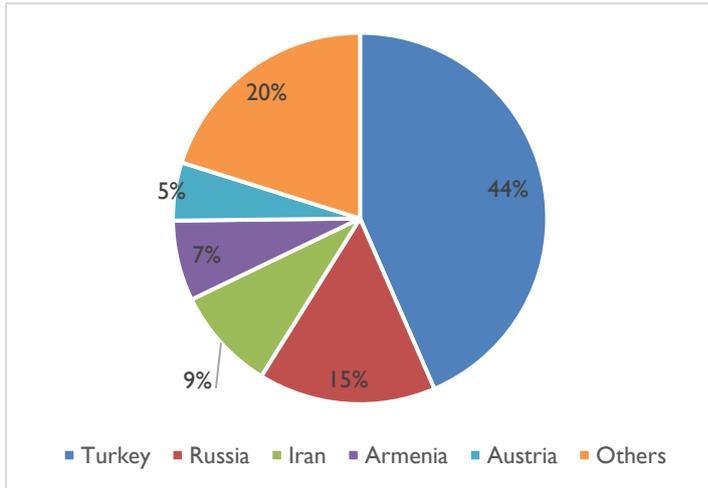
Chart 3.25 Georgian Exports of Construction Materials



Source: National Statistics Office of Georgia

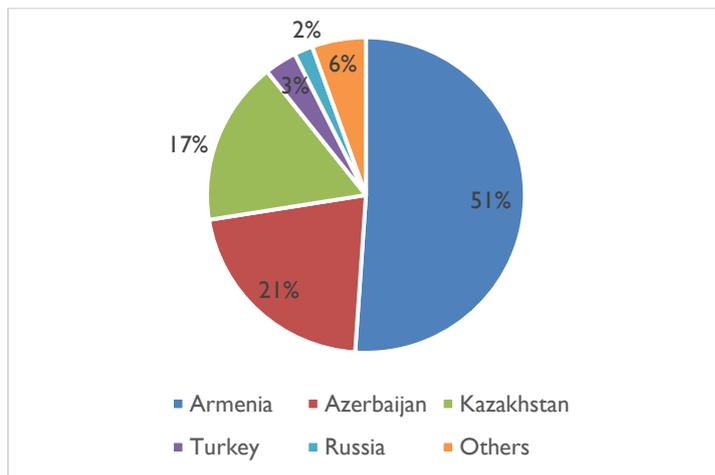
Chart 3.26 and Chart 3.27 below present Georgia's top trading partner countries for construction materials in the last 12 months. The main trade partners for imports were Turkey (43%), Russia (15%), Iran (9%), Armenia (7%), and Austria (5%) (Chart 3.27). Meanwhile, the leading destinations for domestic exports during July 2021 – June 2022 were Armenia (51%), Azerbaijan (21%), Kazakhstan (17%), Turkey (3%), and Russia (2%) (Chart 3.28).

Chart 3.26 Georgian imports of construction materials by trade partner (July 2021 – June 2022)



Source: National Statistics Office of Georgia

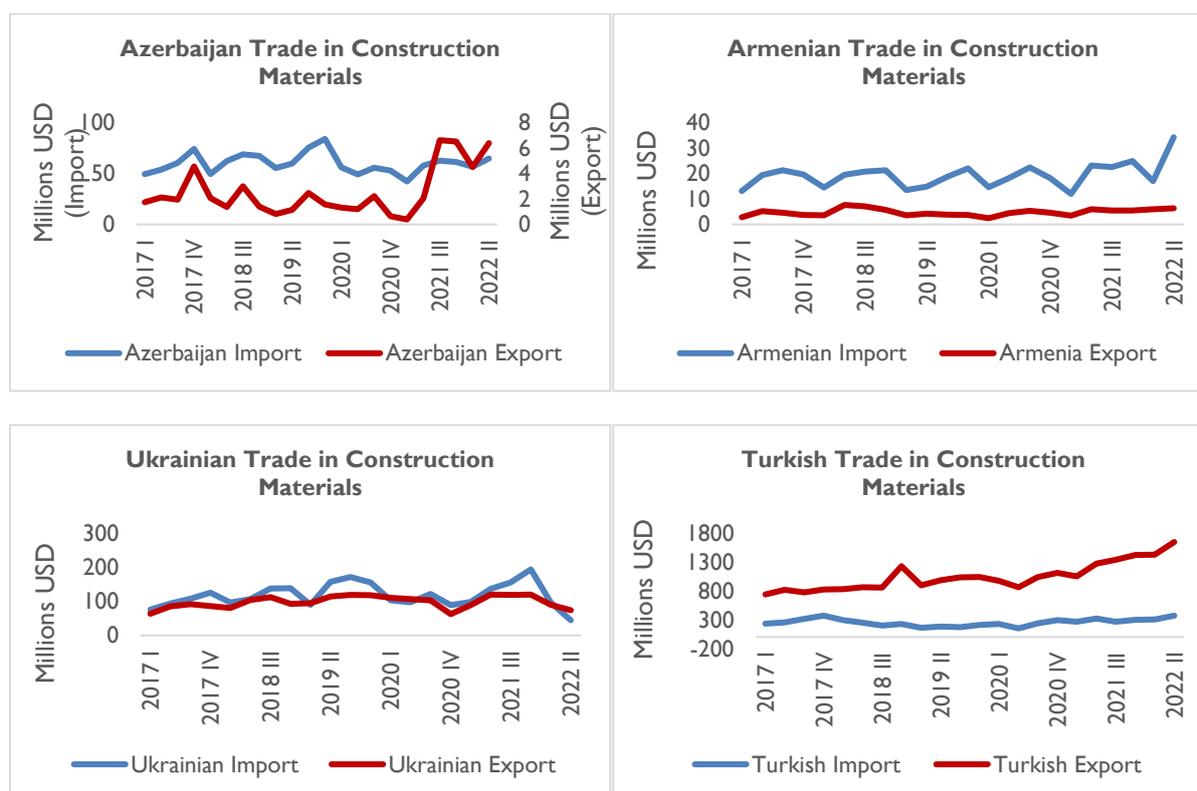
Chart 3.27 Georgian domestic exports of construction materials by trade partner (July 2021 – June 2022)



Source: National Statistics Office of Georgia

Below (Chart 3.28), we overview the construction materials value chain’s regional trade patterns for Armenia, Azerbaijan, Turkey, and Ukraine. Exports displayed a YoY increase in Q1 of 2022 for all countries (Ukraine presented an insignificant 1% increase). In Q2 of 2022, exports decreased YoY only for Ukraine and increased for other countries. Imports for Q1, as well as for Q2 of 2022, presented a YoY for all countries except Ukraine. decrease for Ukraine and Turkey, while Armenia and Azerbaijan experienced an increase in Q2 of 2022.

Chart 3.28 Regional trade patterns of construction materials



Source: UN Comtrade²⁷

Overview of Existing Challenges and Opportunities

The construction materials value chain consists of several specific business activities. Even though similarities between these areas exist, challenges and prospects in the value chain mostly, are business activity specific.

While some of the challenges in the value chain has endured for a while. However, some impediments are being actively addressed and advocated by the newly established institution – Georgian Construction Materials Cluster (GCMC). Though the institution grows slowly in size, it attempts to address emerging constraints of the value chain thoroughly. The Cluster was launched in December 2020 with the support of the European Union and the German Agency for International Cooperation (GIZ). The Cluster, at this point, unifies 17 companies, with no additions in the last year. GCMC offers its members networking, advocacy, communication, consulting, and educational services. It also fosters dialogue between the private and public sectors and advocates for considering the value chain representatives' needs in the agenda of different state programs. One such advocacy instance is Cluster's effort to enlist Construction Materials in the priority directions of the export component of Enterprise Georgia. Even though no final decision was made during this reporting period, the collaboration seems promising, especially because construction materials have already been enlisted as a priority direction under the Business Universal component of Enterprise Georgia.

Further, the Cluster aims to strengthen supply chain linkages between development companies and construction materials manufacturers; here, GCMC is engaged in organizing local exhibitions (e.g., Caucasus Build) and supports exposure of Georgian companies to foreign networking events.

²⁷ Q1 2020 values for Armenian exports present sum of January and February 2020, since export for March is not reported for Armenia on UN Comtrade. Moreover, Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

Recently, GCMC has launched a new direction in supporting the value chain – innovation. Under this direction, the Cluster ensures that its members have access to innovative technologies that have the potential to improve productivity and the quality of the manufacture.

Private sector leadership in the value chain is moderate. Each business activity that makes up the value chain has its frontrunner(s). Besides GCMC, there have been two platforms that, to some extent, bring together industry representatives. Primarily, the Infrastructure Construction Companies' Association (ICCA) operates in the value chain. This association champions many significant initiatives. However, ICCA's focus is more on the construction sector at large. Besides ICCA, there is also the Georgian Cement Association (GCA), founded in 2017 by Heidelberg Cement Caucasus (GCC) and the Georgian Building Group (GBG), targeting specific challenges that are typical for the production and realization of cement in Georgia.

The value chain has faced a few noticeable obstacles:

The lack of a qualified workforce was named as a core hindrance. Georgia does not have functional training programs that would target the needs of business activities in this value chain. Frequently, the firms train the workforce themselves, which is associated with significant expenses. The situation worsens when seeking a workforce with specific technical knowledge. Some interviewed manufacturers declared that they often constantly have an open call for certain technical positions (e.g., engineers). In this direction, to address the shortage of labor, GCMC and GIZ began to collaborate and deliver professional training to the employees of this value chain.

Regarding upskilling the workforce, initiatives led by the Skills Agency are worth highlighting. The Agency has aimed to contribute to human capital development in the country by partnering with the private sector. Through the project, several major associations and the Agency have collaborated in the working group to agree on national standards related to qualification requirements in the construction materials value chain. The agreed national qualification standards will then be utilized to launch dual VET programs co-managed by authorized VET colleges and private sector representatives.

Dependence on imported inputs was named yet another important barrier that restricts the chances of the value chain upgrading. Apart from some exceptions, most business activities largely depend on imported inputs. Such dependence is inevitable for most business streams under the construction materials value chain. Dependency becomes problematic for those inputs that are mainly available but underutilized domestically. For example, 80% of the gypsum market in Georgia is import-dominated. In contrast, gypsum deposits are underused in the country mainly due to a lack of a systemic registry of available resources.

Nevertheless, recently, considering pandemic-related supply chain disruptions, some businesses in this value chain have switched to utilizing domestic inputs. As one of the interviewed firms pointed out, they modified their product profile and became increasingly interested in producing construction materials that necessitate inputs that can be mined domestically. This should be considered a positive development as the enhanced local availability of inputs is perceived as a fundamental prerequisite for the future advancement of this value chain.

Limited accessibility to product certification represents another persistent impediment in this value chain. Nevertheless, this impediment's severity differs from producer to producer as the certification process is often product-specific, and different construction materials necessitate different certifications. This hindrance makes it quite costly to address the problem through a concerted effort. GCMC works in this direction, offering certification services to its member companies. The essence of this challenge is as follows: most necessary product certifications, often a precondition for exporting construction materials, cannot be obtained in Georgia.

Moreover, depending on the product, there are not enough local experts in the country to help the manufacturers comply with their production with certification requirements. At the same time, hiring foreign experts is quite costly. As a result, product certification is associated with substantial costs. To this end, some business operators emphasized the need to co-finance the certification process for those producers with high growth potential. Moreover, while obtaining certification abroad, some Georgian producers might be misinformed about the quality of the issued certificate or the validity of the issuing organization. Hence, the research revealed the need to inform value chain representatives about specific details of the certification requirements.

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

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

Notwithstanding the abovementioned challenges, value chain representatives still have limited exporting experience. When entering international markets, for most of the interviewed companies, regional and post-Soviet markets represent the main export destinations, where Georgian construction materials have a competitive advantage in terms of price and quality. Out of post-soviet countries, expansion on the regional markets of Armenia and Azerbaijan seems most plausible, especially during Russia's current war in Ukraine, which disrupted the stable distribution of construction materials to the South Caucasus and created additional demand for replacing supply cuts.

In this regard, it is noticeable that for some manufacturers, such a possibility has already been actualized due to their recent visit to an international exhibition in Azerbaijan.

Beyond the region, the interviewed respondents name the US, African markets, and the EU markets as having high attractiveness for Georgian manufacturers of construction materials. Regarding the EU, several recent changes enacted might serve as a window of opportunity to enter different foreign markets. First, the trilateral agreement between the EU, Turkey, and Georgia – diagonal cumulation is worth highlighting. The agreement activates a free trade regime with the EU market for products exported from Georgia but made of Turkish raw materials. Second, opening the EU's public procurement market for Georgian production is yet another opportunity for Georgian manufacturers to grow in the European market.

Some interviewed businesses have already established trade ties with European and overseas partners. For instance, LTD Kamara has entered foreign markets such as the US and Portugal.

LTD Basalt Fibers has penetrated the South African market, successfully competing with Chinese products. Moreover, the company has stably exported to Germany, the UK, Austria, the Netherlands, Turkey, and UAE. Entry to the US and Canadian markets is also being planned. Elsewhere, JSC Panex has already penetrated the US market and, by the current reporting period, actively runs negotiations to partner with the US counterparty.

Nevertheless, despite the attractiveness of the foreign markets, the expansion of Georgian construction on an international level is still challenging for various reasons specified above. On the contrary, absorbing local demand seems more realistic and more significant at this point. However, there are several impediments restricting regional growth. According to interviewed experts, awareness regarding local construction materials production is primarily low in the country, and purchasers lack information about the benefits of Georgian produce. What else, final goods produced in the value chain face stiff competition from imported products. In the case of construction materials, Georgian customers tend to opt for cheaper imported products. A representative of AI Group, a licensed miner and distributor of pumice, expressed further concerns that due to lapses in the classification of economic activities (with no differentiation between pumice and road metal), imported pumice has a more favorable tax regime and hence wins in terms of price competition against the local supply. In terms of non-price competition, some of the interviewed companies highlighted their positioning as providers of high-quality and customized products, affordable payment schedules, flexible supply, and full-service offerings that cover everything from realization to installation. Some private sector representatives believe that, in the longer term, local production has import replacement potential. Still, at this stage, the greater visibility and affordability of imported products remain a core hindrance.

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

PACKAGING

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

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

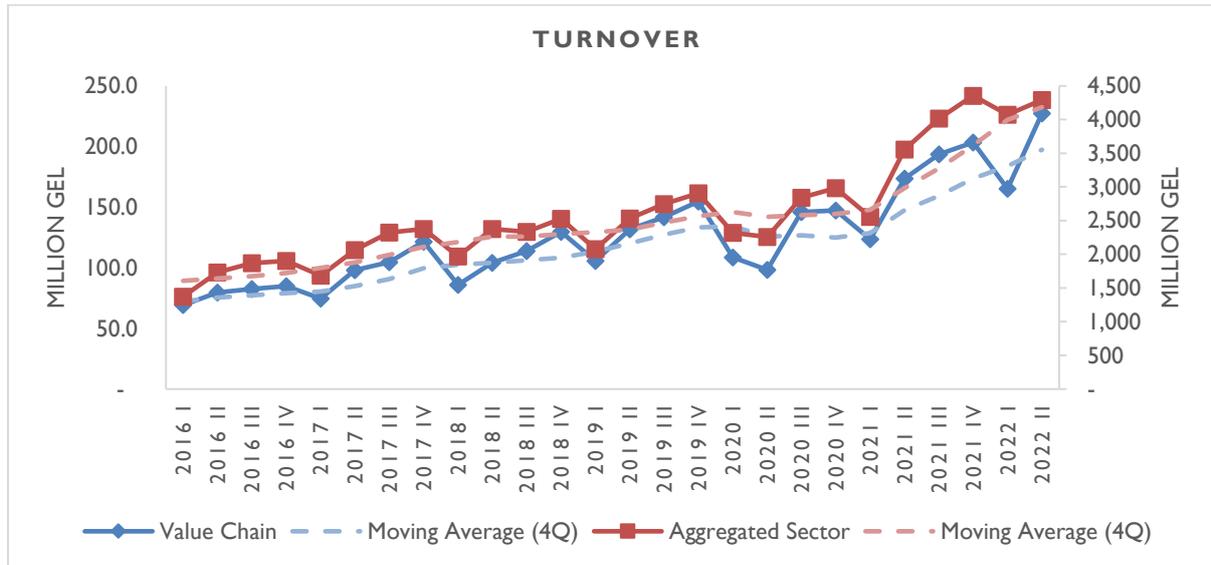
Table 3.3 Economic activities included in the packaging value chain

NACE	Description	NACE	Description	NACE	Description
Preferred		Available at annual frequency		Available at quarterly frequency	
16.24	Manufacture of wooden containers	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.2 ²⁸	Manufacture of articles of paper and paperboard
17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard		
22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods
23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
25.92	Manufacture of light metal packaging	<i>Not used in the analysis due to data availability only at a very high-level aggregation</i>			

In line with the accelerated recovery of the economy, turnover in the packaging value chain increased YoY in Q1 of 2022 and Q2 of 2022 (33.8% and 30.9%, respectively). In Q2 of 2022, turnover in the value chain amounted to GEL 227.2 million. The aggregated sector also recorded positive YoY growth in Q1 and Q2 of 2022 (Chart 3.29 and Chart 3.30).

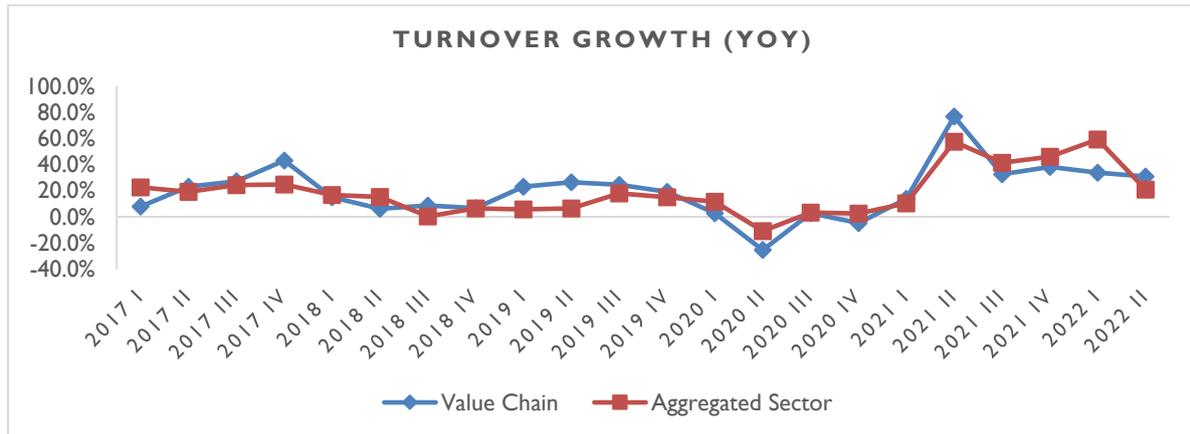
²⁸ This group also includes: 17.22 Manufacture of household and sanitary goods and of toilet requisites; 17.23 Manufacture of paper stationery; and 17.24 Manufacture of wallpaper.

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



Source: National Statistics Office of Georgia

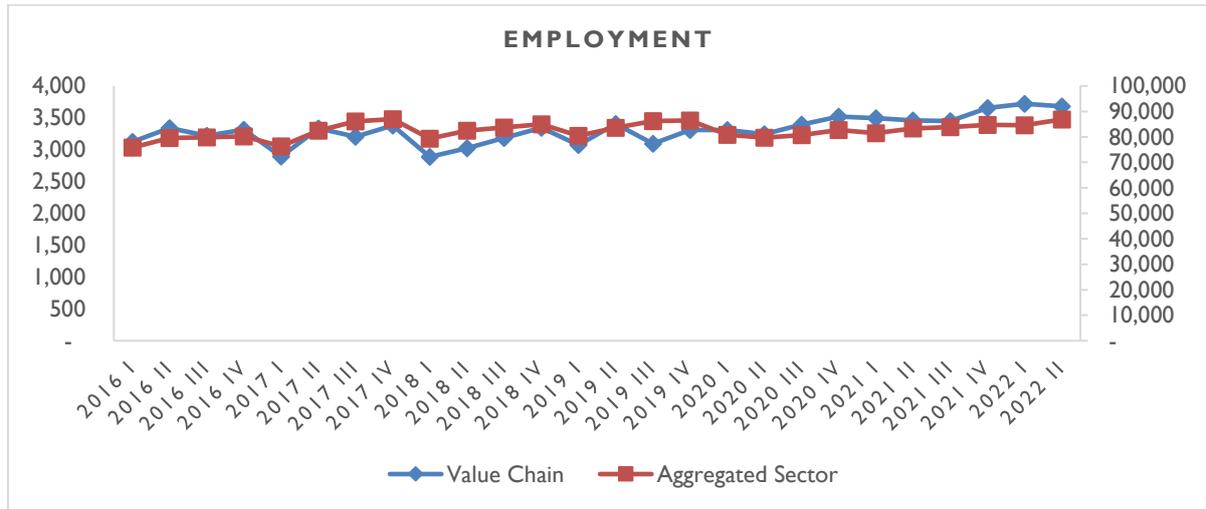
Chart 3.30 YoY growth rate of turnover for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

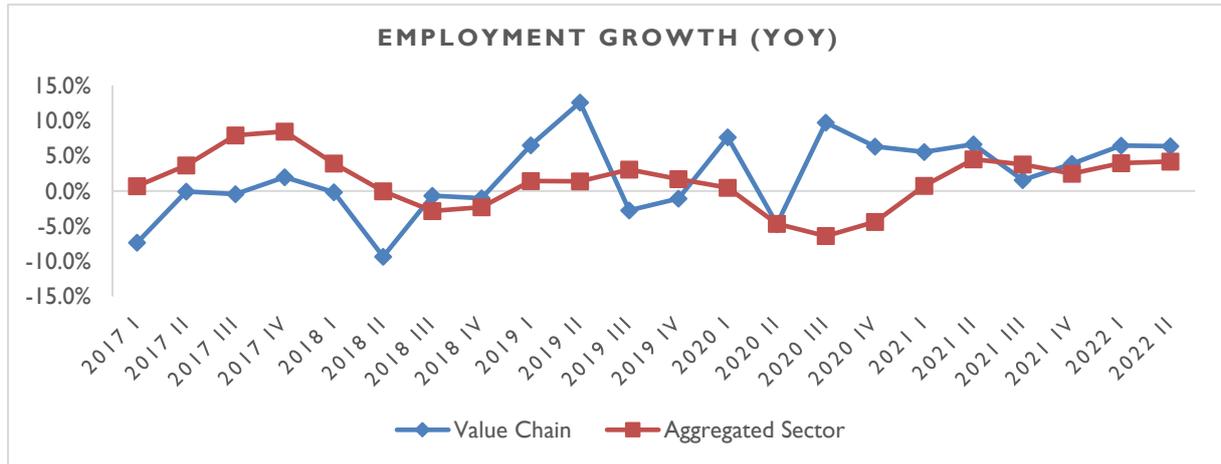
Employment in packaging value chain has been rising since Q3 of 2021 (QoQ); however, it has declined slightly in Q2 of 2022 compared to Q1 of 2022. As for the YoY comparison, a positive change has been observed in Q1 and Q2 of 2022 (6.5% and 6.4%), and employment constituted 3,681 hired individuals in Q2 of 2022. Similar increasing YoY trends have been observed in the aggregated sector, where employment reached 86,798 people in Q2 of 2022.

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



Source: National Statistics Office of Georgia

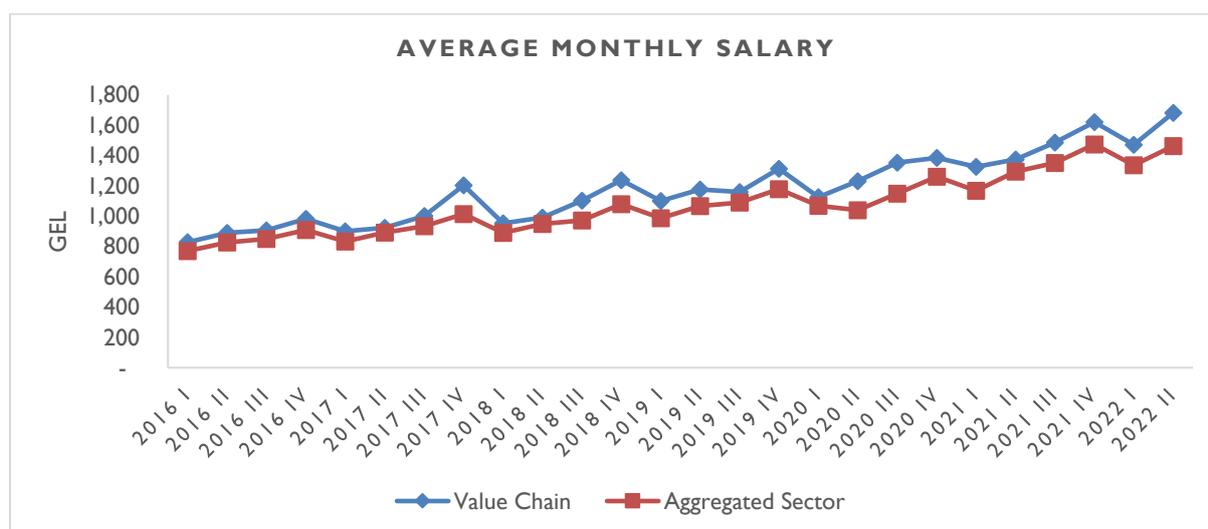
Chart 3.32 YoY growth rate of employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the packaging value chain increased in Q1 of 2022 by 11.0% YoY and in Q2 of 2022 by 22.3% YoY. The indicator also increased YoY for the aggregated sector in both quarters; however, the average monthly salary remained higher for the value chain (GEL 1,472 and GEL 1,682 in Q1 and Q2 of 2022, respectively (Chart 3.33)).

