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SECURITY PROGRAM

Policy Brief

Light Manufacturing

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TABLE OF CONTENTS

| | |
|--|----|
| INTRODUCTION | I |
| SECTORAL OVERVIEW | 2 |
| FURNITURE MANUFACTURING | 2 |
| PACKAGING MATERIAL MANUFACTURING | 10 |
| METHODOLOGY | 14 |
| EXISTING CHALLENGES | 15 |
| PRIORITY CHALLENGES | 17 |
| LACK OF QUALIFIED PERSONNEL | 18 |
| ACCESS TO FINANCE | 20 |
| CONCLUSION AND RECOMMENDATIONS | 23 |
| APPENDIX 1: INTERVIEWS | 26 |
| APPENDIX 2: WORKING GROUP MEETING PARTICIPANTS | 27 |

Tables

| | |
|--|----|
| Table 1. Growth potential in the priority value chains of the light manufacturing sector in Georgia..... | I |
| Table 2. Furniture manufacturing value chain exports from Georgia by HS code (USD 1000) | 8 |
| Table 3. Existing challenges within the furniture manufacturing and packaging material manufacturing value chains by priority..... | 17 |
| Table 4. Projects funded under the industrial component of the Enterprise Georgia program (2014-2019)..... | 21 |

Figures

| | |
|---|----|
| Figure 1. Scanning/assessment of Georgian sectors..... | 2 |
| Figure 2. Dynamics of output, investment, employment, and salaries in the furniture manufacturing value chain (2010-2019) | 4 |
| Figure 3. Furniture export and import dynamics (2010-2019)..... | 5 |
| Figure 4. Total furniture imports by country (2010-2019) | 5 |
| Figure 5. Furniture imports from main sources (2010-2019)..... | 6 |
| Figure 6. Total furniture exports during 2010-2019 by destination..... | 6 |
| Figure 7. Furniture exports from Georgia to main destinations, 2010-2019..... | 7 |
| Figure 8. Dynamics and value-added of packaging material manufacturing value chain (2013-2019)..... | 10 |
| Figure 9. Dynamics of employment and average monthly salary in the packaging material manufacturing value chain (2013-2019) | 11 |

| | |
|---|----|
| Figure 10. Fixed asset investment in the packaging material manufacturing value chain (2013-2019)..... | 11 |
| Figure 11. Dynamics of the import and export of plastic and paper packaging (2010-2019)..... | 12 |
| Figure 12. Distribution of plastic and paper packaging material imports and exports by country (2010-2019)..... | 13 |
| Figure 13. Dynamics of export and import of glass packaging materials (2010-2019)..... | 13 |

INTRODUCTION

This policy document has been prepared within the scope of the USAID Economic Security Program. The goal of the program is to improve the competitiveness of four priority sectors (light manufacturing, tourism, creative industries, and shared intellectual services) by increasing investment, revenues, and the number of high-value jobs therein. This study focuses on the light manufacturing industry, and specifically on the furniture and packaging material sub-sectors. It aims to examine the existing challenges in the relevant value chains and to determine ways to overcome the obstacles identified through dialogue with the representatives of the public and private sectors.

In 2019, the Economic Security Program carried out a value chain analysis¹, which identified priority areas in the aforementioned four priority sectors. The study showed that light manufacturing in Georgia is facing numerous challenges, including a lack of qualified personnel, difficulties in market access, outdated equipment, and low-value production. Nevertheless, based on the same study, two value chains (furniture manufacturing, and packaging material manufacturing) were chosen as having potential for growth on an international scale. Significantly promising areas in furniture manufacturing include production under international agreements and the manufacturing of large high-value pieces of wooden furniture and cabinet furniture. With regard to the manufacturing of packaging materials, areas identified as having potential included cardboard, industrial plastic packaging, paper cups, and paper bags. A summary of employment, revenue, and investment growth potential in the two value chains is presented in the table below.

Table I. Growth potential in the priority value chains of the light manufacturing sector in Georgia

| Value Chain | Employment | Revenues | Investment | Time Required |
|--------------------------------------|------------|----------|------------|-------------------------|
| Manufacturing of Packaging Materials | Low | Medium | High | Medium/Long-Term Period |
| Furniture Manufacturing | Low | Medium | High | Medium/Long-Term Period |

Source: Value Chain Prioritization and Gaps Assessment, USAID (2019)

In the study, it was assumed that in both value chains companies would develop by installing high-tech equipment, thereby reducing the number of persons employed while significantly increasing revenues and investment and laying the foundations for higher-value job creation.