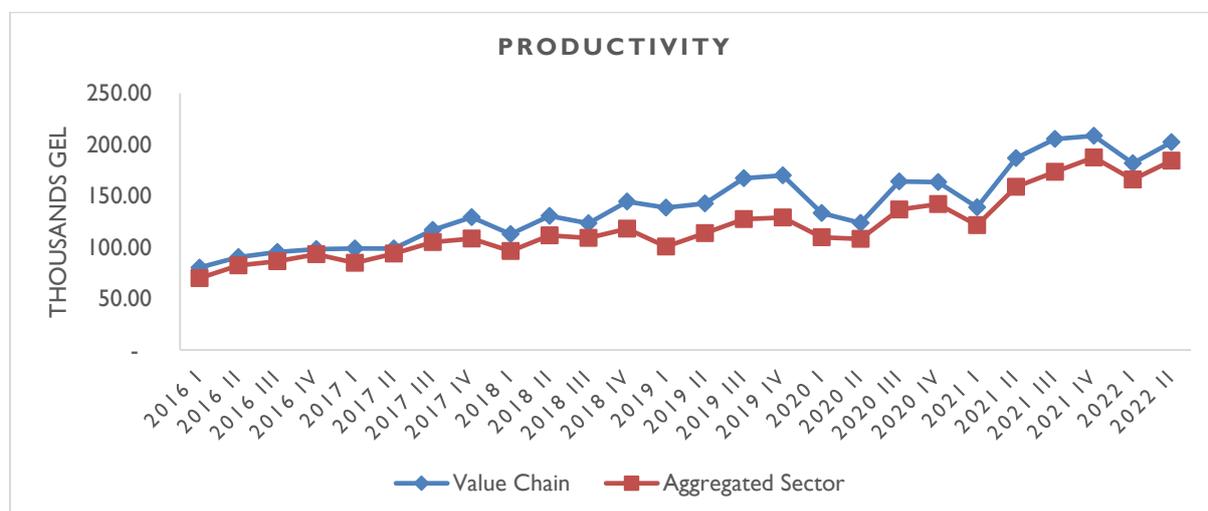
Chart 3.33 Average monthly salary in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.34 demonstrates productivity dynamics for the packaging value chain and the aggregated sector. Labor productivity for the packaging value chain increased YoY in Q1 of 2022 and Q2 of 2022 (30.9% and 8.2% YoY, respectively) and settled at GEL 202,076 in Q2 of 2022. While the indicator for the aggregated sector also increased YoY in both quarters, productivity in the packaging value chain still exceeds that of the aggregated sector.

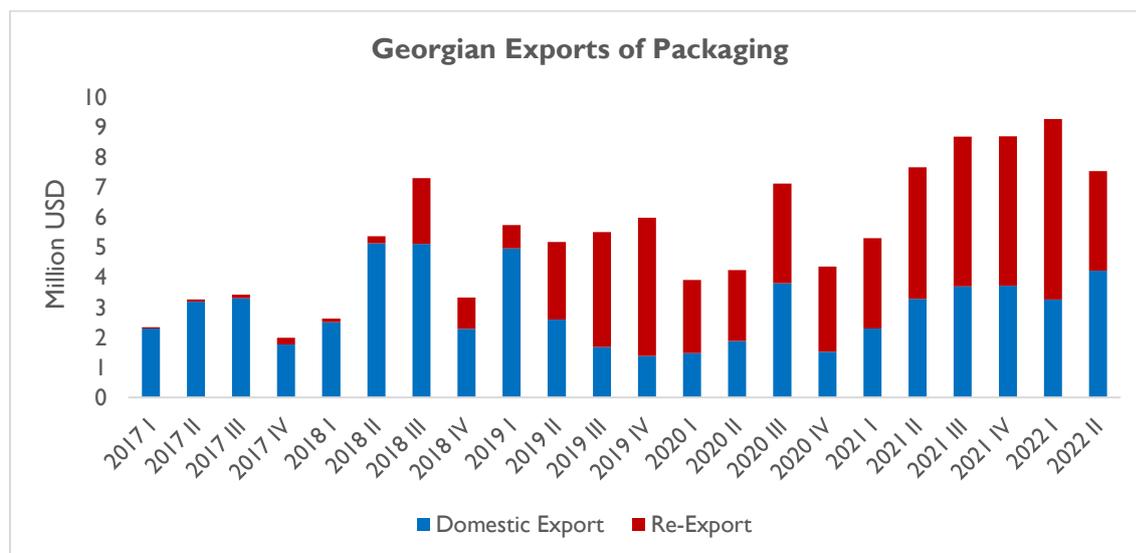
Chart 3.34 Productivity in the packaging value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

The charts below provide an analysis of the trade tendencies of packaging materials. In the first quarter of 2022, Georgian domestic exports and re-export increased compared to Q1 of 2021, amounting to USD 3.3 million and USD 6 million, respectively. As for the second quarter of 2022, domestic exports increased; however, re-export has declined compared to Q2 of 2021. Indicators amounted to USD 4.2 million and USD 3.3 million, respectively (Chart 3.35).

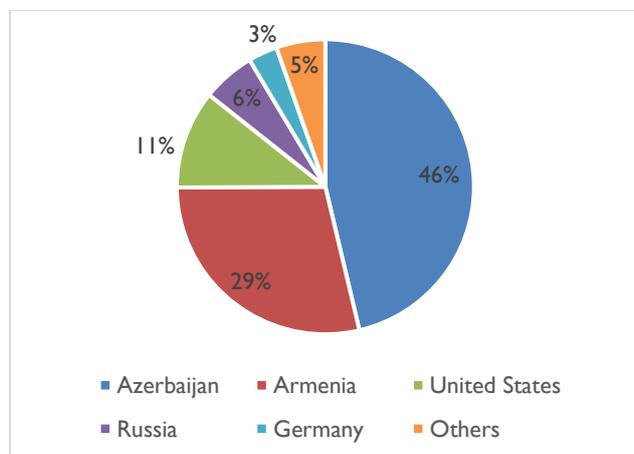
Chart 3.35 Georgian Exports of Packaging Goods



Source: National Statistics Office of Georgia

Of the total exported volume in the past 12 months, 46% of Georgian packaging goods were shipped to Azerbaijan, 29% to Armenia, and 11% to the United States (Chart 3.36). The top three trade partners in exports were followed by Russia (6%) and Germany (3%).

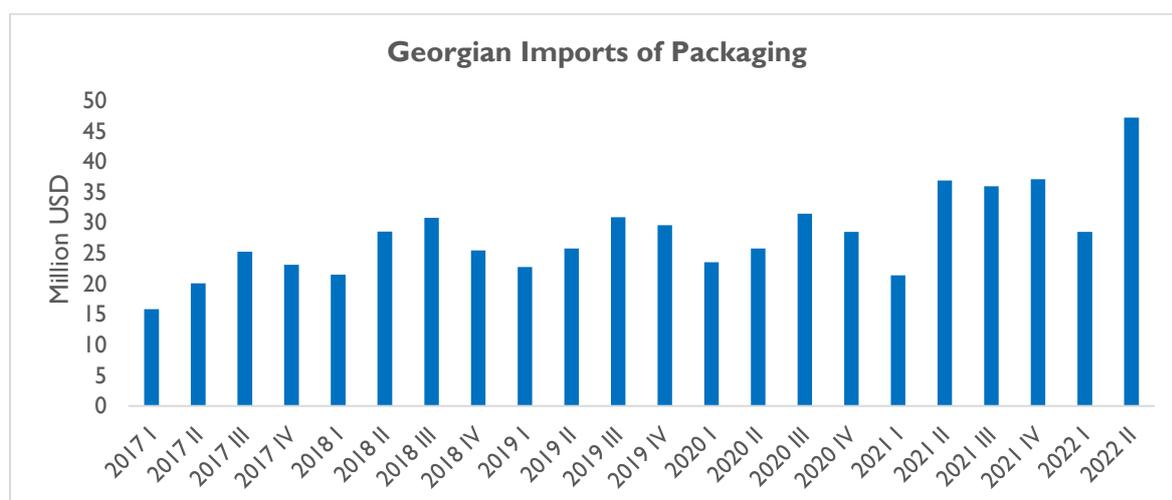
Chart 3.36 Georgia's Domestic Exports of Packaging Goods by Trade Partner (July 2021 - June 2022)



Source: National Statistics Office of Georgia

Georgian imports of packaging goods increased in Q1 of 2022 (33.3% YoY) and Q2 of 2022 (28.0% YoY). Imports in Q2 of 2022 also increased compared to the previous quarter and amounted to USD 47.2 million (Chart 3.37).

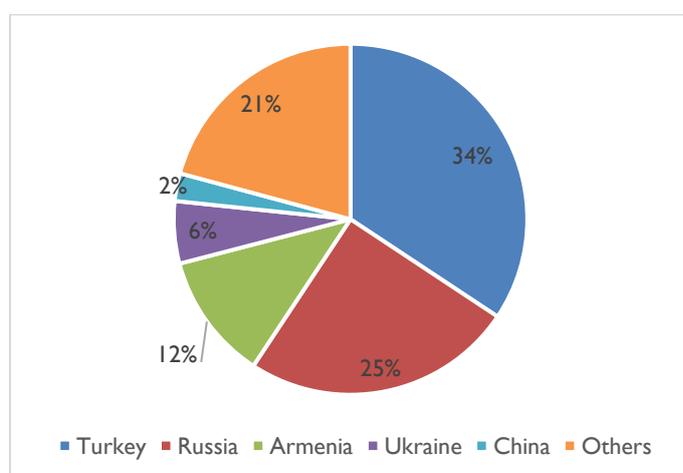
Chart 3.37 Georgian Imports of Packaging Goods



Source: National Statistics Office of Georgia

The profile of trade partners for Georgian packaging goods imports in the last 12 months was more diversified than for exports. 71% of packaging good imported into Georgia in the previous year were produced in Turkey (34%), Russia (25%), and Armenia (12%), while 6% of imports were shipped to Georgia from Ukraine and 3% from China (Chart 3.38).

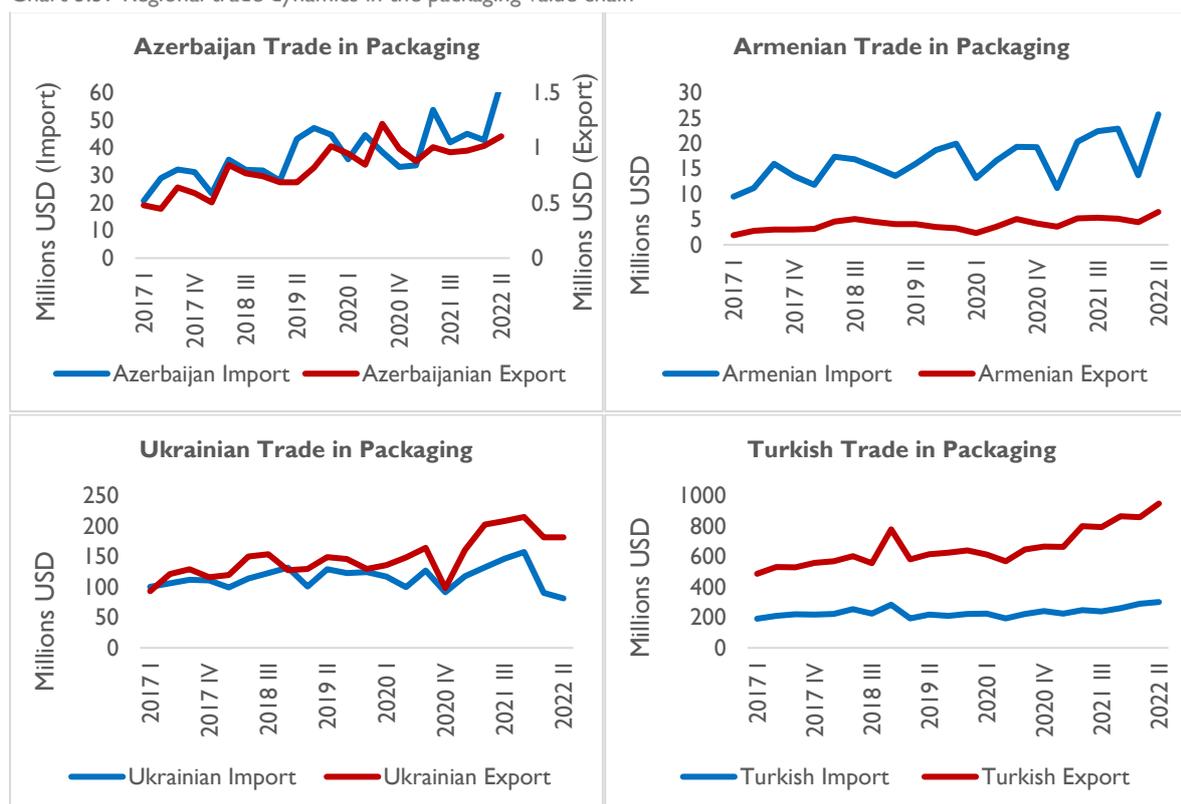
Chart 3.38 Georgian Imports of Packaging Goods by Trade Partner (July 2021 - June 2022)



Source: National Statistics Office of Georgia

Trade flows of Georgia's regional partners were also analyzed in the packaging value chain. The results show that all countries' exports increased (YoY) in Q1 of 2022. As for Q2 of 2022, exports increased YoY for Azerbaijan, Armenia, and Turkey and declined for Ukraine. Imports of packaging commodities increased YoY for all countries, except for Ukraine, in Q1 and Q2 of 2022 (Chart 3.39).

Chart 3.39 Regional trade dynamics in the packaging value chain



Source: UN Comtrade²⁹

Overview of Existing Challenges and Opportunities

The packaging value chain develops at a moderate pace. Even though, at large, no significant progress was achieved against the identified challenges in this direction, some packaging producers constantly show their considerable potential for expansion at both the domestic and international levels. They successfully attempt to replace imports to a certain extent, increase their share of exports, and are eager to innovate and upgrade the quality of their production.

Based on the qualitative analysis, private sector leadership within the packaging value chain has been highly evaluated. These are a few leading players of the value chain, such as LTD Fabrica 1900 (producer of corrugated cardboard packaging), LTD Georgian Packaging (food grade paper packaging), LTD Greenpack (reusable packaging bags), LTD Caucas Pack (disposable plastic packaging), LTD Color Group (hard and soft packaging, labels, corrugated boxes), and LTD Poliedro (polyethylene stretch films). They have significantly contributed to the establishment and development of the PMAG Packaging Cluster, established in 2020 on the basis of the Packaging Manufacturers Association of Georgia (PMAG) with the support of the EU and UNDP.

As of December 2022, the cluster unifies 85 upstream and downstream companies of the value chain and plans to increase its membership numbers by several companies in the nearest future. PMAG aims to scale up and promote the competitiveness of the value chain through various service offerings, such as assisting members in communication; advocating the value chain needs; issuing micro financial grants; auditing regulatory compliance; organizing and managing networks; gathering and analyzing industry-specific knowledge; and building partnerships at various levels. Further, the cluster actively assists its member companies in realizing their export potential, including collaborating with subject experts (e.g., one such expert is based in Germany) that will help its member companies reach international

²⁹ Q1 2020 values for Armenian exports present sum of January and February 2020, since export for March is not reported for Armenia on UN Comtrade. Moreover, Q4 2020 values for Ukrainian trade present the sum for October and December 2020 since the trade for November is not reported for Ukraine on UN Comtrade.

markets. In the same direction, the cluster works closely with Enterprise Georgia, where packaging is also listed among priority economic directions, enabling the value chain to benefit from its support programs. In partnership with EG, PMAG helps its member companies to participate in international exhibitions. Lately, Georgian packaging manufacturers attended one significant packaging exhibition in Nuremberg – Fachpack. A visit to another exhibition – Interpack - is also planned for 2023.

Beyond the partnership precedents with EG, there is some experience collaborating with the public sector within the value chain. Recently, the Packaging Cluster has collaborated with the Rural Development Agency (RDA) - a memorandum has been signed between the agency and the PMAG. The counterparties support each other on various levels, including in the process of information-sharing regarding activities of one another.

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

Georgian packaging manufacturers face stiff competition from imports. In contrast, the level of competition between local firms is insignificant due to the high local demand for the packaging and the small size of domestic packaging manufacturers. Packaging goods imported from Turkey, China, and Russia are the most competitive. Several factors determine the competitive landscape across packaging activities. First, Georgian businesses that need packaging products frequently demand them in small quantities, making it unprofitable for Georgian manufacturers to produce them. Instead, these can be imported easily from foreign firms, which enjoy easy access to raw materials, large economies of scale, and cheap per-unit cost. Frequently, the lower price of imported goods reflects their lower quality than Georgian products. Further, one of the major Georgian regions purchasing packaging goods – Adjara, often opts for Turkish manufacture due to its Geographical proximity to this country. What else, a recent breakthrough in the development of e-commerce platforms, especially of Chinese and Turkish origins, made it effortless to buy a wide selection of foreign packaging products that might be superior to local production.

To enhance their competitive advantage, Georgian packaging businesses constantly search for means to create niche products. Furthermore, the manufacturers attempt to be capable of supplying the market with a wide range of packaging production instead of specializing in manufacturing only certain types of packaging goods.

Recently, and especially during the pandemic, Georgian packaging manufacturers have shown promising import replacement potential, mostly due to being able to meet domestic demand quickly and without delay. In addition, increasing quality, offering more flexible payment schedules, and the ease of communication between buyer and seller within the production process contributed to the growing domestic demand for Georgian packaging products. In this regard, when it comes to certain niche products, several manufacturers manage to meet domestic demand completely (e.g., LTD Caspack with its niche fruit packaging products). However, there also are instances when producers struggle to find capacities (human, technological) to supply the local market despite high demand for their specific manufacture.

As for the period of this report, the leading players in the packaging value chain stably export their products mainly to the neighboring markets of Armenia, Azerbaijan, and CIS countries. There is a growing interest in exporting to Germany and Spain. The value chain has precedents of exporting to Italy and France (mainly glass packaging products). LTD Caucas Pack also stably exports to the US and Canada and has experience shipping its products to Panama, Ukraine, and Turkey. The company has recently started trade negotiations with companies in Uzbekistan. However, no actual progress has been made yet in this direction. LTD Caucas Pack has also diversified its export production. Among other packaging materials, the company now produces punnets and plastic packaging for berries. Recently, the company started manufacturing sectional and round containers. However, the latter products are mainly created for overseas markets. Elsewhere, LTD Greenpack has exported to

Armenia and Azerbaijan. The company has been considering entering the markets of Belgium and the US.

On some of the international markets, according to sector representatives, the COVID-19 pandemic changed the gameplay and prioritized flexibility of product supply over price and quality of goods. This poses an opportunity for Georgian companies to realize their export potential better. Moreover, the recent regulatory change of diagonal cumulation has eased access to the European market for Georgian packaging products. Through this change, a trilateral agreement between the EU, Turkey, and Georgia enables Georgian products (including packaging) made of Turkish raw materials to enter the EU market under a free trade regime. Further, opening the EU public procurement market for Georgian products should also be considered an opportunity.

Both paper- and plastic-based packaging manufacturers utilize imported raw materials in their production processes. High dependence on imported raw materials is considered one of the major impediments for packaging manufacturers. Nevertheless, dependency seems inevitable. The adverse impact of the COVID-19 pandemic on stable input prices and distribution appears to be no longer a challenge in this value chain as of December 2022. Due to the pandemic-related disruptions, many Georgian packaging producers opted for Turkish raw material supplies, which are of greater flexibility and higher quality, as manufacturers declare. However, in the global tendency to move towards green packaging, there is a surge in demand for paper-based raw materials, which grows unit prices for paper-based inputs.

Limited access to raw materials is further constrained by a lack of recycling practices in Georgia, the establishment of which is projected to reduce dependence on imported inputs. In this regard, Georgia must aim to implement Extended Producer Responsibility (EPR) legislation, obliging producers/importers of products that generate specific waste to organize the separate collection of the waste that they generate. Significantly EPR has already been enacted for four waste streams; however, the regulation enforcement is still pending for packaging waste, which, no doubt, is critical for the further development of this value chain. Alongside EPR, the separate collection of municipal waste has been envisaged under the Waste Management Code (WMC). However, no progress has been made in this direction due to some reluctance on both the private and public sector side. Moreover, the poor implementation of Georgian legislation banning plastic bags remains a persistent and unaddressed challenge. Following the ban, some manufacturers switched to producing biodegradable bags (e.g., LTD Greenpack), however, plastic bags are still available on the local market.

Besides import dependency, manufacturers in the value chain face central challenges that limit their further growth and hamper the scaling-up of Georgian packaging production. Notably, most of these obstacles have already been noted in a recent policy brief on the light manufacturing sector³⁰. Primarily, the value chain representatives name the lack of a skilled workforce as a fundamental challenge for Georgian packaging production. There is a scarcity of labor force, in general, in the country. The employed individuals often migrate or are characterized by high internal turnover. Specifically, there is a small base of qualified machine operators in the country and a shortage of vocational training that target the skillset of the employees critical to the value chain.

Moreover, due to unattractive wage offerings, youth employment is quite limited in the value chain. Fear of losing social security allowance was an additional hindrance to attracting the workforce. To keep the workforce at production sites, some manufacturers have introduced different award systems for workforce management, increased their salaries, and offered their employees various social benefits. In this regard, some private sector representatives negotiated with existing VET colleges, albeit unfruitfully. The PMAG Packaging Cluster, in Partnership with Georgian Technical Training Center (GTTC), also planned to introduce short-term workforce training programs. Nonetheless, as the Cluster representative reports, this initiative was suspended due to the reluctance of the private sector of this value chain to participate in training.

³⁰ Policy Brief. Light Manufacturing Sector. USAID (2020)

PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

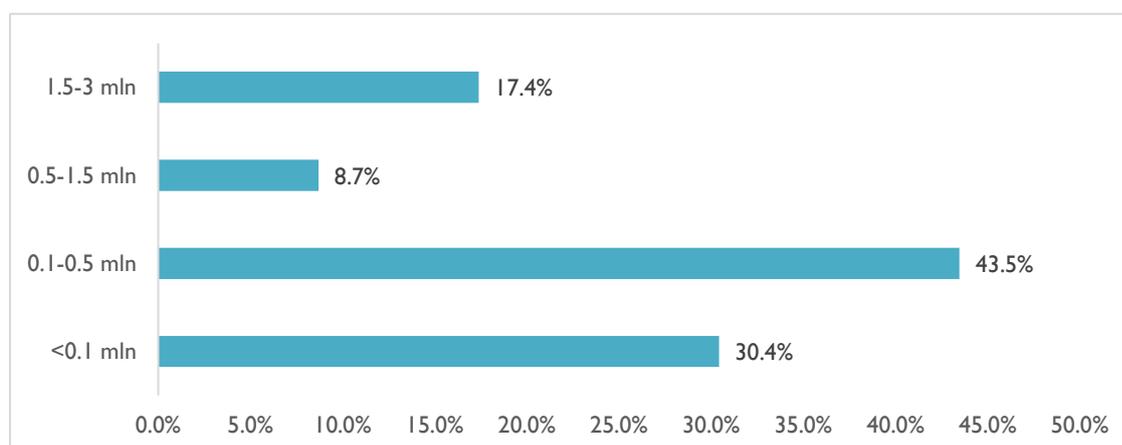
Quantitative Survey Results

Due to data limitations, the key business indicators describing the development of this business activity were obtained through a phone survey. The sample of respondents constituted 23 businesses involved in the production of PPE, registered with the NACE 14.12 (manufacture of workwear) and NACE 32.99 (other manufacturing) codes.

Most of the businesses surveyed were limited liability companies in Tbilisi and Imereti (Kutaisi). These companies produce different types of work uniforms, protective masks, and other protective medical equipment.

The declared turnover of surveyed PPE companies in the first six months of 2022 ranged from less than GEL 0.1 million to GEL 3 million (Chart 3.40). Most of the companies depicted a moderate turnover level (43.5% of the companies had a turnover within GEL 0.1-0.5 million, and 30.4% had less than GEL 0.1 million).

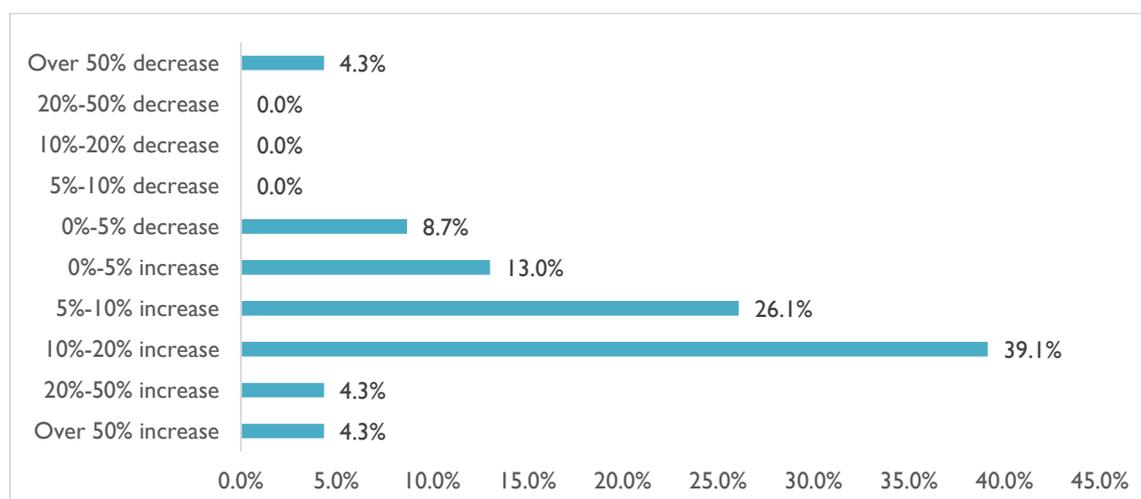
Chart 3.40 Distribution of PPE Companies by Turnover Range, 2022 Q1, Q2 (Gel)



Source: Authors' calculations

Most of the companies (87%) reported that their turnover increased in the first half of 2022 compared to the same period in 2021 (Chart 3.41). The rest of the companies (13%) reported a decline in turnover.

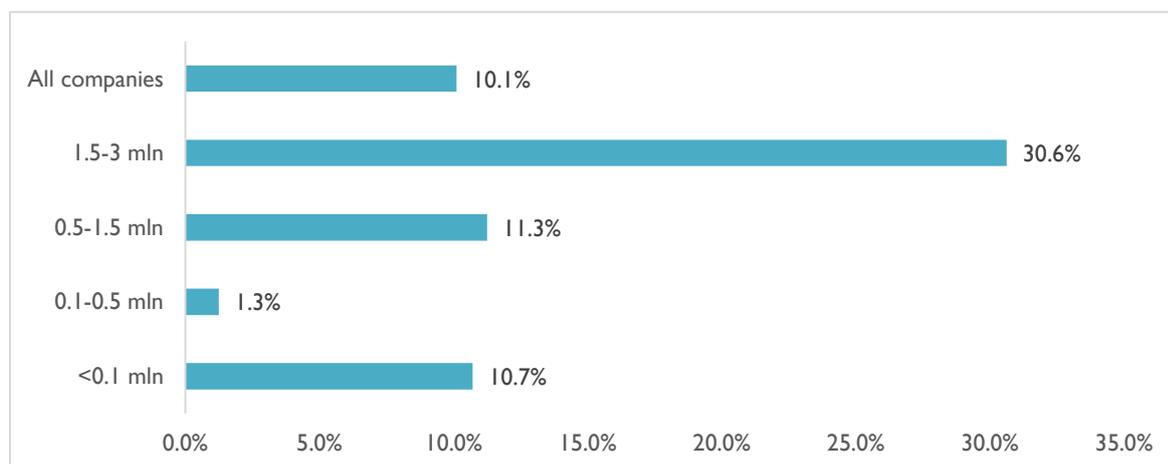
Chart 3.41 Percentage Distribution of Turnover Growth Rates in PPE Value Chain, 2021 Q1, Q2 (YoY)



Source: Authors' calculations

In the first half of 2022, the turnover of all surveyed companies has increased by 10.1% (YoY) on average. However, the companies with turnover below GEL 0.1 million experienced a slight YoY incline of 1.3%. (Chart 3.42). It should also be noted that companies with a turnover range of GEL 1.5-3 million reported a 30.6 % YoY turnover increase.

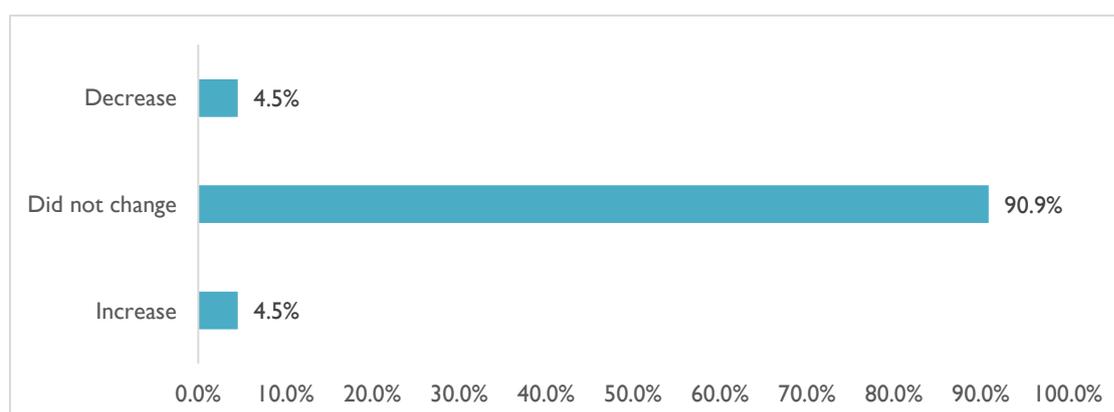
Chart 3.42 Distribution of PPE Companies Growth Rates by Turnover Range, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

The number of employed persons in surveyed PPE companies varied from 1 to 250, with a median of 15 employed individuals. Women accounted for 86.1% of employed individuals, while the share of young workers (under 30 years old) made up only 8.3% of the total employees of surveyed companies. The majority of the surveyed companies (90.9%) indicated no change YoY in employment in the first six months of 2022 (Chart 3.43).

Chart 3.43 Change in Employment, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

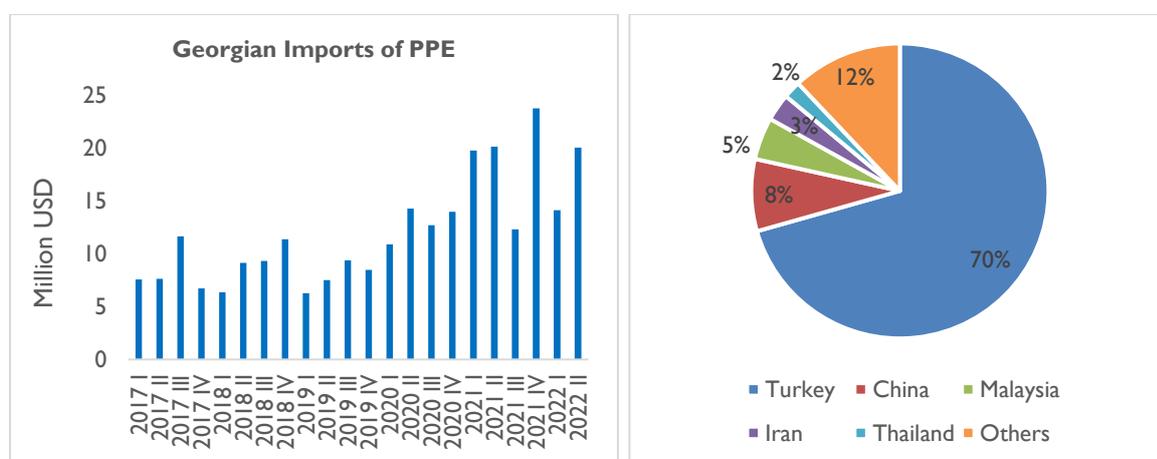
As for the average monthly salary, it amounted to GEL 979.5. More than half of the surveyed companies (56.5%) reported that the average monthly salary increased YoY by 10%-20% in the first six months of 2022. 17.4% reported an increase in monthly salary by 0%-10%, and 26.1% reported no change.

The charts below outline PPE's Georgian, regional, and global trade patterns. 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

Organization³¹, HS code classification of PPE based on EU market survey 2004³², Commission Implementing Regulation (EU) 2020/40233 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.³⁴

Chart 3.44 below presents the value of Georgian PPE quarterly imports for the period of 2017-2022, along with its top trade partners during July 2021 – June 2022. Along with ending the COVID-19 pandemic, Georgia’s import of PPE declined significantly in Q1 of 2022 compared to Q1 of 2021. Imports also declined slightly in Q2 of 2022 by 1% compared to Q2 of 2021; however, they increased compared to the previous quarter and reached USD 20 million. In terms of the equipment’s origin, most PPE was imported from Turkey (70%), China (8%), Malaysia (5%), Iran (3%), and Thailand (2%). Imports from other countries constituted 12% of total imports.

Chart 3.44 Georgia’s Imports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE import (July 2021 – June 2022)



Source: Geostat; UN Comtrade

Chart 3.45 presents the dynamics of Georgian exports and its top trading partners. Domestic exports of PPE equipment increased in Q1 and Q2 of 2022, compared to the same period of the previous year. However, in Q2 of 2022, domestic exports decreased compared to the previous quarter and amounted to GEL 4.2 million. From July 2021 to June 2022, the majority of Georgian PPE goods were exported to Poland (36%), Azerbaijan (20%), Belgium (12%), Germany (12%), and the Netherlands (6%).

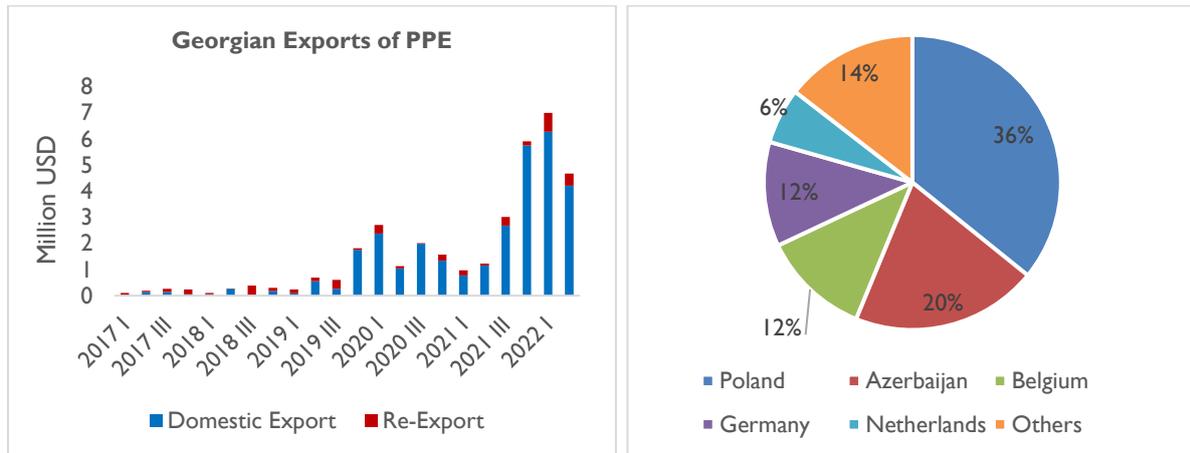
³¹ HS classification reference for Covid-19 medical supplies 2nd Edition. WCO.WHO (2020)

³² http://www.exportapymes.com/documentos/productos/Ci1033_survey_personal_protection.pdf

³³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0402>

³⁴ <https://matsne.gov.ge/ka/document/view/4841418?publication=0>

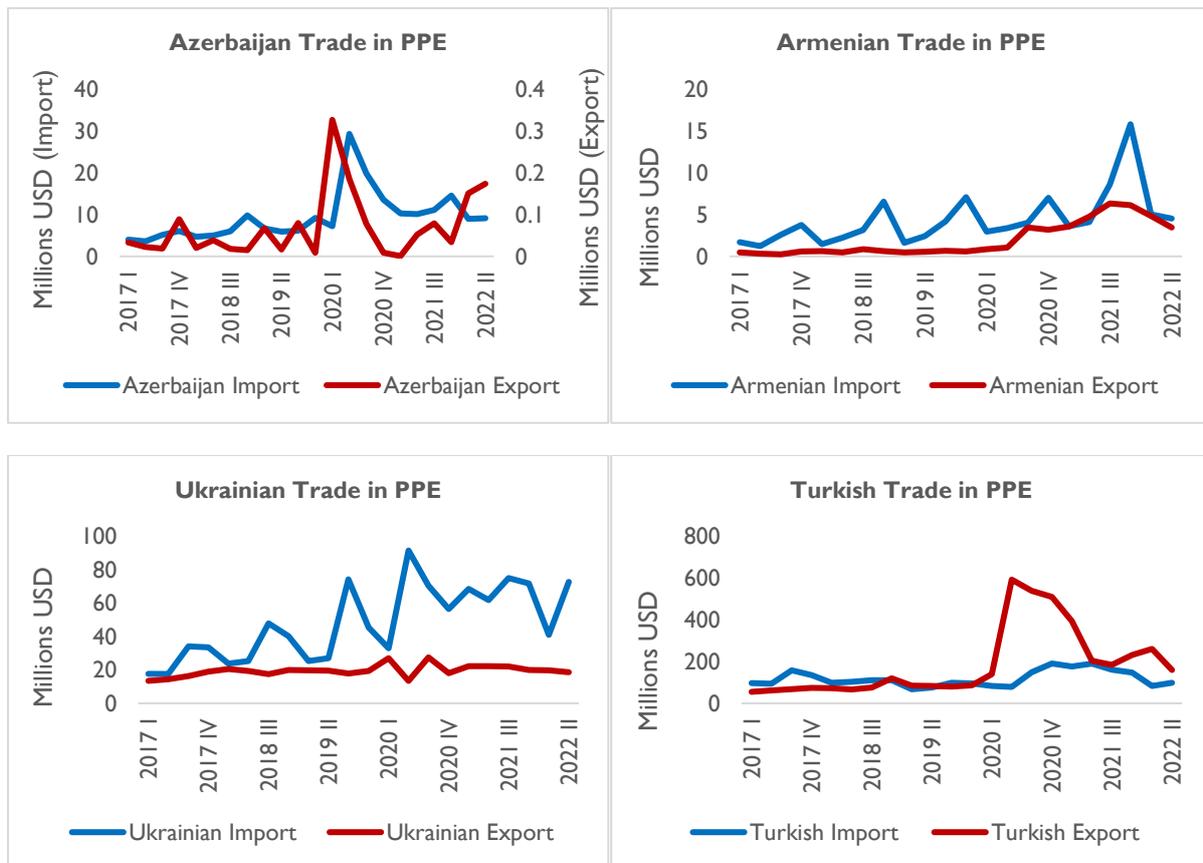
Chart 3.45 Georgia's Exports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE export (July 2021 – June 2022)



Source: Geostat; UN Comtrade

As Chart 3.46 presents, in Q1 of 2022, all countries, except for Armenia experienced a YoY decline in imports. In Q2 of 2022 YoY decrease was only observed in Azerbaijan and Turkey. As for the exports, in Q1 of 2022, the indicator decreased YoY in Ukraine and Turkey and increased YoY – in Azerbaijan and Armenia. In Q2, exports decreased YoY for all countries except Azerbaijan.

Chart 3.46 Regional Trade in PPE



Source: UN Comtrade³⁵

³⁵ Q1 2020 values for Armenian exports present sum of January and February 2020, since export for March is not reported for Armenia on UN Comtrade. Moreover, Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

Overview of Existing Challenges and Opportunities

A new round of qualitative research has revealed that business activity in this value chain is somewhat weakened compared to the pandemic period. There is no substantial growth detected in Georgian Personal and Protective Equipment production. Further, certain (e.g., LTD Elselema, LTD Elven Technologies) leading players that showed promising potential for expansion seem to have suspended their operations as of December 2022. In terms of challenges, the value chain's main restricting factors remain unaddressed. This might be explained by the fact that the private sector leadership in the PPE industry is critically low. Initiatives of certain manufacturers are scattered across the value chain, and there is no consolidated effort to benefit the value chain as a whole. Some of the challenges highlighted by private sector representatives are summarized below.

Shortage of human capital is the major impediment in this value chain. The competence level of vocational school graduates is considered insufficient, and manufacturers must train their employees at their own expense. It was also claimed that obsolete technologies were being used in the teaching process at VET schools and that there was a shortage of qualified teachers. As a result, one of the stakeholder companies, LTD Boldi, introduced its training course and offered paid training for interested individuals. After successfully completing the course, graduates are recruited into the firm's production process.

Turnover of workers, especially tailors, was said to be quite high in the value chain, leaving companies with no instruments to retain the workforce and consequently decreasing productivity. It was further outlined that producers often compete over recruiting available labor force on the market. Some manufacturers that exclusively work on tenders are in a better position to pay higher wages, leaving other market players with no prospects to recruit a professional workforce. In addition, it was mentioned that employees often find it challenging to adapt to the required quality standards, particularly in manufacturing protective medical clothing and equipment. Regarding developing innovative products, the shortage of intellectual capital in the Georgian labor market was identified as a major impediment.

Around 95% of inputs used in production are imported (mainly from China and Turkey), resulting in two potential problems. First, input prices increase at a high pace, adversely affecting the sales and competitiveness of Georgian PPE manufacturers. Second, in the case of input materials, delivery takes longer and thus delays the domestic production process, failing to meet clients' urgent needs. The latter hindrance became more prevalent amidst the pandemic when flight restrictions and lockdown measures increased the frequency of delays in input deliveries. Producing raw materials locally (for example, non-woven fabric, the sanitary textile used as one of the key inputs for producing medical clothing or three-layer membrane fabric utilized in protective vests production) is not considered profitable in Georgia yet due to high production costs and relatively small domestic market size.

Limited access to modern technology and machinery is also prominent in this value chain. Manufacturers claim that some available technologies might significantly increase their productivity. However, the affordability of such machinery is relatively low. Further, the manufacturers of workwear and service apparel (e.g., military and police uniforms) working on government tenders need expensive machinery for eco-friendly production (the latter is a tender requirement, according to respondents). As outlined, the PPE market is relatively small. Considering the current low demand, it would be difficult for the sector to invest in modern technology and scale up without substantial support.

Low access to finance is another direct challenge in the PPE value chain. Even though certain value chain representatives have benefitted from Enterprise Georgia's support mechanisms, lack of financing is still perceived as one of the major hindrances.

Lack of cooperation among industry representatives further restricts upgrading this value chain. One of the interviewed companies expressed the need to strengthen cluster approaches in the value chain to ensure better knowledge-sharing and advocacy efforts at the state level. Concerning the last point, the Sustainable Apparel Cluster ("Made in Georgia") was established within the framework of the EU-GIZ-supported Clusters4Development project, providing technical advisory services to member companies and supporting them to strengthen market linkages and export potential. Within the same project, partner apparel producers formed a Georgian Apparel and Fashion Association (GAFA), composed of apparel companies, fashion designers, and ateliers. However, one of GAFA's members expressed their skepticism that soon, this association will no longer benefit from the donor's institutional support and will have to sustain itself.

Significantly, this value chain benefitted during the COVID-19 outbreak when demand for medical protective equipment surged while the supply chains were interrupted, and borders were closed. However, as for this reporting period, this specific prospect clearly seems to have faded and is no longer relevant. In turn, there are some exporting opportunities for Georgian PPE producers considering Russia's war in Ukraine. As reported, there has recently been a certain increase in demand for PPE supplies from Georgia.

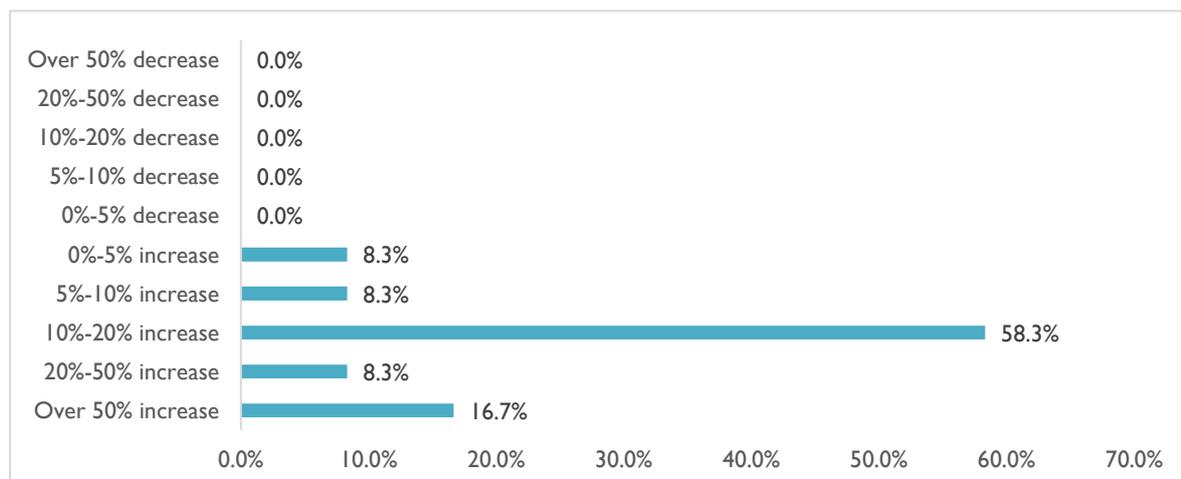
WOODEN TOYS

Quantitative Survey Results

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

All surveyed companies are located in Tbilisi, most of which are limited liability companies. In the first six months of 2022, 50% declared a turnover below GEL 0.1 million, while another 50% stated a turnover between GEL 0.1-0.5 million. In the first half of 2022, all surveyed companies reported an increase in turnover. Most of them (58.3%) reported an increase in turnover by 10%-20% (Chart 3.47).

Chart 3.47 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, 2022 Q1, Q2 (YoY)

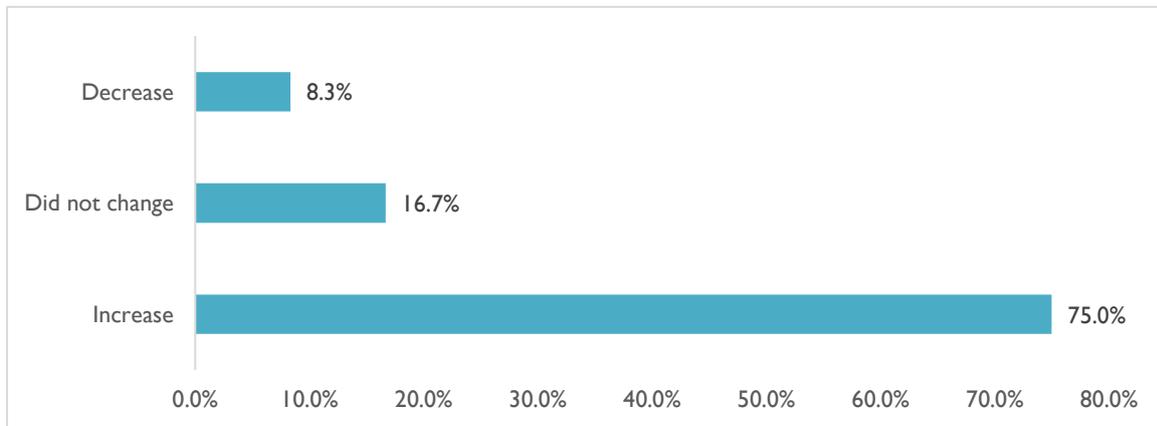


Source: Authors' calculations

The number of persons employed in the wooden toys value chain varied between 1 and 20, with a median of 9. Women constituted 33% of employed people, while workers aged below 30 accounted for 17% of total employment. Most wooden toy manufacturers (75%) increased employment in the

first half of 2022, while 16.7% of respondents reported no change. Only 8.3% of respondents reported a decrease in employment (Chart 3.48).

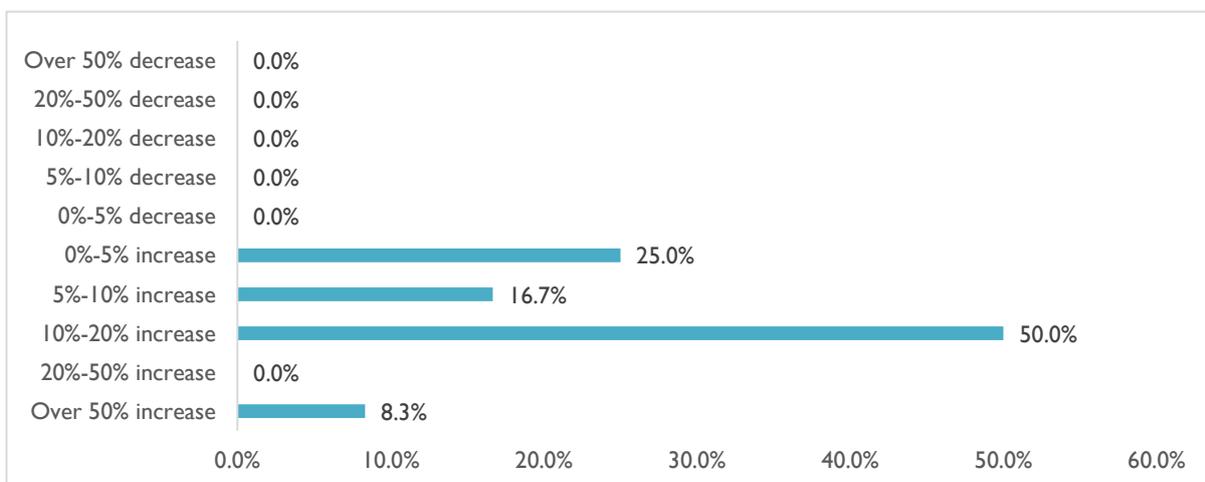
Chart 3.48 Change in Employment, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

As for the average monthly salary, it amounted to GEL 963.6. all surveyed producers reported that the average monthly salary increased in the first six months of 2022 compared to the same period of the previous year. 50% of them stated increase in monthly salary by 10%-20%, while 25% of them reported increase by 0%-5% (chart 3.49)

Chart 3.49 Percentage Distribution of change in Monthly Salary in Wooden Toys Value Chain, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

Overview of Existing Challenges and Opportunities

Wooden Toys' economic activity faces several impediments that have remained unaddressed. In short, these challenges relate to access to finance, lack of workforce (potentially stemming from lack of cooperation between VETs and the private sector), limited availability of adequate local raw materials, product certification problems, specificities of the public procurement system, and high competition from imports.

Respondents mentioned access to finance as a key problem. Due to the small production scale, wooden toy manufacturers usually cannot afford expensive bank loans and often have problems paying their employees. Due to uncompetitive wages, wooden toy manufacturers often struggle to keep the workforce at their production sites for the long term and face critically high staff turnover. For most donor assistance programs available to toy manufacturers, there is a cash contribution requirement

that also seems problematic for most local entrepreneurs due to their low liquidity. The interviewed representatives of companies mentioned that they would value the possibility of offering in-kind contributions (e.g., in the form of equipment/machines) instead of cash contributions. Moreover, when it comes to granting programs, stakeholders stated that donor organizations and government agencies sometimes base their decisions on inadequate criteria.

The product certification process is a major challenge in this value chain. Many interviewees highlighted the need for local product testing capacity. Currently, if certification is needed, they all have to send their sample products to Turkish laboratories to obtain certificates, thereby significantly increasing the cost and the sale price of their toys. Some manufacturers also declared low access to information regarding the certification process and requirements.

In the same regard, in some instances manufacturing process for wooden toys is sometimes constrained by the unavailability of high-quality, licensed local wood materials. Several interviewees claimed that adequately processed and dried wood materials with a certificate of origin are rare in Georgia. Such barriers can be a bureaucratic and financial burden when planning exports. This is especially true when it comes to beech wood raw materials. As interviewees outline, factors contributing to the poor processing of wooden inputs must be further studied to address them adequately.

Some Georgian wooden toy manufacturers find it difficult to compete with low-quality imported toys from China and second-hand toys from the US. Moreover, manufacturers claim that it happens a lot when they struggle to cooperate with Georgian toy stores. As a result, they often excessively increase in-store prices for supplied toys, making Georgian production unattractive for toy purchasers. In response, almost every wooden toy manufacturer runs an e-commerce store.

Further, Georgian wooden toys often lose against imported manufacturers in public procurements held for Georgian kindergartens. As the focus group participants argued, the procurement process does not prioritize eco-friendly wooden toy manufacture, thus putting Georgian wooden toy manufacturers at a disadvantage. Many private sector representatives claim that they have the potential to meet the demand of local kindergartens if the selection criteria in procurements are modified and perceive this as a possible instrument to ensure the future scaling-up of their business activity. In addition, it was suggested that the public procurement system could be potentially reformed in several directions: primarily, it can allow joint applications by several local companies altogether. This is already done technically - tenders are usually won by intermediary suppliers who are not manufacturers but still meet tender requirements by collecting the requested items from different suppliers (i.e., can provide all ordered items together at the lowest cost). Alternatively, tender announcements can be split in size. Currently, when tenders are announced, they usually request supplying many kindergarten sites simultaneously. For instance, providing Tbilisi and regional kindergartens together. Such scale of demand is almost impossible to meet for small-sized Georgian wooden toy manufacturers. As producers claim, applying one of the above-suggested approaches would significantly increase their participation in public procurement.

Evidently, Georgian wooden toy manufacturers have already started to comply with international safety standards. They mainly use high-quality wood and ISO-certified German painting materials that are safe for children. For this reason, the interviewed manufacturers expected their products to compete successfully with imported toys soon in light of the GoG's Decree on the Approval of Technical Regulation on Toy Safety based on the EU's toy safety directive³⁶. The new law entered into force on 1 July 2021 and is effective for locally-manufactured and imported toys. Therefore, the successful implementation of the regulation is expected to boost the sales of domestic wooden toy manufacturers.

Overall, Georgian manufacturers consider the enactment of Toy Safety technical regulations as a positive fact. However, as of December 2022, producers see no progress in quality control of the wooden toys available in Georgia. On the contrary, producers note that the regulatory requirement increased their cost of production (as safe production is costly), while low-quality toys remain available

³⁶ Resolution No.47 of 20 January 2020 on "Approving the Technical Regulation on Toy Safety," available at: <https://matsne.gov.ge/ka/document/view/4776792?publication=0>

on the market. This, as a result, negatively affected the competitive advantage of local production on the domestic market.

Representatives of this business activity have limited experience when it comes to exports. However, there are several success stories. One is of LTD Kodala – a social enterprise producing eco-friendly wooden toys and decorative pieces - which has exporting experience in German and UK markets. Elsewhere, another social enterprise, LTD Dadari, has a full export orientation and supplies the German market with 97% of its produce. Moreover, it has been revealed that France could be a profitable export destination for Georgia due to the high demand for such toys and limited local production. Regarding hindrances to exports, Georgian manufacturers outlined recent appreciation tendencies of GEL to foreign currencies, which decreases company revenues in GEL and adversely affects the profitability of Georgian wooden toy producers.

While the export precedents are limited, some companies successfully operate on international sales platforms. Recently, LTD Kodala has stored its products in Amazon's Europe warehouse and will be selling its manufacture on Amazon soon. Further, more companies have begun to position on ETSY. For instance, LTD Mtsvervali, a Georgian manufacturer of wooden toys, exports its products to the US, the UK, and UAE through Etsy.com. Moreover, LTD Katamura, a Georgian manufacturer of toy souvenirs of local fauna, has also been placed on Etsy since the summer of 2020 and mainly supplies the US market through this platform.

Regarding international e-commerce platforms, manufacturers outline two core challenges. First, their competencies in operating on these platforms are limited. In this regard, the research revealed targeted training on managing accounts on www.etsy.com. Furthermore, producers claim that postal services are weak, and it happens a lot when sent products are late in reaching their destination.

Further, the interviewed companies highlight the need to expand their networks and partnership opportunities within the business activity of wooden toys to tackle existing problems and achieve future growth. The manufacturers of wooden toys have not yet found an association with toy manufacturers. There have been several attempts made by local producers to establish such an entity, but these efforts have been unsuccessful so far.

4. SOLID WASTE MANAGEMENT AND RECYCLING

SECTOR SUMMARY

According to the quantitative assessment of the quarterly data, solid waste management and recycling turnover demonstrated significant positive nominal growth in Q1 of 2022 (31.4%) compared to the pandemic first quarter of 2021. It should also be noted that the YoY increase in turnover slowed down in Q2 of 2022 and amounted to 9.0%. Employment in the sector has decreased slightly (YoY) in Q1 of 2022 (-0.5%) and increased (YoY) in Q2 of 2022 with an annual growth rate of 1.7%. In contrast to employment, the average monthly salary grew significantly in Q1 of 2022 (25.7% YoY) and Q2 of 2022 (14% YoY). Productivity in the sector also increased, with an annual growth rate of 30.9% in Q1 and 6.1% in Q2 of 2022.

The qualitative assessment showed no significant progress in the central impediments that have limited the overall upgrade of this sector. However, enacting four technical regulations to introduce Extended Producer Responsibility (EPR) in certain waste streams has some potential to induce a positive change in this sector. Nevertheless, core regulatory challenges are still at the center of private sector attention - implementation of the Georgian Waste Management Code is improper; Extended Producer Responsibility (EPR) legislation has not yet been enacted for packaging products. Nevertheless, growth in all business activity parameters is projected once these regulatory changes are in force.

Businesses that make up the solid waste management and recycling sector claim to have significantly higher production capacities than the current scale of their manufacture. However, Georgia's shortage of recyclable waste is a critical barrier in this direction. The permanent waste shortage also scares domestic and foreign investors to get interested and seeking returns in this sphere.

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

Businesses that make up this sector report high staff turnover and outline the reluctance of the labor force to join the recycling factories of waste management actors. Two core reasons explaining such scarcity are increased labor migration to the EU/US and seasonal employability opportunities emerging during spring and summer (at tourist or construction sites).

There are some precedents of partnerships with the public sector. Nevertheless, all of the cooperation instances have been sporadic. For instance, the Waste Management Association (WMA) of Georgia, which is active in this sector, has attempted to collaborate with Rustavi municipality to distribute separable recycle bins across the municipality. Unfortunately, this process has been terminated, like many partnership projects executed in the Waste Management sector. Nevertheless, a better understanding of the capacities of the parties participating in waste management has significant potential to yield lasting positive impacts regarding the development of this sector.

Overview of Economic Indicators

The following section provides an overview of quantitative indicators for the solid waste management and recycling sector along with the corresponding aggregate sector (water supply, sewerage, waste management, and remediation activities)³⁷.

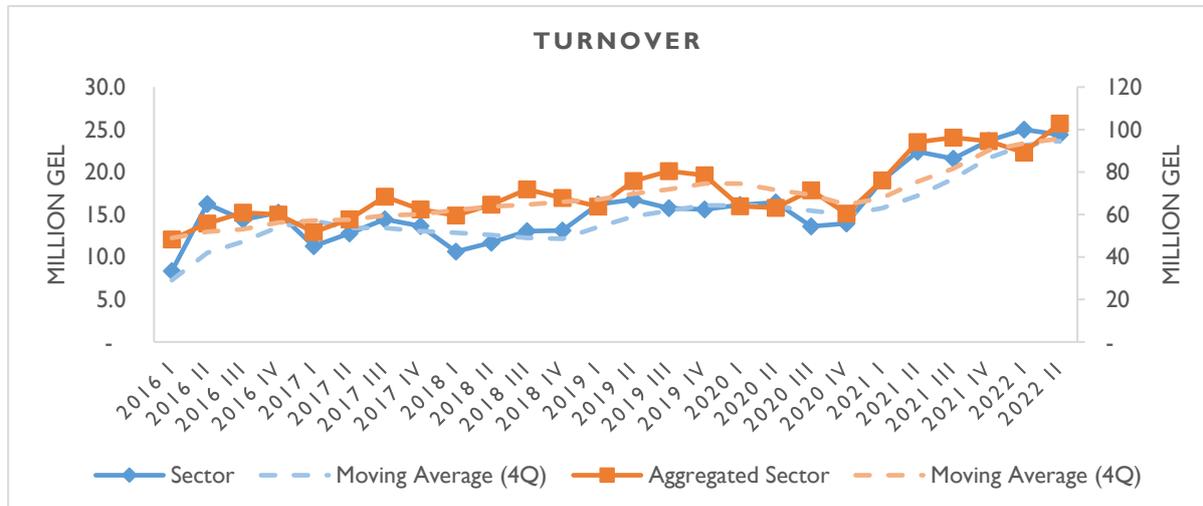
The solid waste management and recycling sector is matched with the following economic activities as classified in NACE Rev. 2 at a 2-digit level (Table 4.1). The data on these NACE codes are available at both annual and quarterly frequencies.

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

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

In the first quarter of 2022, turnover for the solid waste management and recycling sector has increased significantly by 31.4% YoY and amounted to GEL 25.4 million. In the second quarter of 2022, turnover for the sector has declined compared to the previous quarter, amounting to GEL 24.4 million; however, that is still 9% higher compared to Q2 of 2021 (YoY). The turnover for the corresponding aggregated sector increased as well in Q1 of 2022 (17.2% YoY) and Q2 of 2022 (9.4% YoY) and reached GEL 103 million at the end of the first half of 2022 (Charts 4.1 and 4.2).

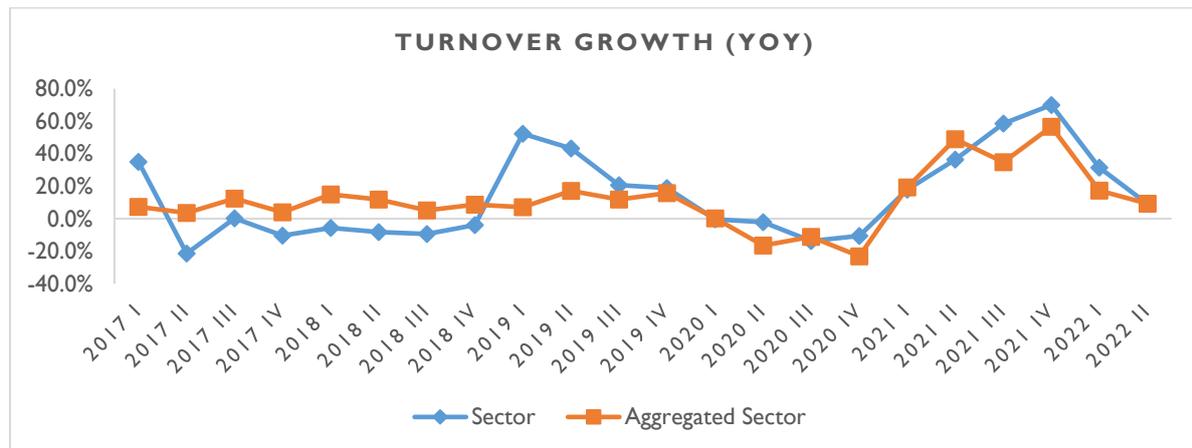
Chart 4.1 Turnover of the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

³⁷ Throughout this section, “sector” will refer to solid waste management and recycling, while “aggregated sector” will refer to water supply, sewerage, waste management and remediation activities.

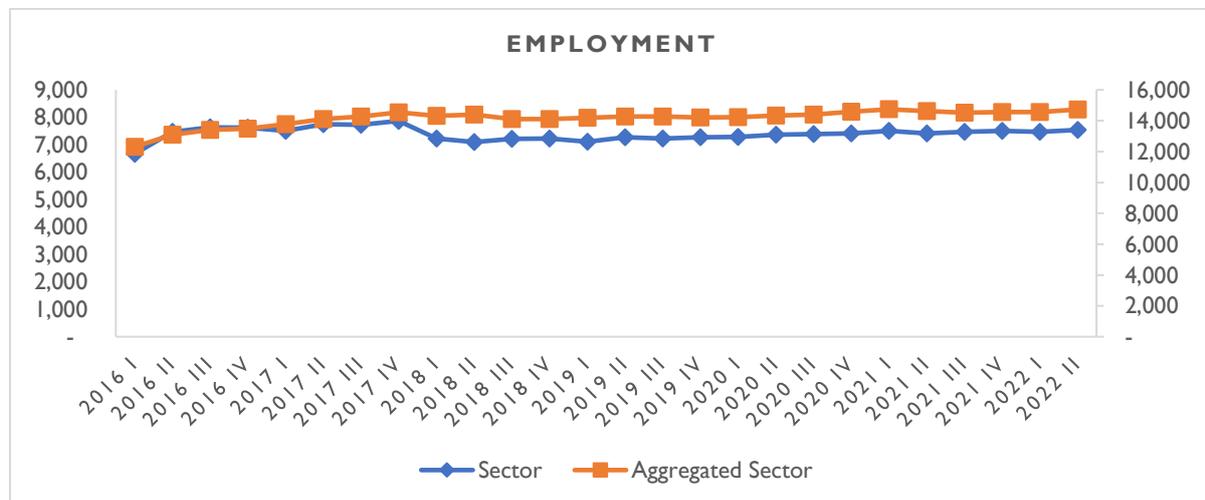
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

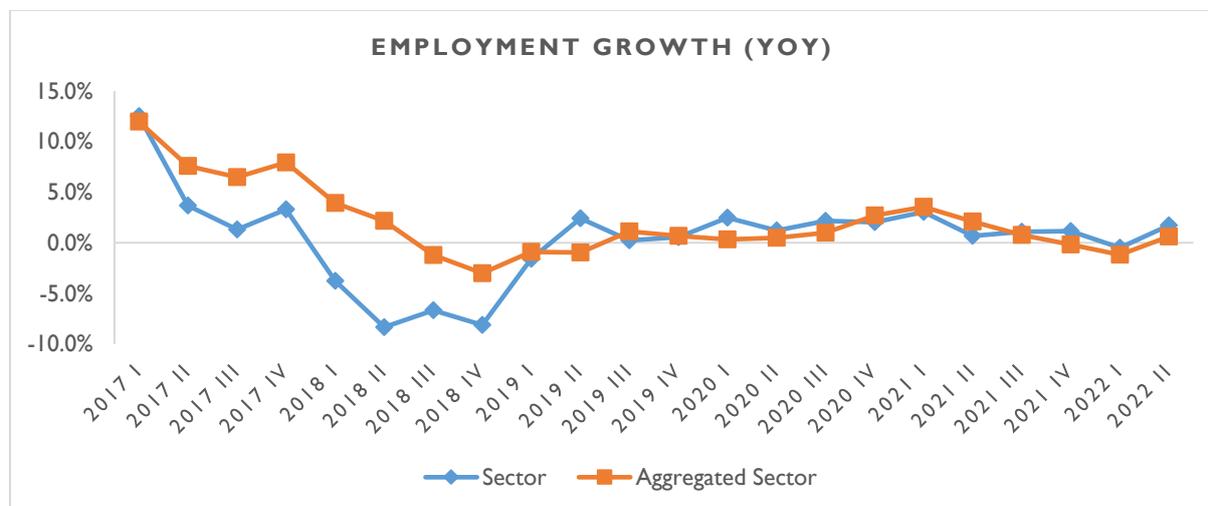
Charts 4.3 and 4.4 present the dynamics of employment and its annual growth rates in the solid waste management and recycling sector and the respective aggregated sector. In the first quarter of 2022, employment decreased significantly YoY by -0.5% for the solid waste management and recycling sector and increased slightly in the second quarter of 2022 (1.7% YoY). By the end of Q2 of 2022 number of employees reached 7,539 people. The number of hired employees presented a similar trend in the aggregated sector. Employment decreased in Q1 of 2022 (-1.6% YoY) and increased at a moderate speed in Q2 of 2022 (0.6% YoY), amounting to 14,724 people by the end of the first half of 2022.

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



Source: National Statistics Office of Georgia

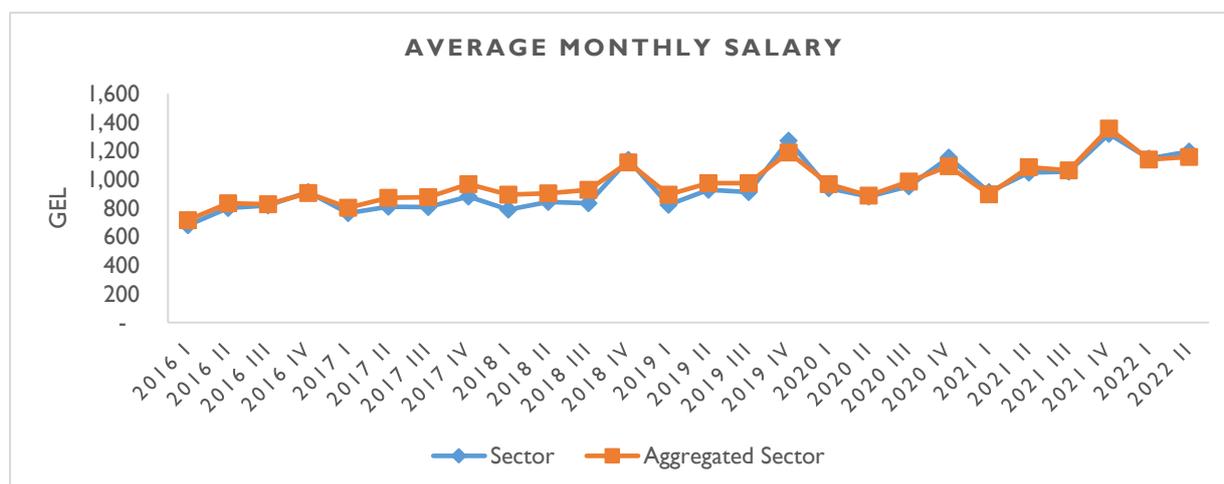
Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 4.5 shows that the average monthly salary in the solid waste management and recycling sector increased YoY in Q1 (25.7%) and in Q2 (14%) of 2022, amounting to GEL 1,146 and GEL 1,195, respectively. The average monthly salary in the aggregated sector also increased in both quarters and amounted to GEL 1,140 and GEL 1,156 in Q1 and Q2 of 2022, respectively. The average monthly salary for the sector holds slightly above the salary of aggregated sector in the first half of 2022.

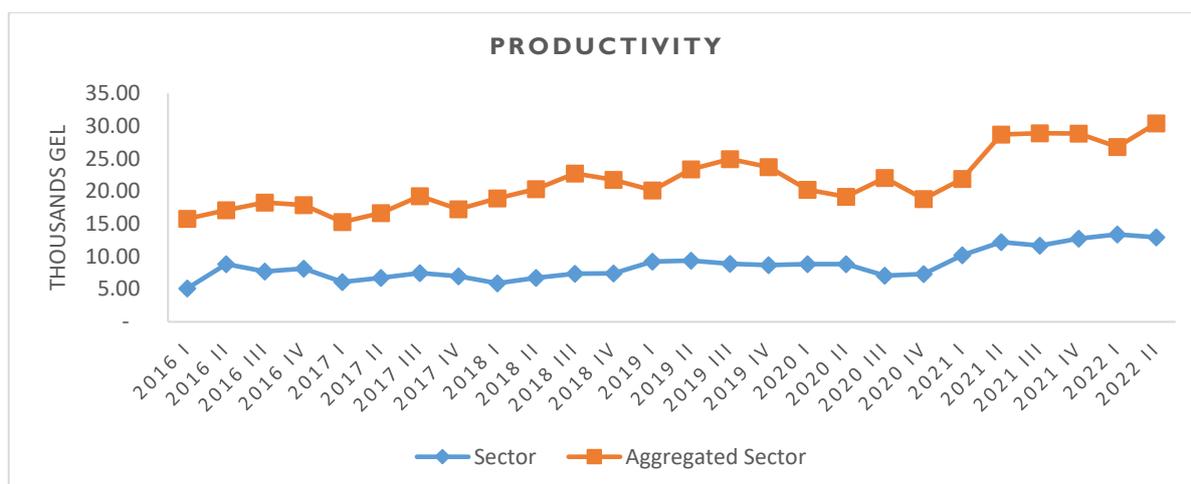
Chart 4.5 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The productivity in the solid waste management sector increased in Q1 of 2022 (30.9% YoY) and amounted to GEL 13,391. A significant annual increase in Q1 slowed down in Q2 of 2022 (6.1 % YoY), and productivity amounted to GEL 12,951. The aggregated sector's productivity increased YoY in Q1 and Q2 of 2022, amounting to GEL 26,802 and GEL 30,399, respectively (chart 4.6).

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



Source: National Statistics Office of Georgia

Overview of Existing Challenges and Opportunities

The key challenges the sector representatives face remain mostly homogeneous across waste streams. However, the sector has significant potential to upgrade, given that it does not currently operate at its total production capacity. As a result, producers suffer from a permanent shortage of waste used as raw material in manufacturing. In this regard, there are two regulatory changes that, if implemented successfully, might solve the problem of raw material shortage in Georgia.

First, the absence of separate waste collection practices is considered a major obstacle at the national level. Several significant steps have been taken in Georgia recently to create a more environmentally friendly and robust waste management system. For instance, the Georgian Waste Management Code (WMC), adopted in 2015, obliged municipalities to collect municipal waste and gradually introduce and properly establish separate waste collection practices. Nonetheless, the implementation of the WMC has been poor, even in Tbilisi municipality, which is often recognized as a frontrunner in implementing the green agenda. As a result, businesses operating in different waste streams have competed over available waste resources nationwide. Additionally, due to bureaucratic barriers, some companies cannot access municipal waste at landfills to obtain the necessary inputs for their production.

Second, to promote waste sorting by private sector representatives, as stipulated by the WMC, Georgia is implementing an innovative policy approach known as Extended Producer Responsibility (EPR). EPR obliges producers/importers of products that become specific waste to properly organize, collect, and treat their generated waste. EPR relates to waste streams: packaging; electrical and electronic equipment; end-of-life tires; used oils; end-of-life vehicles; used batteries; and accumulators.

As of December 2022, significant policy changes have been enacted in Georgia regarding EPR. The country has already adopted technical regulations for four (out of six) waste streams: waste batteries and accumulators, waste tires, waste electric, and electronic equipment, and waste oils. However, the implementation of two technical regulations for end-of-life vehicles and packaging products (including plastic packaging) is still pending; the latter (packaging) is considered a major bottleneck for Georgia on its way to significant progress in waste collection practices.

According to the new regulatory changes, all producers/importers of products that generate specific waste subject to EPR must register on the electronic portal and become members of an authorized organization (Association), unifying all responsible waste producers. Furthermore, companies, as part of an authorized organization, have an obligation to meet annual targets of collecting a certain amount

of annually generated waste across Georgia. For instance, at least 20% of tire waste generated in 2023 has to be collected by tire producers/importers.

As for this reporting period, three organizations have been authorized in Georgia concerning EPR – "Tegeta Green Planet," "Waste Management Business Association," and "Geoprofessional Business Association for Extended Producer Responsibility." At this point, these associations unify up to 6000 producers/importers from all four waste streams. While such tendencies are positive for growing this sector, the upcoming period will be critical for assessing the primary impacts of this policy change.

In light of the weak implementation of the waste management regulatory framework, the local availability of inputs is critically limited in Georgia. Moreover, only a tiny share of the raw materials utilized in the production process are imported (e.g., liquid waste such as waste oil). Overall, waste import is associated with a substantial regulatory burden and bureaucracy. In this regard, a tire recycling company representative reported that the impossibility of importing their inputs from neighboring countries was a major hindrance for them to collaborate with their foreign partner. As revealed in the interviews, Georgia is moving towards further restricting imports of unprocessed plastic waste on its territory. According to the interviewees, from an efficiency point of view, this initiative might have a reasonable rationale, considering the environmental consequences of unprocessed waste imports and the amount of unutilized waste already available in the country. However, as interviewees claim, while locally generated waste is limited, importing inputs should be a temporary solution for them to fully utilize their production capacities.

Overall, the low availability of local inputs results in the inefficiency of the waste management sector. Some producers report operating only at 10% of their production capacity. Nevertheless, it is noticeable that over time, more waste becomes accessible to Georgian producers. Some interviewees highlighted that availability of raw materials in the country was tightly linked to the developmental pace of the Georgian economy. For instance, as tourism inflow increases in the country, more plastic waste becomes accessible to representatives of this sector. In contrast, the amount of available waste was critically limited during the stringent lockdown phase.

Packaged goods produced in the sector cannot properly compete with imported products. In addition, the majority of final manufactured goods in the sector are of moderate quality due to the outdated machines used in the production process. Moreover, the absence of economies of scale increases prices for packaged goods and makes domestic firms less competitive against importer companies. Upgraded production lines would, however, increase the value-added of final products. In this direction, as of December 2022, more companies have reported quality improvement for their packaged goods. Moreover, two interviewed firms (LTD Biodiesel and LTD TRC) are significantly improving their production capacities.

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

While some manufacturers export to foreign markets, most value chain representatives are only oriented toward domestic growth. Most of the interviewed manufacturers declared having no current exporting practices; however, they highlighted having it in their agenda of future operations. Some examples of exported recycled products mentioned include PET38 bottle flakes, glass, paper packaging materials, tire rubber granules, biodiesel, and electrical and electronic equipment. In this regard, a newly launched recycling site of Polyvim LLC is projected to have substantial exporting potential. So far, Polyvim LLC, after a year of its market operations, reports having five stable exporting destinations– Netherlands, Greece, Lithuania, Romania, and Austria. LTD Bio Diesel Georgia's representative also highlighted that export orientation was part of their survival strategy amidst the

³⁸ Polyethylene Terephthalate

pandemic. So far, Biodiesel Georgia exports in several countries: Germany, Netherlands, Portugal, and Austria.

Local competition between manufacturers in the sector differs depending on the type of waste. In some cases, a solitary company is on the market recycling the given type of waste. In contrast, in other cases, several producers compete over the available waste resources. However, the situation has not changed noticeably as of December 2022. Moreover, due to a lack of standardization requirements in Georgia, there are cases when specific types of waste go to the producer who lacks certification and might be unaware of the specificities of the corresponding recycling process. Such practices might bring lasting harmful consequences when it comes to, for instance, used cooking oils that can damage human physical health. In this regard, the interviewees highlighted the importance of introducing standardization requirements for businesses operating in the country's solid waste management and recycling sector.

Some interviewees highlighted that the sector lacks both foreign and domestic investments. Georgian investors are generally reluctant to fund projects related to waste management due to a lack of familiarity with the specificities of these economic activities. In contrast, foreign investors lack trust in Georgian waste management practices. There are not many known cases of significant investment in this sector but that of Polyvim LLC, an Iranian venture constructing a PET bottle recycling factory in Georgia. Polyvim LLC, founded in 2018, launched its operations in November 2021 and has already penetrated five foreign markets. The factory recycles Polyethylene Terephthalate and plans to expand its operations by further recycling polymeric waste. So far, the company employs 50 individuals but will soon increase its employer base by 100 additional workers. Together with Polyvim LLC, as of December 2022, LTD Biodiesel Georgia also announces further expansion of its manufacture. In total, this company plans to invest an additional 13 million EUR in upgrading its production and employing up to 400 workers.

Despite such plans for future workforce engagement, this sector suffers from a labor shortage. Most producers (except Polyvim LLC) report high staff turnover and outline the unwillingness of the labor force to join the recycling sites of the waste management sector. Two core reasons explaining such scarcity are increased labor migration to the EU/US and seasonal employability opportunities emerging during spring and summer (at tourist or construction sites).

Private sector consolidation in this sector is moderate. Most market players are members of the Waste Management Association (WMA), which unifies 25 members with no recent additions. The Association has service offerings for sector representatives, including networking, advocacy, technical assistance, and information-sharing. It also plans to conduct a series of training regarding compliance audits of labor safety and environmental protection. Through the Association, member companies also participate in international fairs and exhibitions. However, as evaluated by interviewed representatives of the private sector, they often fail to utilize WMA's capacities to advocate their interests at various levels of the state. In turn, the Association is more of a formal platform for sectoral consolidation.

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

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

5. SHARED INTELLECTUAL SERVICES

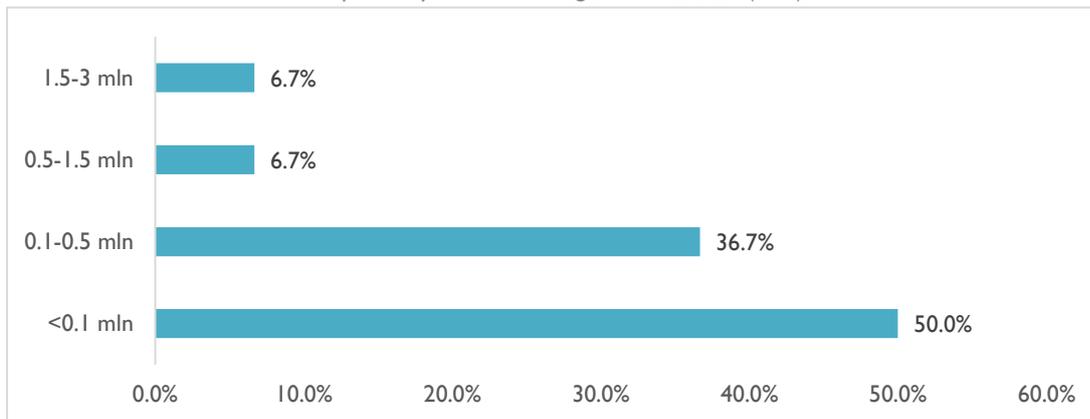
Under the shared intellectual services sector (SIS), this report observes economic trends and findings of qualitative analysis in the Business Processes Outsourcing (BPO) value chain. Four business activities of the BPO value chain are covered in this given analysis: Human Resource Management (HRM), Customer Relations Management (CRM), Finance and Accounting (F&A), and Architecture, Design, and Engineering (ADE).

Quantitative Survey Results

Due to data limitations, the key business indicators describing the development of this sector were obtained through a phone survey. In total, 31 companies were surveyed within SIS.

Half of the surveyed companies were small businesses, with turnover below GEL 0.1 million (Chart 5.1). 6.7% of the companies reported a relatively high turnover level of GEL 0.5-1.5 million, and another 6.7% - GEL 1.5-3 million.

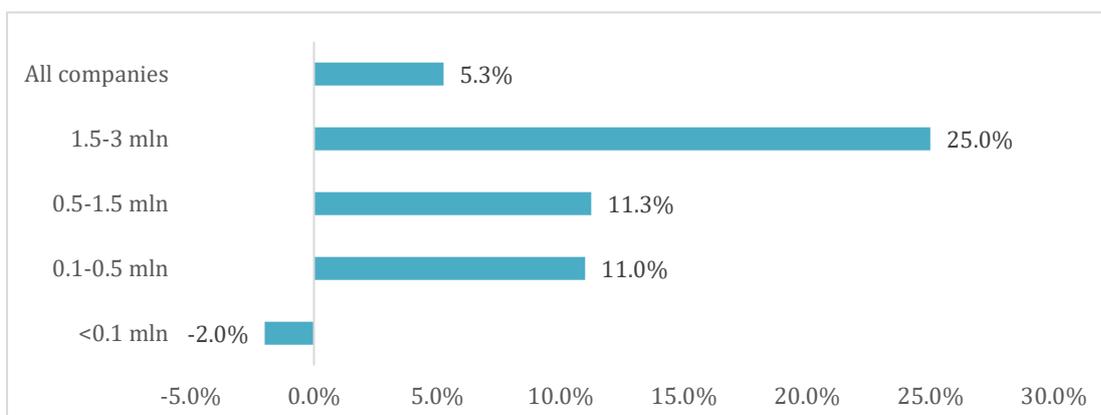
Chart 5.1 Distribution of SIS Companies by Turnover Range, 2022 Q1, Q2 (GEL)



Source: Authors' calculations

In the first half of 2022, the turnover of all surveyed companies increased by 5.3% (YoY) on average. However, the smallest companies with turnover below GEL 0.1 million experienced a slight YoY decline of -2%. (Chart 5.2).

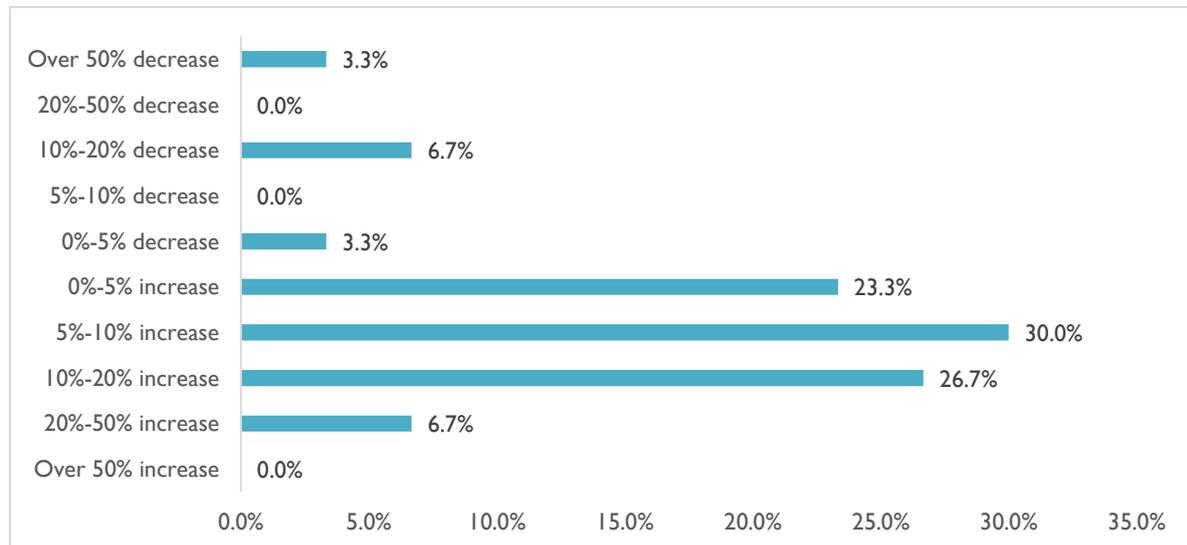
Chart 5.2 Distribution of SIS Companies Growth Rates by Turnover Range, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

Most companies (86.7%) reported an increase in their turnover in the first half of 2022 compared to the same period in 2021 (Chart 5.3). The majority (80%) reported an increase in turnover between 0%-20%, while only 6.7% stated an increase in turnover by 20%-50%.

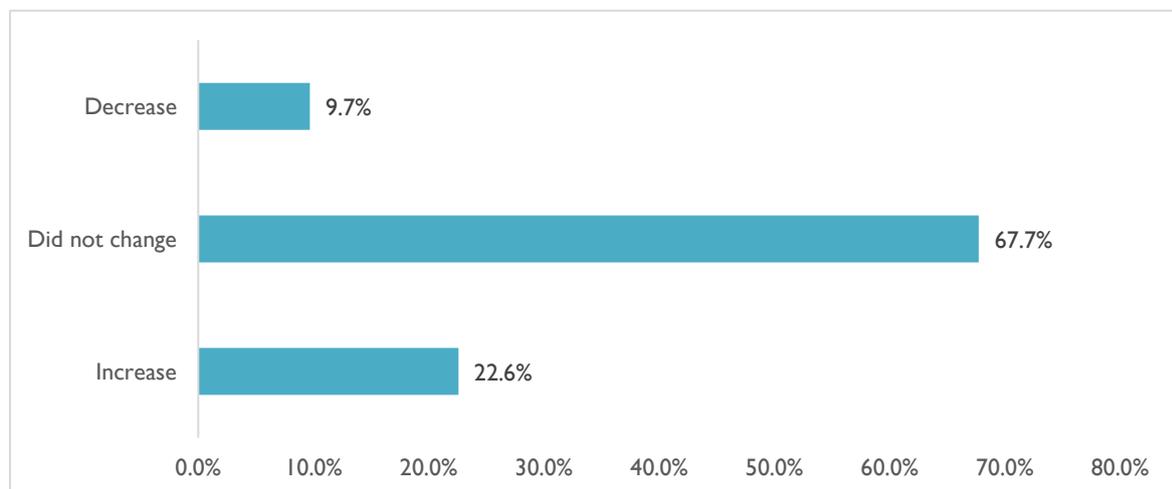
Chart 5.3 Percentage Distribution of Turnover Growth Rates in the SIS Value Chain, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

The number of employed persons in surveyed SIS companies varied from 1 to 2500, with a median of 6 employed individuals. Women accounted for 69.5% of employed individuals, while the share of young workers (under 30 years old) made up almost half (49%) of the total employment of surveyed companies. 67.7% of companies indicated no YoY change in employment in the first six months of 2022. (Chart 3.4).

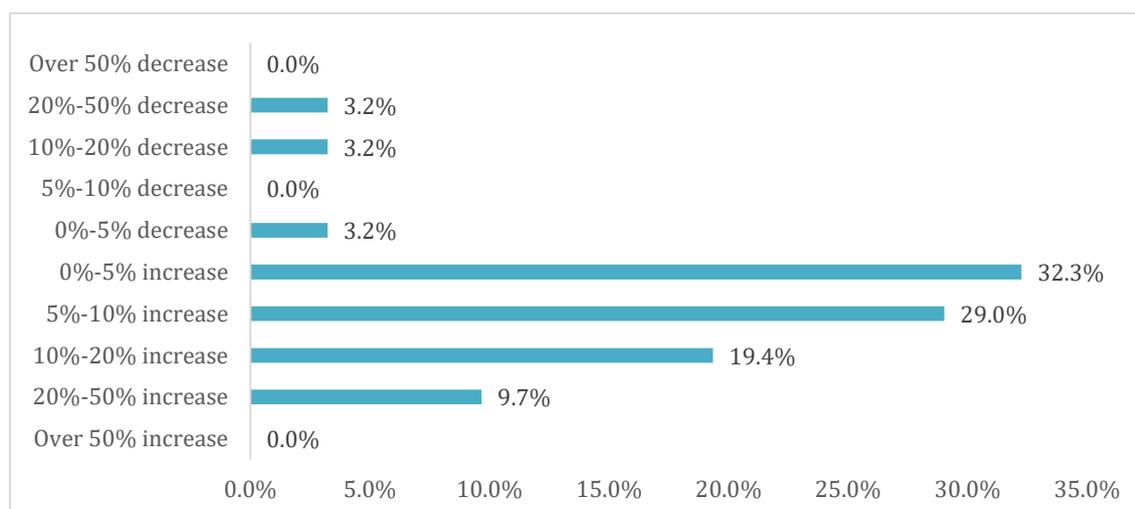
Chart 5.4 Change in Employment, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

As for the average monthly salary, it amounted to GEL 1,903.3. Most surveyed companies (90.3%) reported that the average monthly salary increased YoY in the first six months of 2022, while 9.6% reported a salary decrease (Chart 5.5).

Chart 5.5 Percentage Distribution of change in Monthly Salary in the SIS Value Chain, 2022 Q1, Q2 (YoY)



Source: Authors' calculations

Overview of Existing Challenges and Opportunities

Qualitative analysis revealed that two stressing challenges remain universal across the BPO value chain. The first challenge relates to the lack of qualifications on this value chain's demand and supply sides. The scarcity of relevant market-oriented educational programs has been identified as the root cause of this barrier. What else, intensified drain of human capital from Georgia and the overall lack of human resources availability was named as an additional hindrance in this direction. Another main 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 introducing such standards will elevate the quality of services provided. However, consistent advocacy efforts to tackle described challenges are not observed so far.

HUMAN RESOURCE MANAGEMENT (HRM)

HRM is an emerging industry in Georgia with the 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 industry's overall development. However, the pace of progress against major 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 services. As emphasized by some focus group participants, it is common for HRM to be entirely associated with solely administrative and recruiting activity 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 the 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 a separate discipline at the intersection of different fields. As a result, there is a lack of HRM professionals on the market that can deal with emerging market demand regarding optimizing HRM services. As one of the interviewees claimed, there is a clear need for digitalizing HRM processes in Georgia. Nevertheless, HRM professionals struggle to champion leading in this direction. To some extent, any future upgrade of this business activity will depend on separate academic degrees in HRM being developed so that the sphere is appropriately understood, allowing its full potential to be exploited.

- Shortage of human capital was mentioned to be another barrier to developing this business activity. The lack of availability of human resources on the market has become even more visible recently, as the borders have been opened and labor migration to the EU/US has intensified. Some industry players further noted that to retain the available workforce, companies often increase their wage offerings, raising average wage levels in the country. Increased labor costs, in turn, might adversely impact business development in Georgia, including the development of HRM business activity. As industry representatives claim, a strategic vision of human capital development for the country is required to address this barrier.

Some business players also outline the need for introducing qualification requirements for HRM services. Professional standards are understood as the main precondition to overcoming ongoing challenges that this business activity faces. In this direction, HR Professionals Association periodically organizes meetings with a large pool of industry players. The primary motivation of these meetings is to form working groups and draft HRM professional standards that would later be advocated to gain validation from the 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. Interestingly, some service providers claim that it will be of no use to standardize this business activity in the constantly changing context.

Recruiting and headhunting services clearly dominate 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. Therefore, the business activity does not have particularly large business players. However, some firms, such as Insource, Employment Agency HR (hr.ge), Adelante, HR4B (HR for Business), and 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 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), a membership-based organization for professionals in the sphere. The organization provides the following services for its members: professional development, advocacy, and networking. In addition, the HRPA also supports the employability of future talents in the sphere. The association has around 350 members as of December 2022, which is a more than twofold increase compared to the previous reporting period. Significantly, the association engages corporate members, with 18 corporate additions.

Currently, according to the evaluations by interviewed private sector representatives, Georgian HRM providers, at large, do not have the potential for global expansion as they cannot 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 in the Georgian HRM market mainly relate to HR administration - HRM service that manages employee contracts, agreements, and personal information, thus is regulatory regime-specific and inflexible to export. As representatives of this business activity outline, language might be another barrier to penetrating some 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.

Regarding export potential, many interviewed respondents highlight 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, such as self.ge – HRM software operating for 1.5 years only and providing e-management of different administrative processes, employee timekeeping, managing vacations, and schedules. As for December 2022, the company is expanding solely on the Georgian market, with plans to penetrate different foreign markets without significant experience in digitalizing the HRM processes. As some participants outlined, this direction has the potential for value generation, and its further advancement will ensure substantial 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 utilized primarily 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 example, 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 the fall of 2020.

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

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

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 for the new reporting period, no novel impediments have been identified restricting CRM operations. In turn, this business activity has been resilient towards recent exogenous shocks. Although some CRM operators report stagnation in their current business operations, overall, field representatives in CRM constantly attempt to expand their presence locally and internationally, add new service directions and penetrate new foreign markets.

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, Georgian firms are engaged in this business activity that, either offers offshore CRM services to foreign markets or outsources 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. On the other hand, 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. Still, they have not decided on a niche service offering under CRM that might be attractive to foreign markets. Significantly, Russia's war in Ukraine and international sanctions on Russia have taken their toll on CRM service providers in Georgia. As a result, many of the significant ongoing CRM projects in the country targeted the Russian market, while many such operations have been disrupted. Nevertheless, diversified service portfolios enabled CRM operators to activate other, more stable international markets.

Demand for CRM services, in the case of local and international operators, stems from a wide range of industries, from healthcare to e-commerce and IT. The companies interviewed work intensively to increase their customer portfolio. However, their operational capacities are currently 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 the CRM skills component into the Georgian VET curricula was hampered because of bureaucratic difficulties and a lack of qualified teachers who would train the workforce. Nevertheless, better cooperation with the public sector can further improve social outcomes as, for example, some of the interviewed companies declare their willingness to employ vulnerable social 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 campaigns in public. It would be beneficial if the public sector also contributed to information-sharing efforts regarding CRM employment opportunities for the population. This would potentially prepare the necessary talent pool for future employees.
- More it expands, CRM increases its demand for a qualified workforce. As representatives of this business activity outline, the freely available workforce for CRM becomes meager 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 the 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 need improved access to quality infrastructure. Primarily, a more robust internet connection was highlighted as essential. Additionally, CRM operators grow their demand for class-A office spaces and reliable maintenance services (e.g., for air conditioning systems). Meaningfully, the shortage of high-quality office spaces is a significant problem in Tbilisi and the regions. Therefore, 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 essential factor. It might enable small-sized CRM firms to expand their operations and be better prepared to enter foreign markets.

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

FINANCE AND ACCOUNTING (F&A)

Under the F&A business activity, there are two core activities. First, 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 must 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 financial management, budgeting, financial planning, attracting investments, and raising funds for business operations.

Depending on the categorization of enterprises per the volume of i. total value of their assets ii. generated revenue, and iii. an average number of persons employed firms in Georgia are divided into four enterprise categories with different reporting requirements before SARAS³⁹. Due to the reporting requirements, compared to finance, accounting is at a relatively more advanced stage of development in the country.

Many small accounting firms, mainly specializing in outsourced accounting, compete intensely 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 most significant players in the market, known as the Big Four, have significantly contributed to building up knowledge and qualification domestically. This business activity has several local and international professional unions and associations. These platforms offer networking services, share and spread industry-specific knowledge, and, in particular cases, are delegated specific 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 brings together up to 7000 professionals of the sphere and 55 companies, making up 92% of the accounting market in Georgia. The GFPAA is responsible for 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 the state level. Besides the GFPAA, several focus group participants 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. Besides its obligation towards enterprises to meet International Financial Reporting Standards (IFRS), SARAS oversees the certification process of professionals and introduces quality control standards for the firms.

Some interviewed experts in this sphere outlined that as SARAS has substantially regulated the direction, current business activity measures (e.g., turnover, employment numbers) of F&A are artificial and do not reflect natural industry growth trends. This, in turn, has adverse impacts on the quality of accounting and auditing services provided on the market by those small firms that have just emerged on the scene in the course of the new law enactment. In this regard, it was noted as problematic that there is no control mechanism, or any functioning feedback system established for checking the quality of filed financial statements.

One of the interviewees further pointed out that only a tiny share of the active auditing firms is capable of fully complying with national regulatory requirements - most market players do not possess enough resources to provide quality auditing. Instead, some of them can well specialize in accounting only. 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. For most companies, foreign markets and their specificities primarily are unknown. In addition, 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 a qualified and experienced workforce. Moreover, the domestic demand and compliance standards set by SARAS often absorb the total national capacity of accounting services.

³⁹ See more information regarding reporting requirements in the Law of Georgia on Accounting, Reporting, and Audit. Available at: <https://matsne.gov.ge/en/document/download/3311504/4/en/pdfn>

As conducted qualitative interviews revealed, recently, there has been an increase in demand in Georgia for accounting, auditing, and assurance services provision. The opening the economy in the post-pandemic period might be regarded as the primary explanation for such a trend. In accounting, there is an increase in demand from companies engaged in international trade – either (re)export or import their products. What else, some portion of demand stems from firms receiving state agency grants from Enterprise Georgia and Rural Development Agency.

The F&A business activity has real upgrading potential when it comes to financing. 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. 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. Managers, especially small enterprises, sometimes lack a basic understanding of tax compliance, financial reporting, investor relations, etc. As a result, businesses do not comprehend the full benefit of quality financial reporting and only conduct mandatory procedures to comply with regulations in the short term. Such misconception of the benefits of financial accounting partially explains the lack of qualifications on the side of service provider companies. According to one of the interviewees, businesses that fully acknowledge the benefits of quality reporting will demand high standards of service provided.

Overall, the advancement of the F&A business activity positively correlates 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 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 representatives engaged in the ADE business activity, including professional unions, individual architects, industrial and product designers, urban planners, and other stakeholders.

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

- According to some participants, the absence of a mandatory certification requirement for architects is a crucial challenge. Even though none of the respondents claimed that certification would solve all of the problems faced in ADE, most of them outlined that certification was a necessary tool in determining a fairer market price for architectural services in Georgia. Moreover, it is believed that if administered appropriately, the mandatory certification can increase service providers' credibility by introducing 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 Georgia⁴⁰. The primary version of the code envisaged adopting the policy change in 2020. Enactment of the new requirement was then postponed to October 2022⁴¹. As for this reporting period, the

⁴⁰ 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>

⁴¹ Article 3, paragraph 4 of the "Law of Georgia on Architectural Activities." Available at: <https://matsne.gov.ge/ka/document/view/32506?publication=5>

change is again postponed until March 2024. Importantly, as interviewed architects claim, the proposed policy is vague and is not well communicated with the private sector, which might threaten its effective implementation. 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 their project for verification to the certified representatives of the sphere. It is also unclear what the criteria for a candidate's success are and how the certification process will objectively assess the creative skills of the eligible architects.

- A shortage of quality education is another major challenge 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. According to the interviewees, this problem is even more visible regarding engineering modules - there is a general scarcity of engineers in the country, disregarding their qualifications. 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 the resources to integrate contemporary approaches into their programs. Moreover, educational programs often focus on the quantity rather than the quality of their graduates, failing to equip them with practical knowledge. As a result, the private sector usually has to care for educating their employees. Some interviewees also highlight that insufficient workforce qualification adversely affects market prices, as unqualified architects are willing to provide their services at a lower cost.

A challenging public procurement system is another barrier that is hampering growth in this business activity. In some instances, the public procurement system fails to ensure a fully transparent process and leaves room for distrust in establishing criteria and selection procedures. For instance, some participants of the focus groups outlined that, frequently, the company eligibility criteria in public procurements request an unreasonably high annual turnover from applicants. At the same time, it does not determine the applicant's capacity to execute the proposed project promptly and satisfactorily. Thus, from the perspective of many focus group participants, it would be beneficial if the current public procurement system was based on stronger principles of transparency and competition. However, 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.

Together with public procurements, representatives of this business activity participate in private procurement calls. Overall, as outlined, private contracts make up most orders received in ADE business activity, especially on more minor scales. Although, when it comes to private procurement calls, interviewees highlight that the selection process is more transparent than public tenders, sometimes, even these calls are characterized by favoritism and unclear criteria.

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, some firms are oriented toward significant procurement calls issued in the private sector (e.g., by Adjara Group or TBC Group). Finally, numerous small-sized, relatively unknown companies are operating in the Georgian 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 focus group participants, domestic demand absorbs the capacities of local players. Moreover, as some participants outline, the Georgian workforce does not possess the advanced engineering skills 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 foreign markets, especially in western Europe,

makes it hard to export architectural services. However, some firms attempt to partner with foreign service providers (e.g., LTD Werkraum has a Western European partner) and execute certain parts of their overall architectural services from Georgia.

Georgian firms possess some competitive advantages when it comes to internationalizing their services. Primarily, Georgian companies can offer competitive prices to international clients. In addition, some companies have also found a niche in specializing in exporting visual and technical components of the architectural process, such as sketching and rendering.

Regarding target markets, some participants of the focus group noted that it is not feasible to enter the western markets when exporting architectural services, as the high saturation of these markets makes it hard for 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 Uzbekistan 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 West, even in terms of prices.

According to the focus group discussions, further internationalization of Georgian ADE activities will significantly depend on networking platforms that can inspire potential collaboration, including idea- and portfolio-sharing between Georgian and foreign ADE market representatives. Notably, the Tbilisi Architecture Biennial, founded and organized by four Georgian architects, is a promising initiative in this direction. The biennial assists Georgian architects in establishing contacts with professionals from different parts of the world.

The organized efforts of the private sector could better address some of the challenges mentioned above. Regarding design activities, Association Design Georgia has been active in the country since May 2019. However, private sector leadership is vividly low regarding architecture business activity. Pertinently, there is no specific active business association in the industry. The professional platform, the Georgian Union of Architects, is present in this sphere. However, the industry representatives expressed their explicit distrust towards the management structure of this Union, which did not allow a new generation of architects to participate in the decision-making process of this entity. Some potentially promising developments took place in this Union a year ago when the new governing board of an organization recruited several members from a new generation of architects into the management of an entity. New members actively advocated new initiatives in the Union and founded several thematic working groups that were concentrated on different policy directions, including certification, quality of education, and public procurements. However, as of December 2022, such an attempt has yet to be successful, as the newly elected board members claim.

6. CROSS-CUTTING SECTORS

SECTOR SUMMARY

The rebounding economy in the second quarter of 2021 coincided with the rebound in cross-cutting sectors, even when loosening pandemic-related restrictions could act negatively for ICT and e-commerce value chains, as the two got a slight boost from the pandemic-related restrictions. In the first half of 2022, almost all key indicators of the ICT and e-commerce value chain remained high or mostly even continued to grow faster, hinting at the possible permanent nature of the shift towards a digital economy.

In the first half of 2022, Georgia's ICT software value chain showed record high growth, 111.3%, and 321.6%, respectively, in Q1 and Q2 of 2022. In Q2 of 2022, the turnover of ICT software, reaching GEL 325 million, has more than doubled compared to even Q1 of 2022, when the turnover was GEL 146.4 million. The growth of average quarterly employment in ICT software was also extremely high—63.5% in Q1 of 2022 and 142.5% in Q2 of 2022. Even from Q1 to Q2 of 2022, employment in ICT software has increased by 48.0% from 5708 to 8448 employees. The average monthly salary in ICT software was lower – GEL 3,014 in Q1 of 2022 and picked at GEL 5,766 in Q2 of 2022, which is higher than the average monthly salary in any other value chain. This rise in salary can be explained by the increased demand for workers from the new companies entering the market. Accordingly, the firms had to raise their salaries to meet the increased competition for the workers.

As for the e-commerce value chain, its growth pace has slowed in the first half of 2022, though, in absolute terms, the value chain remains at the high numbers it has been able to reach during the pandemic. In Q1 of 2022, the total number of e-commerce transactions increased by 6.5% and the total value by 12.1% compared to Q1 of 2021. In Q2 of 2022, the total number of e-commerce transactions decreased by 6.5%, and the total value decreased by 5.7% compared to Q1 of 2021. Interestingly, the share of transactions made via cards issued by foreign banks in online transactions made in Georgian e-commerce terminals has considerably increased in Q1 of 2022 and reached 9.7%. For comparison, the share was only 2.8% in Q1 of 2021, which can be explained by the inflow of immigrants from Russia, Ukraine, and Belarus to Georgia after the beginning of the war in Ukraine on February 28th, 2022. Though in Q2 of 2022, the share of foreign cards has decreased (compared to Q1 of 2022) to 4.0%, which can be related to the economic sanctions imposed on Russia, which have restricted the use of cards issued by Russian banks in Georgia. However, 4.0% is still a high share compared to previous years; for example, in Q2 of 2021, the share was only 1.5%.

The transport and logistics value chain, after having experienced a decline from Q2 of 2020 to Q1 of 2021, saw a strong recovery during 2021 and maintained high growth in the first half of 2022 as well. The value chain's turnover grew by 36.9% in Q1 and 33.5% in Q2 of 2022 year-on-year. The growth in 2022, no longer attributed to the low base effect, can be explained by Russia's war in Ukraine. As international transport routes through Ukraine and Russia have been disrupted, Georgia has become a popular alternative, and the demand for transportation and logistics services has been boosted. As a result, the turnover of the value chain picked to GEL 2.2 billion in Q2 2022. Trade in the transport and logistics sector, which was heavily impacted by the pandemic, showed impressive growth in the first half of 2022. Other countries in the region except Ukraine have also experienced high growth in the trade of transport services, which can also be explained by the redirection of transport routes that were passing through Ukraine and Russia towards those neighboring countries.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

Interestingly, ICT is one of the few value chains that was boosted during the pandemic as there was a higher demand for digital technology due to nationwide stay-at-home directives in Georgia and globally. The value chain continued to grow in 2021 and the first half of 2022, when the war in Ukraine has also driven the growth. Many new companies have entered the market, and there has been considerable migration of skilled ICT workers from Russia, Ukraine, and Belarus, affecting all key indicators of the ICT value chain in Georgia.

According to Geostat’s “Indicators of using information and communication technologies (ICT) in households” report, 88.4% of the Georgian population has internet access in 2022, which is 18.3 pp higher compared to 2016 (70.1%), 9.1 pp higher compared to 2019 (79.3%), and even 2.3 pp higher compared to the last year (86.1% in 2021). This indicator is 10.4 pp higher in urban areas (92.8%) than in rural areas (82.4%). This rising trend in internet access is acting as further fuel in the usage of ICT in Georgia.

Chart 6.1 Turnover of the ICT value chain

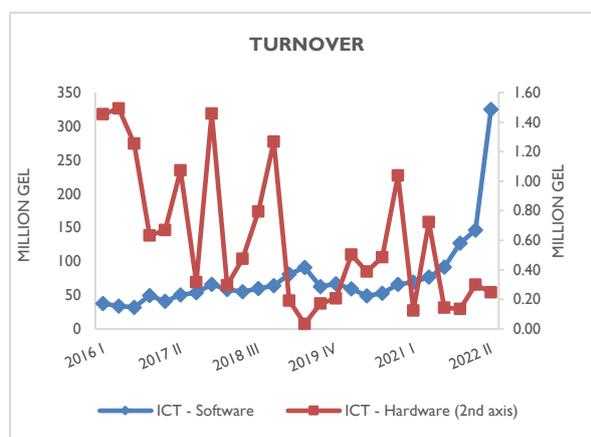
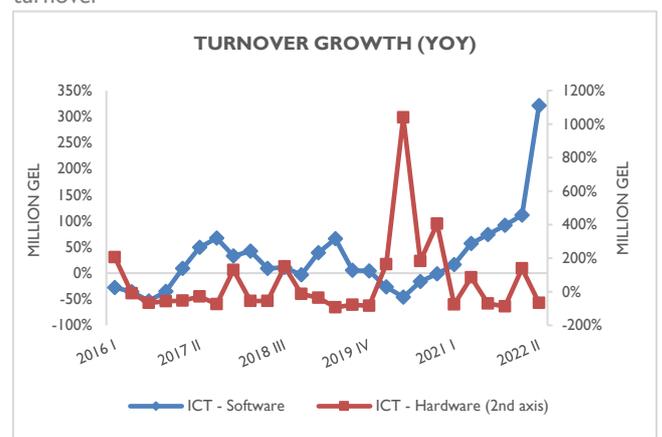


Chart 6.2 Annual growth rate of the ICT value chain's turnover



Source: National Statistics Office of Georgia

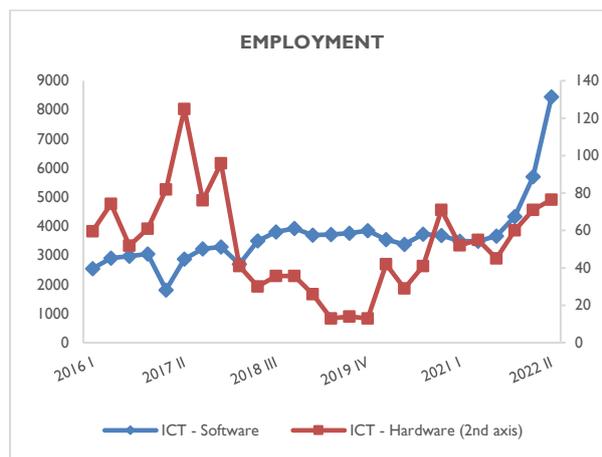
In Georgia, the ICT software value chain is far larger than the hardware, reaching a turnover of GEL 325 million in Q2 2022, while in contrast, the ICT hardware value chain amounted to a turnover of just GEL 0.25 million, highlighting the difference in size between the two value chains.

Before 2020, the turnover of ICT software was growing steadily, recording a growth rate of 27.3% in 2019, but the pandemic caused the value chain’s turnover to decrease by 24.7% in 2020. But the value chain has very quickly recovered from the pandemic. Even in 2021, the turnover of the ICT software grew by 60.4%, not only recovering but even taking ahead of a pre-pandemic performance by 21.0% (compared to 2019). In the first half of 2022, Georgia’s ICT software value chain showed record high growth, 111.3% and 321.6%, respectively, in Q1 and Q2 of 2022. In Q2 of 2022, the turnover of ICT software, reaching GEL 325 million, has more than doubled compared to even Q1 of 2022, when the turnover was GEL 146.4 million.

Meanwhile, the ICT hardware showed quite different, opposite movements compared to ICT software. ICT hardware turnover has been declining before and after the pandemic, though has sharply increased in 2020 by 301.1%. Generally, ICT hardware is characterized by fast fluctuations in turnover growth from one quarter to another, even in the quarters of the same year. This can be explained by the fact

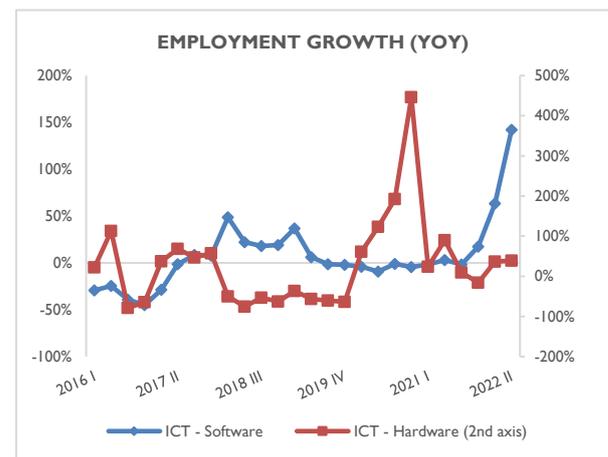
that this value chain is very small in absolute terms, and even small changes in absolute value are expressed in high fluctuations in growth. For example, in Q1 of 2022, the turnover of ICT amounted to GEL 0.3 million, which was 138.9% higher compared to the same quarter of the previous year. In Q2 of 2022, the turnover was GEL 0.25 million, which was not much different compared to Q1 of 2022 but was 65.6% less compared to Q2 of 2021.

Chart 6.3 Employment in the ICT value chain



Source: National Statistics Office of Georgia

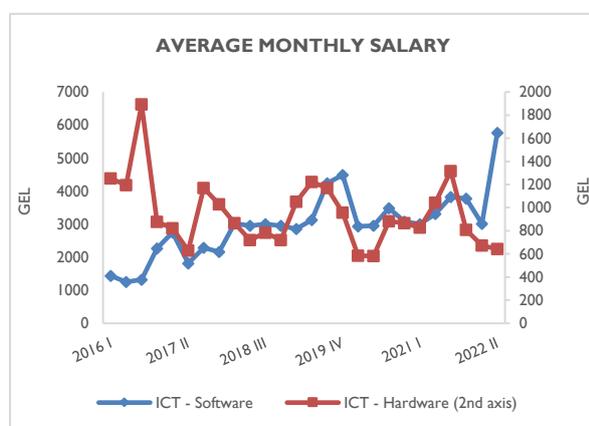
Chart 6.4 Growth rate of the ICT value chain's employment



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.

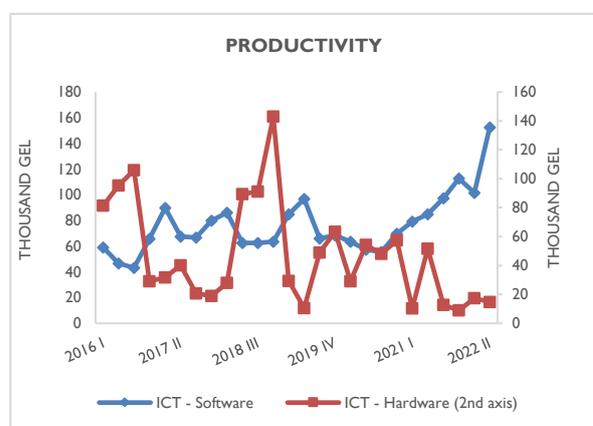
The ICT software value chain employed 110 times more employees than the hardware value chain, having employed 8,448 employees, compared to 76 in the hardware value chain in Q2 of 2022. Employment in both value chains has increased in the first half of 2022 compared to the corresponding period of 2021. Though similar to the growth of turnover, the growth of employment in ICT software was extremely high – 63.5% in Q1 of 2022 and 142.5% in Q2 of 2022. Even from Q1 to Q2 of 2022, employment in ICT software has increased by 48.0%.

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



Source: National Statistics Office of Georgia

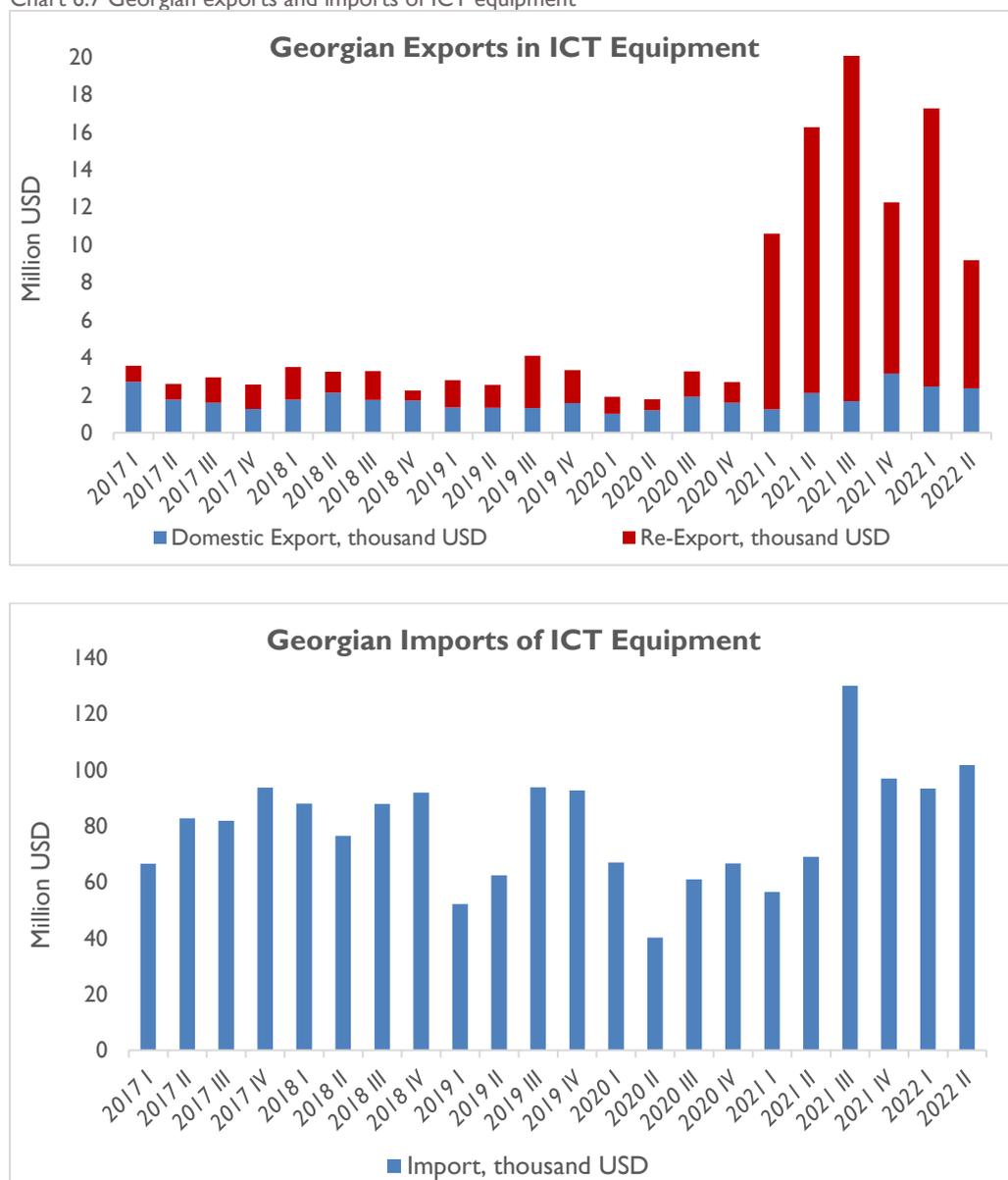
Chart 6.6 Productivity for the ICT value chain, divided by software and hardware



The average monthly salary in ICT software has also picked at GEL 5,766 in Q2 of 2022, which is nine times higher compared to the average monthly salary in ICT hardware. Moreover, GEL 5 766 is very high for the average monthly salary in any other value chain. On the other hand, in Q1 of 2022, the average monthly salary in ICT software was considerably lower – GEL 3,014. This rise in salary can be explained by the increased demand for workers from the new companies entering the market. The majority of the companies that entered Georgian market are well established international ICT companies, which also employee qualified personnel with high salaries. On the other side, new companies have increased the demand for labor and accordingly, existing companies in the market also had to raise the salaries to meet the increased competition for the workers.

The productivity of both value chains showed a trend similar to other indicators, though with less steep fluctuations. That is, for the ICT software, the productivity in Q2 of 2022 has increased by 79.9% compared to the same period of 2021 and by 50.1% compared to Q1 of 2022.

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 Q2 of 2022, the value of the imports was USD 101.7 million, which was 11 times higher than the exports, with a value of USD 9.2 million. In 2021, the value of both Georgian imports and exports was the highest for the previous years as Georgian imports of ICT equipment increased by 47.7% compared to 2020, and the value of ICT exports by 516.1%. In the first half of 2022, both imports and exports remained at high levels reached in 2021. Imports grew by 65.1% in Q1 of 2022 and by 47.5% in Q2 of 2022 compared to the corresponding periods of the previous year. Exports also increased by 62.9% in Q1 of 2022 so declined by 43.6% in the second quarter compared to 2021.

Out of total exports, 85.6% were re-exported in Q1 of 2022 and 74.2% in Q2 of 2022. 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 Azerbaijan. Accordingly, slower growth of re-exports in Q2 2022 can be related to the war in Ukraine, as digital processing units might no longer be re-exported from Georgia to Ukraine.

30.9% of imported ICT equipment in Georgia over the past year (July 2021-June 2022) came from Hong Kong, 24.9% from the United Arab Emirates, 8.8% from China, 7.1% from the Czech Republic, 6.6% from Russia, and 21.7% from other countries. Interestingly, while in the first half of 2021 share of Russia in imports of ICT to Georgia was 10.6%, in the first half of 2022 the share of Russia decreased to 4.6%, which is explained by the war in Ukraine and corresponding economic sanctions on Russia.

Unlike the imports, the domestic exports are predominantly concentrated among countries with closer geographic proximity to Georgia, where over the past year (July 2021-June 2022) 35.5% of ICT equipment exported went to Armenia, 17.0% to Azerbaijan, 13.6% to Israel, 5.1% to Ukraine, 5.0% to Lithuania and 23.9% to other countries. In the first two quarters of 2022, the share of Ukraine in Georgian domestic export of ICT equipment was only 0.1%, as the war began in Ukraine in Q1 of 2022. For comparison, the share of Ukraine in Georgian domestic exports of ICT equipment was 8.7% in the same period of 2021.

Chart 6.8 Georgian imports of ICT equipment by trade partner (Q2 2022)

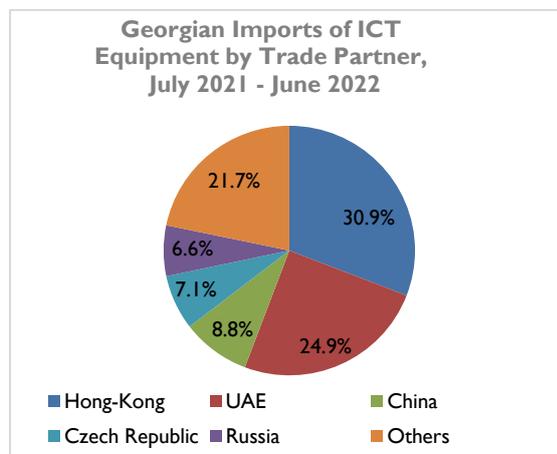
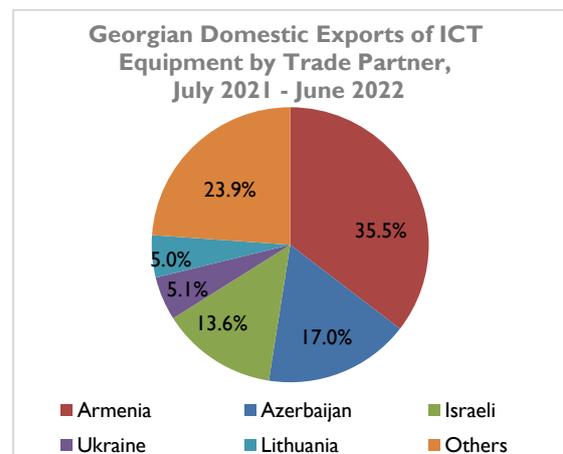


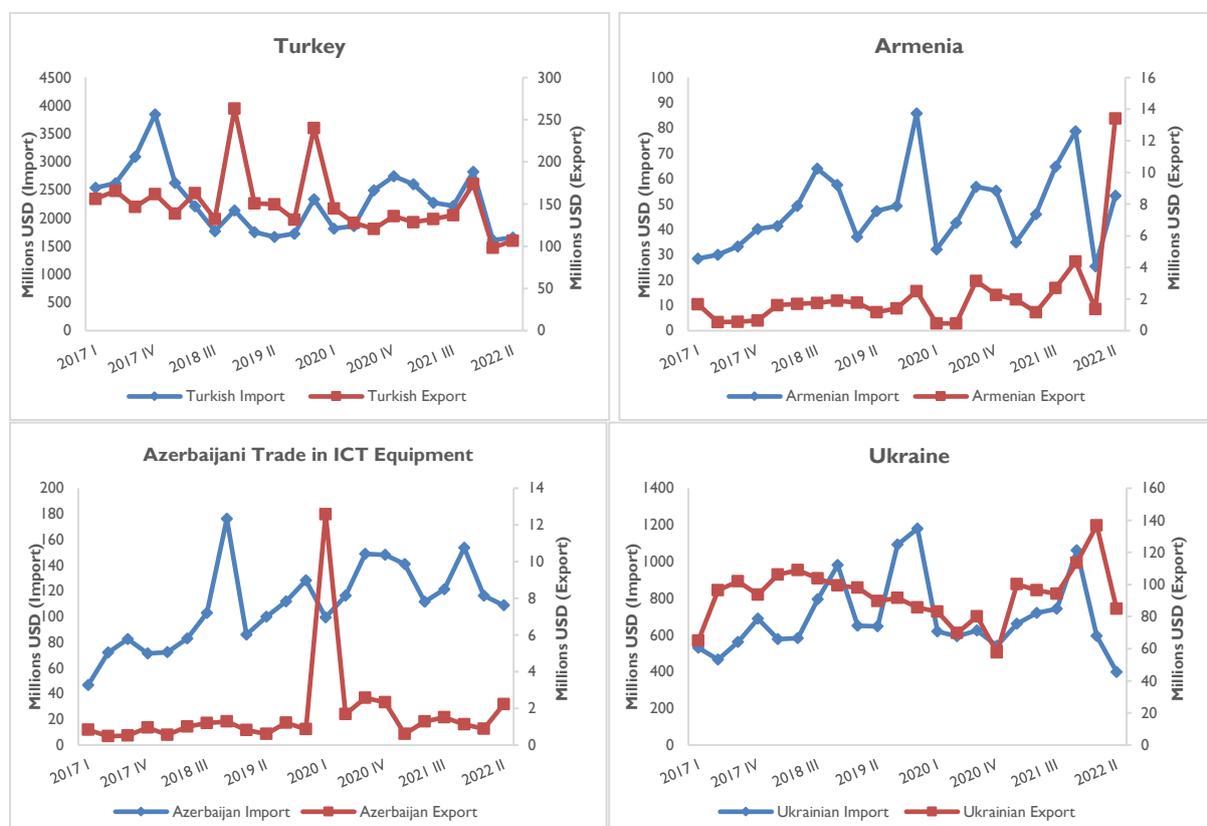
Chart 6.9 Georgian domestic exports of ICT equipment by trade partner (Q2 2022)



Source: National Statistics Office of Georgia

Other countries in the region are also primarily importers of ICT equipment rather than exporters. Turkey stands out as the largest importer and exporter of ICT equipment among all 4 countries. Though the trade of ICT equipment in Turkey has drastically decreased in the first half of 2022. Imports of ICT equipment in Q1 of 2022 have fallen by 38.2% compared to the corresponding period of the previous year, and in Q2 of 2022, imports have increased only by 27.0%. Similarly, exports of ICT equipment in Turkey have decreased by 23.4% in Q1 of 2022 and 19.4% in Q2 of 2022, compared to the corresponding quarters of 2021. As could be expected, imports and exports have decreased in Q2 of 2022 in Ukraine, respectively, by 44.6% and 11.9% compared to the corresponding quarters of 2021. Interestingly, while in other countries of the region, trade of ICT equipment has mostly decreased in the first half of 2022, there was a sharp increase in the exports and imports of ICT equipment in Armenia. Notably, exports of ICT equipment have increased as much as by 1039.1% from USD 1.4 million to USD 13.4 million in Q2 of 2022.

Chart 6.10 Regional trade patterns in the ICT equipment



Source: UN Comtrade⁴²

Overview of the Existing Challenges and Opportunities

The development of Information and Communication Technologies (ICT) has strong potential to transform the Georgian economy and society in several ways, including reducing information and transaction costs, creating new collaborative models to increase the efficiency of financial products, promoting innovation, and improving education and access to essential services. The ICT industry—including telecommunications operators, computer and software producers, electronic equipment manufacturers, and others, is expected to play an important role in the Georgian economy. Innovation

⁴²Q1 2020 values for Armenia trade presents sum of January and February 2020, since trade for March is not reported on UN Comtrade. In addition, Q4 2020 values for Ukrainian trade presents sum of October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade

is needed in every industry, service production process, and public sector task. ICT, a primary driver of innovation, is paramount for satisfying these needs.

The high competition for IT human resources was the main topic of the discussion with the ICT company representatives, as this factor has implications for all the economic outcomes on the market. Identifying the effect of the Ukraine war on existing challenges was also the subject of interest. The quantitative analysis showed two opposite realities for companies concentrating on local and international markets. Local companies complain about increased competition and unfavorable conditions in the market, trying to find a market niche to survive. In contrast, international companies without significant obstacles flourish by concentrating on the global market.

This qualitative analysis is based on individual interviews and focus group meetings with the private sector business actors (both large-sized companies and SMEs) and representatives from the ICT cluster. The key obstacles and opportunities of the ICT value chain identified during the study are summarized below:

The high outflow of employees from local market-oriented companies

The higher salaries and better conditions at international companies operating in Georgia lead to a significant outflow of employees from local companies. The local companies name several factors contributing to the higher salaries in international companies. The first is the preferential tax mechanism applied to companies with international status, which was discussed in detail in our previous publications. The second is that international companies sell human resources outside the country with higher purchasing power markets.

Furthermore, lately, local companies have observed another trend of employees leaving for international companies such as Microsoft, Google, and others. According to them, the higher standards of living abroad are an important reason for youngsters to leave the country, where they will have much better perspectives of development.

There is an even more significant outflow of IT workers from public institutions, which can lead to substantial problems for public services. At the same time, local ICT companies see the opportunity in this process as they can offer them their services.

The local companies do not see a solution to this problem in training new human resources, as most leave after a few months. There is an ongoing debate for ways to keep the workforce, and one of them is giving a share in the company. Others suggest that companies should hire employees and outsource them abroad. However, this would lead to severe consequences for the country. As the ICT companies oriented on the Georgian market shift their resources toward the international markets, the price of ICT products for domestic companies operating in different fields of economy will rise significantly. With their purchasing power, it seems impossible for them to purchase highly priced ICT products. Without proper digitalization, domestic companies of different industries will be unable to be competitive, leading to an even smaller economy. The ICT cluster representatives see the solution in the Estonian ICT development model, which means creating the ICT products locally and selling it abroad. According to the ICT cluster, government should help the local ICT brands to find a niche market for Georgian ICT products. They think that by accepting this model the country's economy will benefit more than by employing local workers in international companies.

The impact of the Ukraine war on the ICT Sector

Although some local ICT sector representatives denied any effects of the war, others identified two – ICT workforce and business inflow and decreased investments in ICT solutions.

Experts argued that the shortage of qualified workforce could be filled by migrants, mainly from Ukraine, which has a developed ICT industry. The ICT cluster representatives report two opposite

trends concerning the ICT workforce inflow into Georgia. On the one hand, companies observed the increased demand from migrants for announced vacancies. Moreover, in some cases, migrants actively offered their services without the job announcement. Some argued that migrants brought their businesses to Georgia, while others work remotely. Migrants even started to hire the employees themselves. According to Cluster representatives, the differences in ICT fields can explain the two observations – migrants demand hardware IT and engineering solutions positions (IT infrastructure engineers, Network infrastructure solution engineers, Cybersecurity specialists, etc.) rather than software ones.

The second effect, a decrease in investment, is associated with the sensitivity of local small businesses to the political situation in the country and neighborhood. The war in Ukraine led some companies to stop investing in technology, turning down the projects that were close to the end.

International companies observed a similar effect. Due to the global financial instability caused by the Ukraine war, many companies decided to economize, decreasing investments. Still, according to the international company representative, it was not a long-lasting shock, and annual figures still look good. An additional effect for the international companies having the branch in Russia and Ukraine was the dislocation of projects to Georgia due to their closer, leading to an overload of local employees with projects. During that time, there was a significant increase in programming legacy language Java stack demand, mainly supplied by Ukraine and Russia. In conditions of restricted supply from the conflict zone, the demand for this service shifted toward the Georgian branch.

International companies also talked about the expected financial crisis forecasted by some economists. They see the opportunity in this as, by their observation, when standard business decreases, this increases the opportunity for digitalization.

The factors contributing to the average salary increase

The statistics from Geostat show a significant increase in average salary in the field. The above-observed trends can be a reasonable explanation. According to the ICT cluster, the first contributing factor is the flow of employees from low-paying local companies into higher ones. This process increases local companies' pressure to keep at least the fundamental employees by increasing their wages. Furthermore, international companies have observed the shift of ICT branches to Georgia due to conflict. They began hiring and offering competitive salaries as they needed highly qualified labor. Due to this, some international companies had to increase their salary to keep pace with the market trends leading to significant increases in their input costs. Others report that the demand for junior employees decreased as the company relied on senior staff and loaded them with projects during the crisis. This shift can also contribute to an average salary increase.

International companies optimistic about the future with few impediments

The international status of local companies gives them many opportunities as the local problems do not concern them. According to them, the global market for a small country like Georgia is unlimited. Many companies are increasingly digitalizing worldwide, and this trend became even stronger after the COVID-19. The high demand for the products increases the necessity for hiring additional staff. As the salaries are competitive in the field, many change their occupations field of work. The advantage of this field is that anyone can be trained quickly. Several companies and universities offer training opportunities, as discussed in the previous publications.

Although being very optimistic about the recent trends and future expectations, international companies still mention some impediments. At the beginning of their international experience, they observed cases of trust as they were fresh on the markets, and there was no information about them. With time and positive feedback, the awareness about the Georgians increased. According to the

international companies, as the market is too large, they can constantly shift to the next if any company rejects the deal. Some international companies reported the necessity of compliance with the EU regulations as increasingly many companies requested the staff working on their projects to be EU residents. Recently, Georgia has been on the way to complying with EU regulations within the associate membership but work still needs to be done. According to an international company representative, even the EU officials' announcement that Georgia complies with EU regulations trackable for the clients would be helpful.

Financial Technology (Fintech) - the new opportunity for growth

Fintech is a comparably new field in Georgia that enables new ways of processing financial transactions, making it easier for people to conduct commerce. It makes it possible to digitalize existing financial services or introduce new ones. Given its potential to build more inclusive and efficient financial services and promote economic development, the interest in this field is increasing quickly. The field became popular after the COVID-19 when the vast majority of people using cash shifted to digital transactions. The establishment of the fintech association in 2020 was the response to this interest and the necessity at the same time for building a communication bridge between financial institutions, the national bank of Georgia, and fintech companies. By holding multiple events fintech association actively promotes the field and increases awareness, which is one of the main impediments to this field. According to the head of the fintech association, there are three main impediments to the field's development: low level of awareness, lack of capital, and regulations.

The fact that not many people are aware of how financial products function leads to a lack of ideas in the field. The problem is not in the talent but in the deficit of information. According to the fintech association, there is a need for more action from the national bank of Georgia, as it would lead to an increasing number of ideas generated. To contribute to the solution of the problem, the Fintech association held a hackathon with more than a hundred registered people.

The lack of capital leads to dependence on the banking sector, which does not finance startups. Organizations like GITA, startup Georgia, and Enterprise Georgia (not very active) can serve as financial sources, but this is not enough. Better access to capital would lead to much active promotion of the field. The increased capital stimulates innovators, while the motivation and interest toward the projects fade away in the absence.

The third impediment is regulation, which is closely linked to capital accessibility. Although the national bank actively cooperates with the EU, more efforts are needed. There is a need for crowdfunding regulations, which the EU already accepted in 2018. The establishment of crowdfunding practice in Georgia would lead to a substantial increase in capital availability and, as a result, boost the projects financed by the mechanism. According to fintech association, one of the reasons behind the weak development of alternative capital markets is the monopoly of commercial banks, which treat all alternative sources as competitors.

The information and cyber security law boosts the demand for Specific Professions

ICT cluster representatives observed that the law boosted the demand for cyber security engineers and information security managers. According to the law, the position of cyber security engineers became mandatory, leading to the deficit of professionals in this field. Although there is a large number of Russian migrants applying for this position, some companies refuse to accept them for political reasons. To address the problem of cyber security personnel scarcity, IT service providers elaborated on the Security Operation Center (SOC), which is operation management system helping IT specialists (even the ones not having all qualifications required to perform duties of cybersecurity engineer) employed within an organization to monitor an organization's security posture while preventing, detecting, analyzing, and responding to cybersecurity incidents.

Sectoral Skills Organization for ICT Sector

As reported in our previous publication, the ICT cluster, together with its member companies, was working on a model to support educational organizations to develop practical approaches tailored to the current needs of the business sector. The SSO includes the sector business associations responsible for identifying the skills needed in the sector and participating in its implementation in the study program. According to the ICT cluster representatives, the successful outcome of this project requires the following sequence of actions. An effective ICT education program leads to qualified staff in the industry. A description of required professions and profiles is needed for the education program. At the same time, industry representatives need to know what kind of economy we are preparing the professionals for to select relevant professions and profiles. The profile identification should result from the broad dialogue between stakeholders in small countries like Georgia. Recently, the description of professions was made based on the US experience. The document will soon be sent to the cluster representatives for their feedback. The next steps will follow. Although the cluster representatives seem motivated to accomplish the project, they argue that this does not solve the systematic problem. As the qualification of the local specialists increases, it is expected by our respondents that they will be more demanded by international companies and leave the country or work remotely from Georgia for foreign companies.

E-COMMERCE

E-commerce has become among the most dominant and fastest growing value chains. The COVID-19 pandemic has further cemented e-commerce's place as a vital part of the economy, and, as the data show, Georgia is no exception. Accordingly, it is interesting to analyze how the growth of this value chain has changed after lifting of the pandemic-related restrictions and if the Georgian e-commerce value chain has been affected by the war in Ukraine.

Important to highlight that, the Geostat data used in this 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 to 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 covered by the other 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 2018-2022 uses the transactions via bank cards (VISA, MasterCard, etc.) online. Notably, only some parts (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.

Unlike most other value chains, e-commerce boosted by the pandemic-related restrictions. In Q3 of 2020, the total e-commerce transactions increased by 41.0% in quantity and 38.3% in value compared to Q3 of 2019. Even with the loosening of restrictions in 2021, the e-commerce value chain maintained high growth. It reached a peak in absolute terms in Q4 of 2021, with the number of transactions reaching 25.4 million and the value of those transactions reaching GEL 1.79 billion. In the first half of 2022, the pace of growth of the e-commerce value chain has slowed down, though, in absolute terms, the value chain remains at the high numbers that it has been able to reach during the pandemic. In Q1 of 2022, the total number of e-commerce transactions increased by 6.5% and the total value by 12.1% compared to Q1 of 2021. In Q2 of 2022, the total number of e-commerce transactions decreased by 6.5%, and the total value decreased by 5.7% compared to Q1 of 2021.

Subsequent careful observation of evolution in e-commerce transactions will allow making more conclusive observations about the growth trends of this value chain. While the pandemic forced people to utilize online stores and other e-commerce transactions, they might continue to use these online and e-commerce transactions in the future due to convenience and increased trust towards them. Additionally, it is interesting to observe the effect of the war in Ukraine on the growth of e-commerce in Georgia.

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

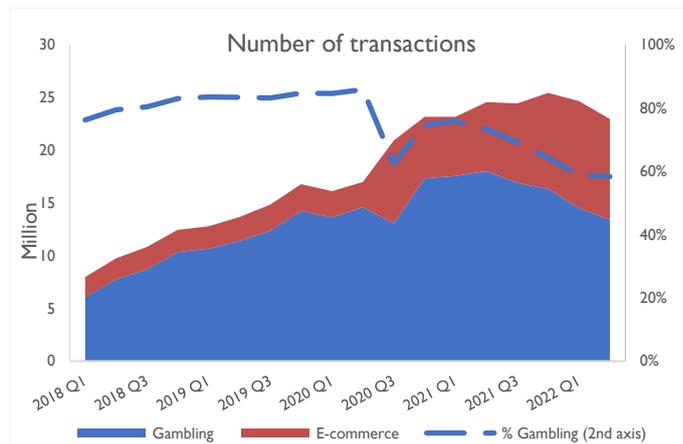
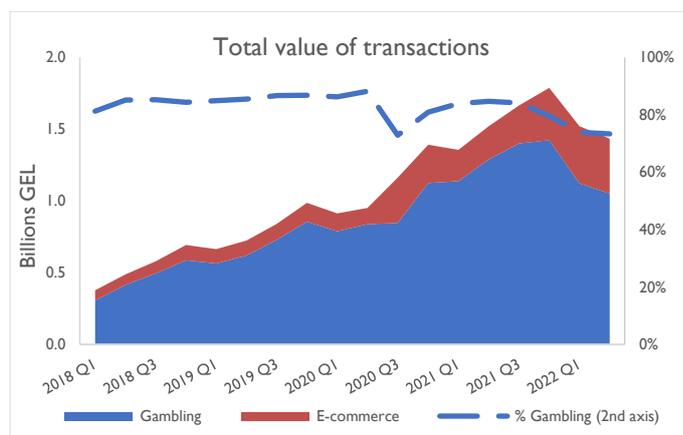


Chart 6.12 Total value of online transactions in Georgia decomposed by gambling and e-commerce



Source: National Bank of Georgia

Interestingly, the share of gambling transactions is very high in total online transactions in Georgia. However, following the new gambling restrictions approved by the Parliament of Georgia in December 2021, its share in all online transactions decreased considerably in the first half of 2022. In Q1 of 2022, the share of gambling in the total number of online transactions decreased to 58.8%, while it was as high as 75.9% in Q1 of 2021. In Q2 of 2022, the share of e-commerce transactions was 58.4%, while 73.3% in Q2 of 2021. t

The share of transactions made via cards issued by foreign banks in online transactions made in Georgian e-commerce terminals has considerably increased in Q1 of 2022 and reached 9.7%. For comparison, the share was only 2.8% in Q1 of 2021. The inflow of immigrants from Russia, Ukraine, and Belarus to Georgia after the beginning of the war in Ukraine on February 28th, 2022, could explain this. The share of foreign cards has decreased (compared to Q1 of 2022) to 4.0% in Q2 of 2022, which can be related to the economic sanctions imposed on Russia, which have restricted the use of cards

issued by Russian banks in Georgia. However, 4.0% is still a high share compared to previous years; for example, in Q2 of 2021, the share was only 1.5%.

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, almost all (99.8%-100%) transactions are conducted in non-gambling e-commerce operations rather than gambling, which has not changed in the first half of 2022 either.

Notably, in the first half of 2022, the share of non-gambling e-commerce operations made via Georgian cards outside the country was higher than in previous years. The share of operations made abroad was 29.7% in Q1 of 2022; for comparison, it was 10 pp lower in Q1 of 2021. In Q2 of 2022, the share was even higher – 34.1%, while in the same period last year, it was only 29.7%. This rise can also at least partially be related to the inflow of immigrants who started to obtain cards issued by Georgian cards. As a result, they have been using those cards more than the local population for transactions outside the country.

Overview of the Existing Challenges and Opportunities

E-Commerce, an essential tool for companies to reach a wider audience, gained particular importance during the COVID-19 in Georgia, and this trend continues till now. The discussion with e-commerce stakeholders concerned the e-commerce value chain's impediments, including suppliers, producers, vendors, warehouses, logistics and transportation businesses, distribution and fulfillment centers, and the ultimate consumer. Each organization manages a particular link in the supply chain and contributes to the overall success or failure of achieving the consumers' expectations. The respondents stress that the qualified personnel is the major contributing factor to the proper functioning of value chain actors in both management and service positions. Another critical issue is the proper regulations, which can boost the industry in the long run. Furthermore, support from international donors and local banks in increasing trust toward e-commerce platforms and tapping into new markets is paramount for the industry.

The study is based on individual interviews and focus group meetings with representatives from the private sector, represented by SMEs, as well as the business associations of the value chain (E-commerce Association of Georgia, and Voice of E-commerce). The challenges, as well as the current opportunities most commonly emphasized by respondents, are as follows:

The increasing trend of E-Commerce continues

Contrary to some experts' opinions, all e-commerce stakeholders report growing number of operations. The main drivers behind this increase are the newly established small companies entering the e-commerce field and the rise in the existing large companies' operations. Furthermore, local international companies operating in retail business express interest in e-commerce, which might boost the industry in the future. The number of marketplaces and e-commerce platforms are improving their performance leading to better user experience. However, many problems are still left unsolved, which is an essential impediment to growth.

The respondents report two types of effects from the Ukraine war. According to them, at the beginning of the war, there was a drop in sales which was recovered quickly. Some businesses report that migration from the conflict increased the demand for daily living products, especially in Tbilisi and Adjara. Others did not notice this trend as home electronic appliances werethe top selling products even before the war.

E-commerce companies express their interest to enter in neighboring countries' markets. However, the views of companies differ. One part stresses the difficulties associated with the weak local infrastructure, and others point out that the infrastructure is different (from Georgian, and they

already made the first steps on the Azerbaijan market and have plans in Uzbekistan). According to them, there is a need for more research of a foreign country markets.

The impediments along the E-Commerce value chain

The e-commerce associations and businesses mention several problems along the value chain, from information management to logistical problems. The most frequently mentioned impediments were user experience (UX) problems, insufficient information on the website, timely delivery, and trust issues.

According to a fintech company representative, the **user experience** is vital for e-commerce development. According to the research checkout process after selecting the desired product should not last more than two minutes. If it does, there is a 60% chance that the user will change his mind. In Georgia, only filling out the long registration form takes more time. As a solution, the company representatives offer to use the single sign-on verification method, which allows registering automatically for Google, Facebook, or other platform users. After verification and selecting the form of payment, another problem pops up as the user is redirected to the bank account from the shop's webpage. According to the respondent, the user might not know anything about banks' policies and think paying using other banks' cards might lead to additional charges. There are many cases of withdrawal from the system because of this problem. Among other problems, the respondents mentioned Unsaved credit/debit card information, inability to pay with a foreign card, and the non-existence of google and apple pay tools. Furthermore, many merchants are still working on cash. There is no interest among the platform owners to investigate what number of users enter the website and what percentage buy the product. Most of the Georgian E-commerce platforms do not gather any statistics and do not try to improve them.

Information management is a problem among the most companies. The information is not updated frequently, and it is not detailed. There is common practice among users to order goods via the marketplace, and the product is not in stock as the information is not synchronized. This leads to refunds and additional conversion costs.

All stakeholders mentioned the prolonged **delivery time** as a significant problem in e-commerce. The users are used to fast delivery because of their experience with Glovo and Wolt. Their expectations fail when the product arrives after three days with a cost of GEL 8. The additional pressure comes from the increased fuel prices and traffic jams. Many logistic companies have to raise the price. Furthermore, the problem of qualified personnel is an essential impediment for this sector.

The abovementioned problems and failure in return policy lead to **trust issues**, which later translates into fewer orders via Georgian e-commerce platforms.

According to e-commerce business representatives, Georgian merchants understand that e-commerce is not a good-to-have but a must-have tool. They estimated the size of e-commerce as around 1% of total sales, while the EU's average is 17%. This gap indicates the e-commerce's considerable potential in Georgia.

E-Commerce Academy - response to the impediments

The e-commerce association Georgia in partnership with TBC and the the USAID Economic Security Program, established the E-commerce Academy. It resulted from long-lasting research to identify the positions and skills needed for the industry. The research showed the necessity of a new position of **e-commerce strategy manager**. The academy graduate from this position can identify the resources and personnel needed for establishing an e-commerce system (including all value chain processes mentioned above) and ways to communicate and manage them effectively. According to the association, companies requiring staff with such skills used to announce the vacancy for a web

developer, which was not relevant. The new position will fulfill the demand and improve the operations in the market.

The recently graduated cohort included 25 students. During the four-month course, they studied seven theoretical and three practical modules. According to the association, more professions will be added to the academy, including specialists in digital marketing and logistic. Furthermore, the academy plans the accreditation as a vocational program. It closely works with the Skills Agency Georgia to elaborate on standards. As the e-commerce is a new field, standards did not exist. GIZ played a critical role in supporting the association in the accreditation process.

Another association, E-Commerce Georgia also stressed the importance of qualified staff in the industry. However, the association argues that the supply chain consists not only of managers but also of service staff such as logistic operators, call center operators, etc. The managers are necessary to select the staff, and highly qualified staff is necessary for smooth operations in the system. Their proper training is also of paramount importance.

Trademark Project and E-Commerce Day- increasing the trust toward the E-Commerce Platforms

Most e-commerce stakeholders mentioned the trust in the e-commerce platforms as the main driver for the development. With the assistance of the USAID Economy Security Program, the E-commerce association Georgia elaborated on the project of giving the trademark to e-commerce platforms satisfying eligibility conditions. The conditions are straightforward - the company should practice ethical working and fair return policy considering international standards. The project will give users confidence that the product bought from the platform with trade mark will guarantee high-quality and trusted service.

Another exciting initiative is an e-commerce day. During the interview, the plans of two associations, "Voice of E-commerce" and "E-Commerce Georgia" to establish e-commerce day, coincided. As a result, they expressed the desire to meet and further discuss the initiative in more detail.

Law On the Protection of Consumer Rights - Consequences for E-Commerce

According to the e-commerce associations, the law on the protection of consumer rights was passed hastily without communication with the private sector, causing many uncertainties and concerns among the e-commerce stakeholders. The associations and businesses stressed the most critical legal issues, which could negatively affect e-commerce development. Most of the issues concerned the 14-day return policy, which covers all the products without classification. The mentioned problematic products were: hygienic, medicine, and technical equipment, among others.

The association met with the Competition Agency to exclude hygienic products from the list. It is worth mentioning that all the stakeholders stressed that the Competition Agency is cooperating and trying to solve the existing problems. The agency introduced the law and sub-legislative normative acts to the association members and gave additional explanations. The parties discussed the necessity of the manual that would describe the conditions in the law in more detail. The agency considered the complaints about the hygienic products and, as a result, specified and gave additional details in the law. The association reported that they still have some unsolved issues left. They sent the official letter and are awaiting a response.

According to the associations, other legal issues require the field-related stakeholders' involvement. The National Bank of Georgia should be involved in finding the solution to the return policy in banks. The return policy is 14 days in the law, but the return policy of the banks is much less. Furthermore, the Ministry of Health, Labor, and Social Affairs of Georgia should be involved in solving the problem of medical products. Similar to hygienic products, pharmacies do not return medicines and healthcare products due to their characteristics, while, according to the law, consumers can return them as well.

Most shops concentrating on tech sales refuse to return the equipment after two weeks of use. According to them, many people will use this opportunity to use the equipment and return it without the intention of buying it. Furthermore, in the case of iPhones, there are international guarantee regulations, which means that the guarantee process starts as soon as the phone turns on. In case of a return, less guarantee period is left, decreasing phones' value.

All stakeholders agree that the law needs to be polished. According to the Association of E-Commerce Georgia, it is a common practice in Georgia, when discussions follow the passing of the law and not the other way around. However, this method has a significant defect, as less time of discussing issues with the private sector leads to more efforts for polishing it later.

According to the `association, the e-commerce law still is not passed and has already lost its relevance. The Law on the Protection of Consumer Rights became the first concern for e-commerce stakeholders.

Super-app - the way to Improve User Experience

E-commerce representatives reported that two competing technological companies Bank of Georgia and TNET (TBC Group), which will considerably improve the user experience (UX). It is an application that provides end users (customers, partners, or employees) with core features plus access to independently created mini-apps. The super-app is the platform delivering a mini-apps ecosystem. The users can choose the mini-apps of their interest from the list for their consistent and personalized app experiences. An excellent example of a super app is WeChat, widely used in China for commercial purposes.

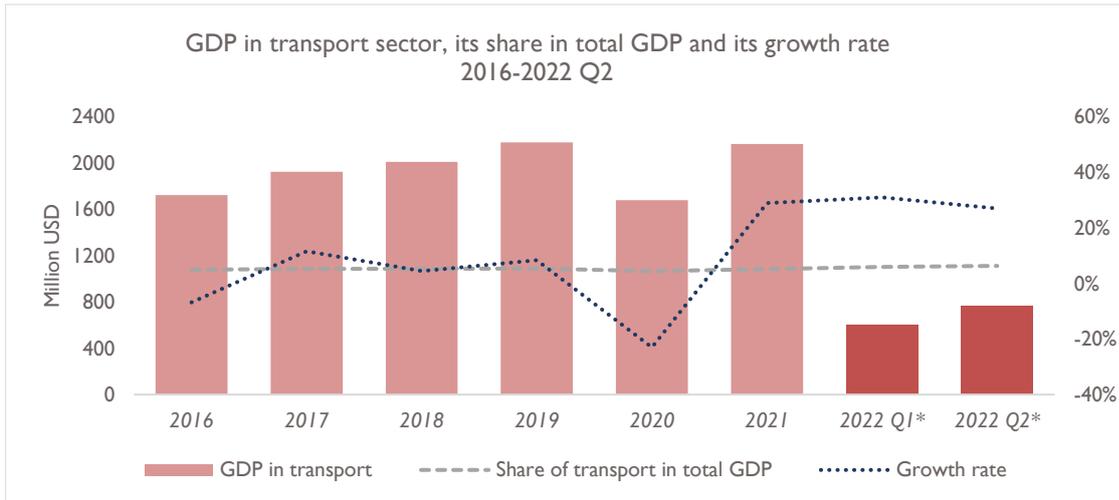
The fulfillment Infrastructure - Importance for E-Commerce

The associations stressed the importance of fulfillment infrastructure on the market that will improve the situation in several directions. According to the respondents, a fulfillment center is a third-party service provider that processes and ships products purchased by customers. E-commerce fulfillment is in charge of the logistics required to get an online order to a customer's doorstep, eliminating the need for the merchants to package, address, and ship each order themselves. The fulfillment centers are different from the warehouse because the first only stores the product. In contrast, the fulfillment center's role is to meet customers' needs efficiently. According to the associations, FedEx is planning to build the fulfillment infrastructure near the Airport highway leading to improved operations in many directions, including the cross-border acquiring discussed in our previous publication.

TRANSPORT AND LOGISTICS

The transport and logistics value chain is the largest value chain among all cross-cutting value chains, including rail transport, pipelines, taxi operations, air transport, water transport, postal courier services, warehousing activities, etc. The value chain, intertwining with every other sector and playing a significant role in domestic and international trade, was significantly affected by the pandemic and the subsequent economic rebound. In the first half of 2022, Georgia's transport and logistics value chain recorded high growth. With the beginning of Russia's war in Ukraine, the transport routes passing through countries involved in the war have been redirected to Georgia, increasing the demand for transport and logistics services in the country.

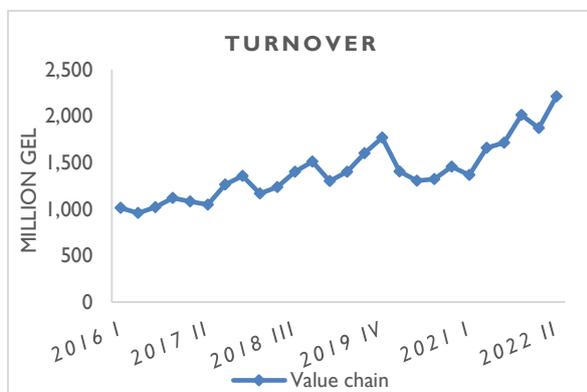
Chart 6.13 GDP of the transport and logistics value chain in Georgia



Source: National Statistics Office of Georgia

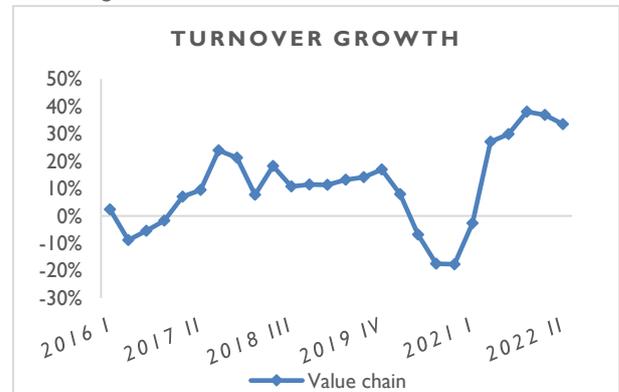
The GDP of the transport sector in Georgia has been experiencing stable, moderate growth, averaging annual 4.4% through 2016-2019. In 2020, the GDP of the sector suffered a decline of 23.0%. In 2021, recovery was evident, with the GDP of 2021 showing 27.6% YoY growth and returning to the pre-pandemic value (USD 2.17 billion in 2021 was only 0.7% lower compared to USD 2.18 billion in 2019). The growth continued in 2022, with the GDP of the transport sector growing by 31% in Q1 and 27% in Q2 of 2022 year-on-year. As a result, the share of the sector in the overall economy has been more stable and has not been affected by the pandemic, averaging 5.2% from 2016 to 2021. The share of the sector in total GDP was 5.9% in Q1 and 6.4% in Q2 of 2022.

Chart 6.14 Turnover of the transport and logistics chain



Source: National Statistics Office of Georgia

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



After having experienced a decline from Q2 of 2020 to Q1 of 2021, the turnover of the transport and logistics value chain saw a strong recovery during 2021. This high growth, which started in Q2 of 2021, continued in 2022. The value chain's turnover grew by 36.9% in Q1 and 33.5% in Q2 of 2022 year-on-year. The growth in 2022, no longer attributed to the low base effect, can be explained by Russia's war in Ukraine. As international transport routes through Ukraine and Russia have been disrupted, Georgia has become a popular alternative, and the demand for transportation and logistics services has been boosted. As a result, the turnover of the value chain picked to GEL 2.2 billion in Q2 2022.

Chart 6.16 Employment in the transport and logistics

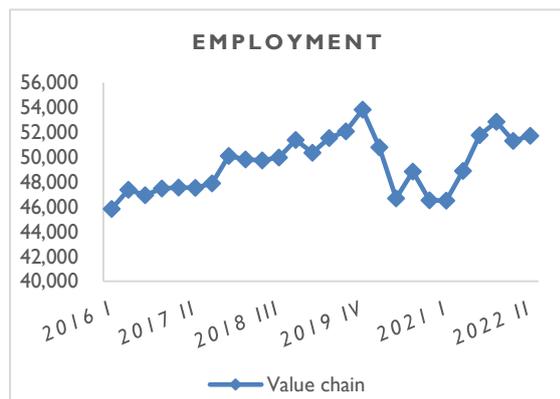
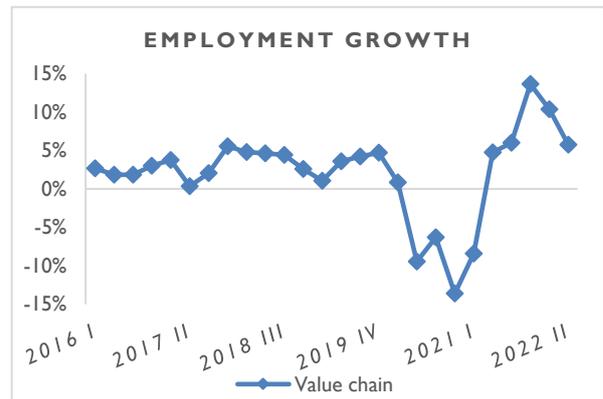


Chart 6.17 Growth rate of employment in the transport and logistics value chain



Source: National Statistics Office of Georgia

Employment in the value chain also increased in the first half of 2022, though the rate of growth was much lower compared to the growth of turnover. In Q1 of 2022, employment growth was 10.3%, and in Q2 of 2022, 5.8% compared to the corresponding quarters of 2021. Compared to pre-pandemic employment, employment in the first two quarters of 2022 was about the same as in 2019. In Q2 of 2022, employment in the transport and logistics value chain was 51,712, 0.3% higher than in Q1 of 2019. Therefore, the demand for labor in the value chain has yet to adjust quickly to the increased product demand. Consequently, we can expect a rise in employment in the transport and logistics value chain in the upcoming quarters of 2022.

Chart 6.19 Average monthly salary for the transport and logistics value chain

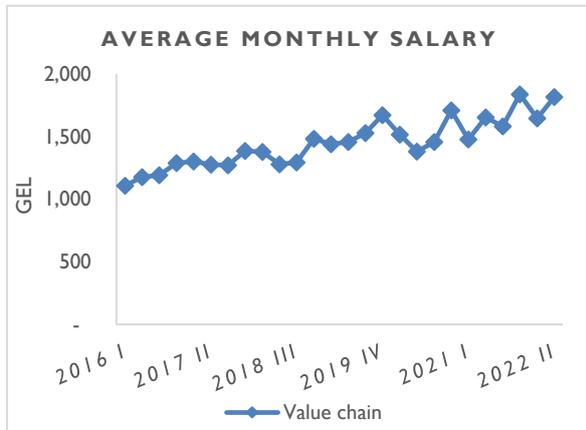
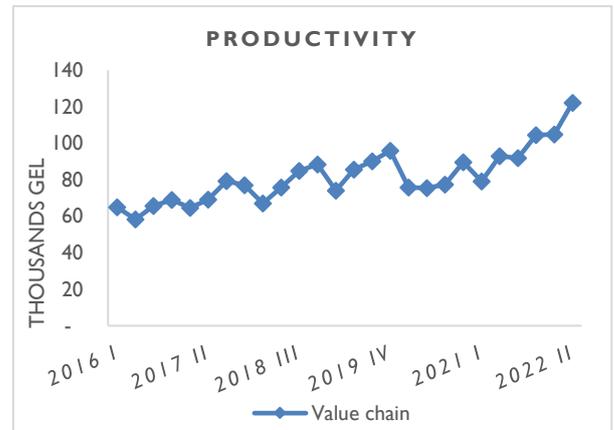


Chart 6.18 Productivity for the transport and logistics value chain

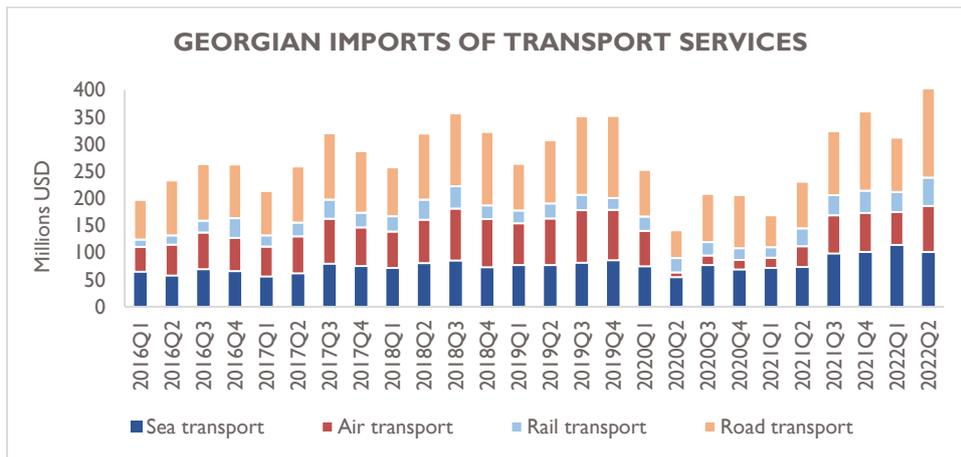


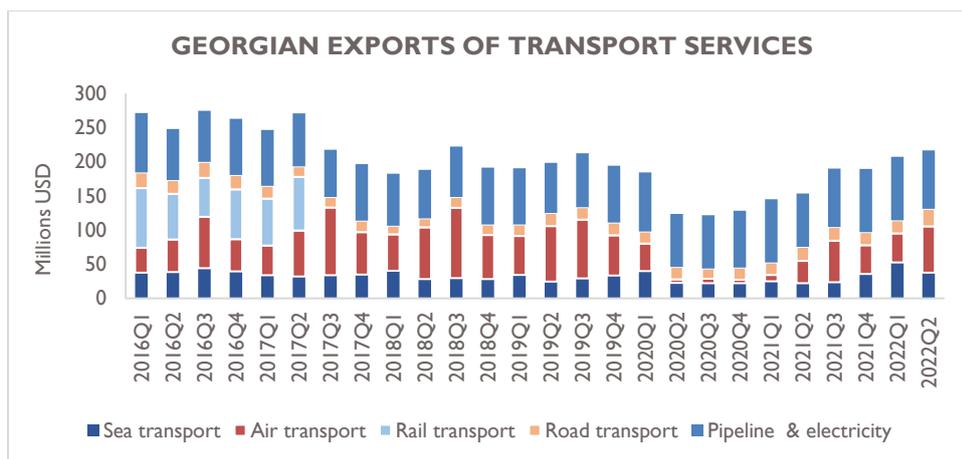
Source: National Statistics Office of Georgia

The average monthly salary for the transport and logistics value chain increased by 11.3% in Q1 of 2022 and 10% by Q2 of 2022 year-on-year. The average monthly salary in the first half of 2022 was much higher than pre-pandemic salaries. In Q2 of 2022 average monthly salary for the transport and logistics value chain reaching GEL 1,819 was 24.6% higher than in Q2 of 2019.

Productivity in the first half of 2022 has shown much higher growth than in 2019 and 2021. In Q1 of 2022, the productivity of the value chain increased by 32.5% compared to Q1 of 2021 and by 31.6% compared to Q1 of 2019, while in Q2 of 2022, it was 42.5% higher and 43.9% higher compared to corresponding quarters of 2021 and 2019, respectively.

Chart 6.20 Georgian imports and exports of transport services





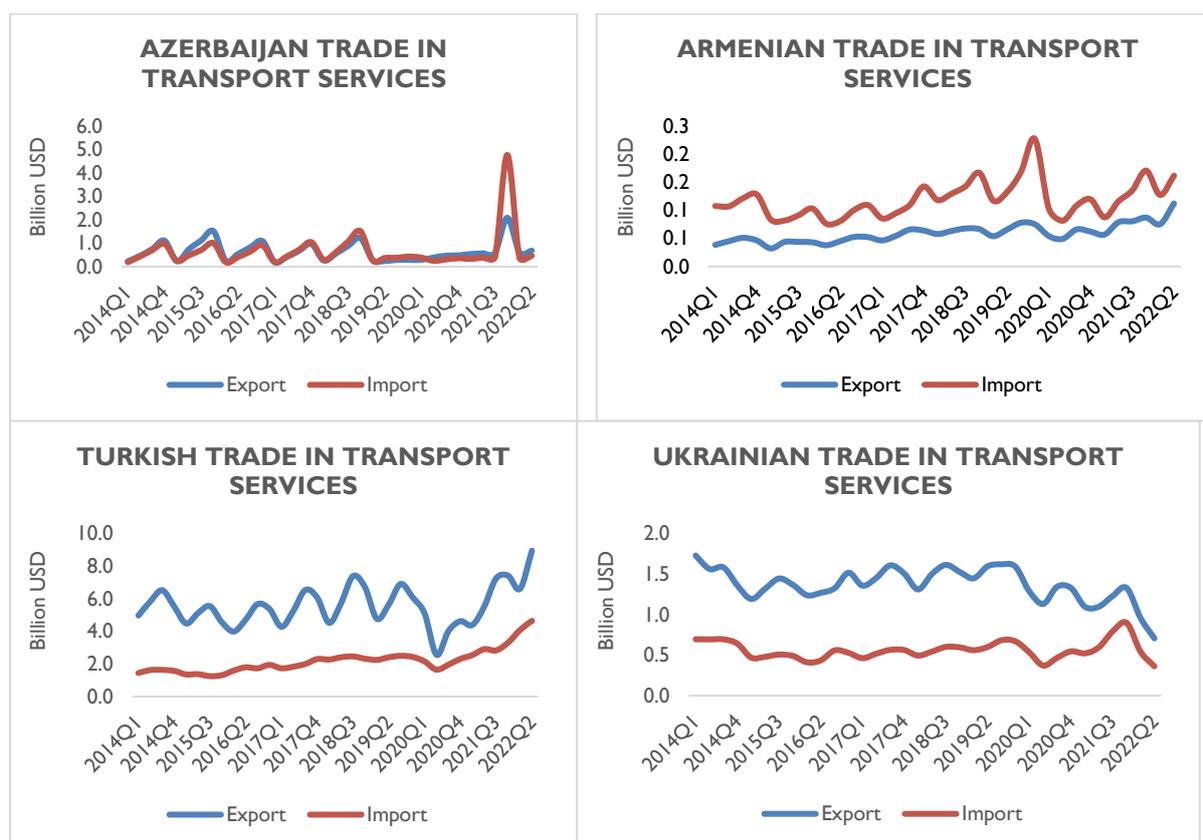
Source: National Bank of Georgia

Trade in the transport and logistics sector, which was heavily impacted by the pandemic, showed impressive growth in the first half of 2022. Imports of road transport services, having the largest share compared to imports of other types of transport services in Georgia, reached USD 176 million in Q2 of 2022, which was 104.4% higher than the corresponding quarter of 2021. Imports of transport services peaked in Q2 of 2022, with air transport imports showing the highest growth – 119.0% compared to Q2 of 2021. Air transport imports grew even higher in Q1 of 2022 – 224.3% YoY.

As for the exports of the trade services, air transport again showed the most significant year-on-year growth in the first half of 2022, increasing by as high as 363.9% in Q1 of 2022 and by 110.1% in Q2 of 2022. As a result, exports of air services are also the largest in absolute value (USD 67.9 million in Q2 of 2022) compared to other types of transport exports in Georgia.

Overall, trade in transport services recorded a deficit of USD 71.5 million in Q1 of 2022 and USD 149.9 in Q2 of 2022, driven by the higher growth of transport imports compared to transport exports in the first half of 2022. For comparison, in Q1 of 2021, Georgia had a surplus of USD 1.5 million in Q1 of 2021 and a deficit of USD 40.4 million in Q2 of 2021.

Chart 6.21 Regional trade patterns in the transport and logistics services



Source: Respective central banks

Other countries in the region except Ukraine have also experienced high growth in the trade of transport services, which can also be explained by the inflow of redirection of transport routes that were passing through Ukraine and Russia towards those neighboring countries. Turkey has shown the most impressive growth – with its imports growing by YoY 60.6% in Q1 and YoY 59.8% in Q2 of 2022, while exports have grown by YoY 50.6% in Q1 and by 62.2% in Q2 of 2022. Meanwhile, in Ukraine, transport services exports have declined by YoY 12.7% in Q1 of 2022 and year-on-year 35.6% in Q2 of 2022. Imports of transport services still increased slightly (by 4.0% compared to Q1 of 2021) as the war started at the end of the Q1 of 2022, though harshly decreased by YoY 39.3% in Q2 of 2022.

Overview of the Existing Challenges and Opportunities

Transport and logistics play an essential role in the economy. Improved transportation and logistics infrastructure, including roads and highways, railways, ports, airports, and warehousing infrastructure, are necessary for the sustainable growth of all sectors of the economy. The recent events COVID-19 and the war in Ukraine had the opposite extreme effects on the industry as they needed to adapt from empty to overloaded terminals. Due to the Ukraine war, businesses in the industry face an ethical dilemma of earning a lot through collaboration with Russian companies or doing the right thing as a

patriot of their countries. The businesses complain about the double standards from other countries earning money from the opportunities caused by the war.

Below we summarize the most crucial challenges and opportunities identified during the focus group and individual meetings with the value chain stakeholders.

The effects of the Ukraine War

According to sector representatives, the war in Ukraine had the following significant effects on the industry:

Overloaded Logistics: the immediate result of the war in Ukraine was that the industry experienced a collapse in all directions of transportation, water, railway, and land. The containers sent to Ukraine overloaded the terminals of Poti, and it could not receive the ships from Istanbul. The carriages from China arrived without obstacles. However, they faced problems in Georgia as there were no places to unload and deliver them to the owners. The same problems were with the customs from the Sarpi and Lars. Some businesses complained that the government could act more actively and mobilize additional resources. In contrast, others think that there was nothing government could do and that the private sector should organize and find alternative ways to overcome situations like this.

Increased Freight Turnover: All stakeholders agree that the war in Ukraine led to increased freight turnover, translating into more company income. They pointed out the possibility of earning even more; however, they faced ethical problems and refused to take advantage of the situation. Nevertheless, according to them, not all the countries acted ethically, having double standards and continuing collaboration with Russian companies.

Increased Fees: According to industry representatives, the fees have increased due to war. The primary reason for this is the change in trajectories and the worsening global economic climate, mainly increased fuel prices. In contrast, the price of containers sent from China decreased, which inflated substantially during the pandemic.

Capturing new opportunities

The industry development opportunities discussed in our previous publication gain more significance with the increased freight turnover. According to the FIATA, the increased turnover can be prolonged even after resolving the conflict, as the restoration of Ukraine would require active industry involvement. The business Association identifies the three main directions of Transport policy to capture new opportunities:

- Regulations for the increased transport potential, including technical, financial, and legal regulations
- Developed infrastructure with its suprastructure
- Rational processes, including HR policy and organizing the processes

According to the FIATA, the regulations are of minor concern among the problems as they are adapted to international standards. The association often intervenes to make necessary formalities faster and

more convenient for their members. The main problems are associated with the infrastructure and rational processes.

The potential for carrying capacity is enormous, and it is essential to use this opportunity fully as a middle-corridor country. The private sector mentions the Port of Anaklia as a forgone opportunity and a ferry service as a potential driver of freight turnover. Furthermore, they point out that the policy should be oriented toward the accumulation of freight through the logistic centers rather than transit, as it attracts much more money. The association also stresses the importance of regional development. In the case of receiving a large volume of freight, the carrying capacity of the Kaspian sea infrastructure in Azerbaijan might be a problem. All the mentioned and other topics related to infrastructure development are discussed in detail in our previous publications.

The human resources in the industry are the main contributors to organizing the processes rationally. The business representatives point out the considerable deficit of qualified staff. The problems with the knowledge and practical experience in the field led them to simplify the interview questions accepting everyone with a basic knowledge of mathematics.

Dual Vocation Education solution to the Qualification Deficit

The logistic association and the FIATA are actively involved in elaborating the dual program with the Vocational Skills Agency with the help of GIZ. The dual program graduate will receive the - forwarding agent qualification, the most demanded qualification on the market. In addition, FIATA provides an internationally accredited program regularly, contributing to developing industry skills.

Achieving the Competitive Advantage

According to the FIATA, there is massive competition among the countries in the field. Price and time are the two important indicators that define the choice of transport routes. Therefore, the effectiveness of the processes in the companies operating within the industry becomes paramount. The FIATA advocates receiving the ISO 9001 standard, which should achieve better quality management in the companies and increase the trust among their clients. Due to the high cost of this process, the association is searching for donors.

The Ongoing Work on Transport and Logistic Development Strategy 2023-2030

According to the respondents, the transport and logistic development strategy can be a game changer as it will clarify the country's transport policy in the long run. The document identifies the industry's main challenges concerning the transport sectors and their operations, logistic services, and human capital. According to business representatives, corresponding strategy goals are proposed based on an in-depth analysis of the challenges. The business representative argued that the activities to overcome the problem should have started yesterday and called for fast elaboration and implementation of the strategic action plan to capture the current opportunities in the market.

APPENDIX I- NACE codes

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

			39	Remediation activities and other waste management services	39	Remediation activities and other waste management services
Construction materials	16.23	Manufacture of other builders' carpentry and joinery	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	23.11	Manufacture of flat glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
	23.12	Shaping and processing of flat glass	23.3	Manufacture of clay building materials	23.3	Manufacture of clay building materials
	23.13	Manufacture of hollow glass	23.6	Manufacture of articles of concrete, cement and plaster	23.6	Manufacture of articles of concrete, cement and plaster
	23.32	Manufacture of bricks, tiles and construction products, in baked clay	23.7	Cutting, shaping and finishing of stone	23.7	Cutting, shaping and finishing of stone
	23.6	Manufacture of articles of concrete, cement and plaster	24.33	Cold forming or folding	25.11	Manufacture of metal structures and parts of structures
	23.7	Cutting, shaping and finishing of stone	25.11	Manufacture of metal structures and parts of structures	25.12	Manufacture of doors and windows of metal
	24.33	Cold forming or folding	25.12	Manufacture of doors and windows of metal		
	25.11	Manufacture of metal structures and parts of structures				
25.12	Manufacture of doors and windows of metal					
Personal and protective equipment	HS-6	481850; 630790; 902000; 900490; 392620; 401511; 401519; 611610; 621600; 650500; 401590; 621010; 621050	14.12	Manufacture of workwear	N/A	
			32.99	Other manufacturing n.e.c.		
Wooden toys			N/A		N/A	
Customer relationship management			82.2	Activities of call centres	N/A	
Architecture, Design and Engineering			71	Architectural and engineering activities; technical testing and analysis	71	Architectural and engineering activities; technical testing and analysis
			74	Other professional, scientific and technical activities	74	Other professional, scientific and technical activities
Finance and accounting			69	Legal and accounting activities	69	Legal and accounting activities
Human resources			78	Employment activities	N/A	
ICT	26.1	Manufacture of electronic components and boards	26	Manufacture of computer, electronic and optical products	26	Manufacture of computer, electronic and optical products
	26.2	Manufacture of computers and peripheral equipment	58	Publishing activities	58	Publishing activities

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

APPENDIX 2 - Survey questionnaire

A1. კომპანიის რეკვიზიტები:

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

B1. როგორ იყო კომპანიის წლიური ბრუნვა 2019 წელში:

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

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

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

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

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

C2. აქედან რამდენ პროცენტს შეადგენდნენ?

ქალები _____ % 15-29 წლის ახალგაზრდები _____ %

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

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

APPENDIX 3 - Stakeholders

Sector	Value Chain	Organization	Association/Private Sector	Representative
Creative Industries	Media content production & Post-production	Anymatory	Private Sector	Sandro Katamashvili
	Media content production & Post-production	20 Steps Production	Private Sector	Vladimer Katcharava
	Media content production & Post-production	Post Red (Post production)	Private Sector	Tina Babakishvili
	Media content production & Post-production	Sound Designer	Private Sector	Paata Godziashvili
	Media content production & Post-production	Enkeny Films	Private Sector	Sopho Bendiashvili
	Georgian Film Cluster	Georgian Film Cluster	Private Sector	David Vashadze
	Artisan	Ceramics	Private Sector	Teona Gogishvili
	Artisan	Textile	Private Sector	Maia Bakradze
	Artisan	Jewelry	Private Sector	Mariam Ninikashvili
	Artisan	Embroidery	Private Sector	Ia Nadiradze
Tourism	Artisan	Ceramics	Private Sector	Medo Kevlishvili
	DMOs	Kakheti DMO	Public Sector	Elene Papunashvili
	DMOs	Imereti DMO	Public Sector	Lali Zhorzholiani
	DMOs	Imereti DMO	Public Sector	Mariam Bibichadze
	DMOs	Samtskhke-Javakheti DMO	Public Sector	Nino Khazalashvili
	DMOs	Samegrelo-Zemo Svaneti DMO	Public Sector	Tea Sajaia
	DMOs	Samegrelo-Zemo Svaneti DMO	Public Sector	Zviad Karchava
	Adventure Tourism	Georgian Mountain Guides Association	Private Sector/Association	David Rakviashvili
	Adventure Tourism	Georgian Tourism Association	Private Sector/Association	Nata Kvatchantiradze
	Hotels	HORECA	Private Sector/Association	Shalva Alaverdashvili
	Hotels	Adjara Group	Private Sector	Oto Berishvili
	Hotels	Hotel Collection International	Private Sector	Ana Muradashvili
	Hotels	Legends Tskaltubo Spa Resort	Private Sector	Andro Jishkariani
Travel Agencies	Caucasus Travel	Private Sector	Maia Kiknadze	

	Travel Agencies	Explore Georgia	Private Sector	Guram Klibadze
	Travel Agencies	Visit Georgia	Private Sector	Giorgi Khidesheli
	Adventure Tourism	Georgian Ecotourism Association	Private Sector/Association	Natalia Bakhtadze
Cross-Cutting Sectors	E-Commerce	E-Commerce Association of Georgia	Private Sector	Nino Pruidze
	E-Commerce	Voice of E-Commerce	Private Sector/Association	Tamar Gogolashvili
	E-Commerce	Geriffin LLC (B2C.GE)	Private Sector/Association	Ketevan Vachiberidze
	E-Commerce	TNET	Private Sector	Nika Chilindrishvili
	Transport & Logistics	Vengo	Private Sector	Levan Nebieridze
	Transport & Logistics	Mintrans	Private Sector	Irma Varsimashvili
	Transport & Logistics	Lasare	Private Sector	Giorgi Nadirashvili
	Transport & Logistics	IT Group	Private Sector	Zura Tsinadze
	ICT	Data Art	Private Sector	Ina Egieva
	ICT	Data Art	Private Sector	Salome Melkadze
	ICT	Sweeft Digital	Private Sector	Giorgi Agladze
Light Manufacturing	Furniture	Georgian Furniture Cluster	Asscoation/Private Sector	Besik Verdzeuli, Irine Verdzeuli
	Furniture	Georgian Woodworkers and Furniture Manufacturers association	Association	Mamuka Khoshtaria
	Furniture	Design Georgia	Association	Keta Buachidze
	Furniture	Madera Georgia	Private Sector	Beso Matkava
	Furniture	LTD Funduki	Private Sector	Alexander Tsivtsivadze
	Furniture	I.E. Akaki Gurgenidze	Private Sector	Akaki Gurgenidze
	Furniture	LTD Conibe	Private Sector	Nika Tsipuria
	Furniture	LTD Factory	Private Sector	Nikoloz Menabdishvili
	Furniture	LTD Ifani	Private Sector	Zurab Shubitidze
	Furniture	LTD Woodstyle	Private Sector	Vasil Shavidze
	Furniture	LTD Randi	Private Sector	Londa Shavadze
	Packaging	PMAG Cluster	Association	Anano Rukhadze
	Packaging	LTD Caucaspac	Private Sector	Guram Makarov
	Packaging	LTD Georgian Packaging	Private Sector	Veronika Gogokhia
	Packaging	Poliedro	Private Sector	Nika Bitskinashvili
	Packaging	I.E. Zaza Mameshvili	Private Sector	Zaza Mameshvili
Packaging	LTD Fabrika 1900	Private Sector	Zura Alavidze	
Packaging	LTD Greenpack	Private Sector	Salome Kareli	

	Personal and Protective Equipment (PPE)	LTD Doctor Goods	Private Sector	Mamuka Khaduri
	Personal and Protective Equipment (PPE)	LTD Respiratori	Private Sector	Sergo Galustiani
	Personal and Protective Equipment (PPE)	Elven Technologies	Private Sector	Vamekh Kherkheulidze
	Personal and Protective Equipment (PPE)	LTD Boldi	Private Sector	Giorgi bogveli
	Personal and Protective Equipment (PPE)	LTD Elselema	Private Sector	Elguja Mamasakhlisi, Marina Tsiklauri
	Personal and Protective Equipment (PPE)	LTD GL Style	Private Sector	Luara Gvaladze
	Personal and Protective Equipment (PPE)	LTD Materia Fashion House	Private Sector	Tina Kuprashvili; Mirian Koiava
	Wooden Toys	LTD Sheni Mtsvane Satamasho	Private Sector	Melano Tkabladze
	Wooden Toys	LTD Mtsvervali	Private Sector	Tina Datukishvili
	Wooden Toys	Kodala	Private Sector	Kote Svanadze
	Wooden Toys	LTD Katamura	Private Sector	Tatia Tvaladze
	Wooden Toys	Dadari Social Enterprise	Private Sector	Archil Gobejiani
	Wooden Toys	LLC Kokito	Private Sector	Marika Grigolishvili
	Wooden Toys	Geostyle Wood Art	Private Sector	Dato Gvantseladze
	Construction Materials	Georgian Construction Materials Cluster (GCMC)	Association	Mariam Tsaishvili
	Construction Materials	Georgian Cement Association	Association	Irakli Makharoblidze, Irakli Giorgadze
	Construction Materials	LTD Basalt Fibers	Private Sector	Iveri Kutsnashvili
	Construction Materials	LTD Smarter	Private Sector	Dimitri Abuladze
	Construction Materials	LTD Akustiko	Private Sector	Avtandil Kraveishvili
	Construction Materials	LTD AI Group	Private Sector	Shalva Khargelia
	Construction Materials	LTD Universe Business Group (UBG)	Private Sector	Romani Badalyan
	Construction Materials	JSC Panex	Private Sector	Giorgi Levidze
	Construction Materials	LTD Kamara	Private Sector	Kakha Bikashvili
Waste Management and Recycling	Waste Management and Recycling	Waste Management Association	Association	Giorgi Guliashvili
	Waste Management and Recycling	LTD Neoprint	Private Sector	Archil Tvaradze
	Waste Management and Recycling	LTD TRC	Private Sector	Zurab Bazghadze

	Waste Management and Recycling	LTD "Bio Diesel Georgia"	Private Sector	Murman Pataraiia
	Waste Management and Recycling	LTD "Geo Mulch"	Private Sector	Konstantine Gogaladze
	Waste Management and Recycling	LTD KERE	Private Sector	Giorgi Kereselidze
	Waste Management and Recycling	LTD „Sanitar“	Private Sector	Levan Kvirkvelia
	Waste Management and Recycling	TENE	Private Sector	Levan Merabishvili
	Waste Management and Recycling	LTD "Polivimi"	Private Sector	Beka Ponjavadze
	Waste Management and Recycling	LTD Mtsvane Sachukari	Private Sector	Dachi Janelidze
Shared Intellectual Services	Architecture, Design and Engineering	Union of Architects, Individual Representative	Association/Private Sector	Pavle Maisuradze
	Architecture, Design and Engineering	Designbureau	Private Sector	Nia Mgaloblishvili
	Architecture, Design and Engineering	Individual Representative	Private Sector	Giorgi Inasaridze
	Architecture, Design and Engineering	Green Studio	Private Sector	Sulkhan Sulkhanishvili
	Architecture, Design and Engineering	Center of Contemporary Art (CCA) - Tbilisi	Private Sector	Wato Tsereteli
	Architecture, Design and Engineering	Individual Representative	Private Sector	Nano Zazanashvili
	Architecture, Design and Engineering	Werkraum Design Architecture	Private Sector	Kakhaber Kakhishvili
	Architecture, Design and Engineering	Multiverse Architecture (MUA)	Private Sector	Devi Kituashvili
	Finance and Accounting	Georgian Federation of Professional Accountants and Auditors (GFPAA)	Association	Lavrenti Chumburidze
	Finance and Accounting	LTD Accountant-Outsourcing	Private Sector	David Todua
	Finance and Accounting	LTD Management and Accounting	Private Sector	Tedore Khomeriki
	Finance and Accounting	LTD Business Consultation Center	Private Sector	Shorena Gogua
	Finance and Accounting	SavvY	Private Sector	Mariam Koyava
	Finance and Accounting	Baker Tilly	Private Sector	Bessik Bisieshvili
	Finance and Accounting	LTD Tbilisi Auditors Team	Private Sector	Levan Jangulashvili

	Human Resources Management	Human Resources Professionals Association (HRPA)	Association	Salome Ghachava
	Human Resources Management	HR Hub; Student.job.ge	Private Sector	Ana Navdarashvili
	Human Resources Management	Elvictor Crew	Private Sector	Nino Gujabidze
	Human Resources Management	HR Partners	Private Sector	Nino Jinjolava
	Human Resources Management	Self.ge	Private Sector	Nino Peikrishvili
	Human Resources Management	HR4B	Private Sector	Irina Shalamberidze
	Customer Relationship Management	Majorel	Private Sector	Thea Romanova
	Customer Relationship Management	K-Call	Private Sector	Irina Darovskaya
	Architecture, Design and Engineering	Union of Architects, Individual Representative	Association/Private Sector	Pavle Maisuradze
	Architecture, Design and Engineering	Designbureau	Private Sector	Nia Mgaloblishvili
	Architecture, Design and Engineering	Individual Representative	Private Sector	Giorgi Inasaridze
	Architecture, Design and Engineering	Green Studio	Private Sector	Sulkhan Sulkhanishvili
	Architecture, Design and Engineering	Center of Contemporary Art (CCA) - Tbilisi	Private Sector	Wato Tsereteli
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	Finance and Accounting	LTD Accountant-Outsourcing	Private Sector	David Todua
	Finance and Accounting	LTD Management and Accounting	Private Sector	Tedore Khomeriki
	Finance and Accounting	LTD Business Consultation Center	Private Sector	Shorena Gogua

APPENDIX 4 - Focus group questionnaire

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

1. ბიზნეს საქმიანობა

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

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

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

3. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

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

4. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

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

6. პროგნოზი

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

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

7. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

8. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

APPENDIX 5 - Associations 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 %)
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	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
- 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).