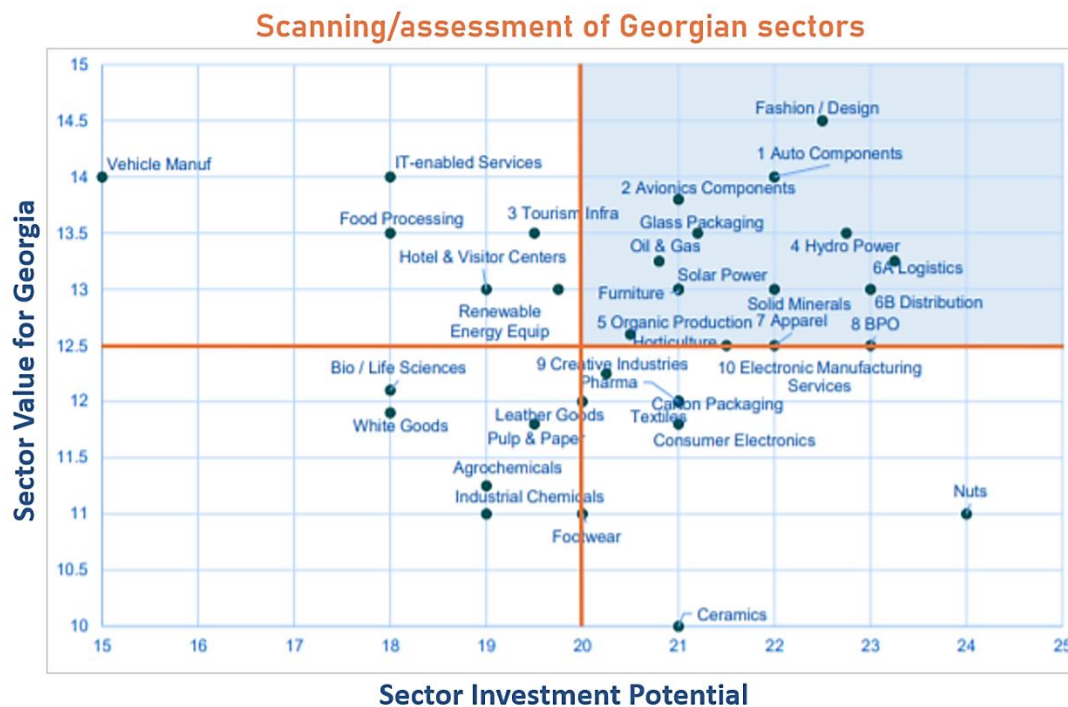
On April 19, 2021 a dialogue between the public and private sectors was organized by the Sector Economy and Economic Policy Committee of the Parliament and the USAID Economic Security Program. The meeting aimed to discuss the challenges identified in the light manufacturing sector and ways to address them. The dialogue was attended by the members of the Parliament, representatives of the Georgian executive branch of the government, industry experts, the private sector, and international organizations. All organizations and industry representatives interested in the issue had the opportunity to follow the public-private dialogue and express their position through the online platform. The event was also live streamed via the Parliament's and USAID Economic Security Program's facebook pages.

¹ VALUE CHAIN PRIORITIZATION AND GAPS ASSESSMENT, USAID (2019)

SECTORAL OVERVIEW

The investment promotion strategy and action plan of Enterprise Georgia for 2020-2021 highlights a study conducted by the International Finance Corporation (IFC), which evaluated up to 40 sectors in Georgia based on their value to the country and their investment potential (see Figure 1). The sectors were examined in order to determine priorities and, taking into account resource limitations, the direct future activities to be undertaken in the areas most likely to boost economic development. In the course of the study, it was found that the production of glass packaging and furniture had high investment appeal and high value for Georgia. The production of cardboard packaging was also found to have high investment appeal but was less valuable for Georgia.

Figure 1. Scanning/assessment of Georgian sectors



Source: Investment Promotion Strategy and Action Plan for 2020-2021, Enterprise Georgia (available at: <http://www.enterprisegeorgia.gov.ge/uploads/files/publications/5dfb4da67045f-Invest-in-Georgia-20-21.pdf>).

FURNITURE MANUFACTURING

Furniture manufacturing in Georgia is of a relatively small scale, with most items of furniture imported. In 2019, furniture production accounted for just 1.9% of the whole output of the manufacturing sector². There are approximately 800 furniture manufacturers operating in the country, with small and medium enterprises accounting for the majority of that number³. Despite the small scale of the industry and the existence of numerous challenges, the development of furniture manufacturing is a state priority. In particular, Enterprise Georgia has picked out the wood processing sub-sector as one of the priority areas of the program's 'industrial component,' which ensures that the sub-sector receives co-financing for

² GEOSTAT

³ FURNITURE VALUE CHAIN MAPPING, USAID. 2019

interest payments on loans and leases, as well as technical support⁴. At the same time, the furniture manufacturing value chain has been given priority status under the export promotion program, enabling companies operating in this sector to participate in international exhibitions, to establish international partnerships, and to enhance their staff's knowledge and skills in export management and development. Interest in the furniture manufacturing value chain is also high among international donor organizations. Pertinently, the German Corporation for International Cooperation (GIZ) and the European Union (EU) have supported numerous measures aimed at increasing the export potential and the competitiveness of the manufacturing value chain. The USAID Economic Security Program and the Swedish International Development Cooperation Agency (SIDA) are also actively involved in developing this value chain. The involvement of these donors comes in the wake of their own sector competitiveness studies and reiterates the value chain's high potential for development.

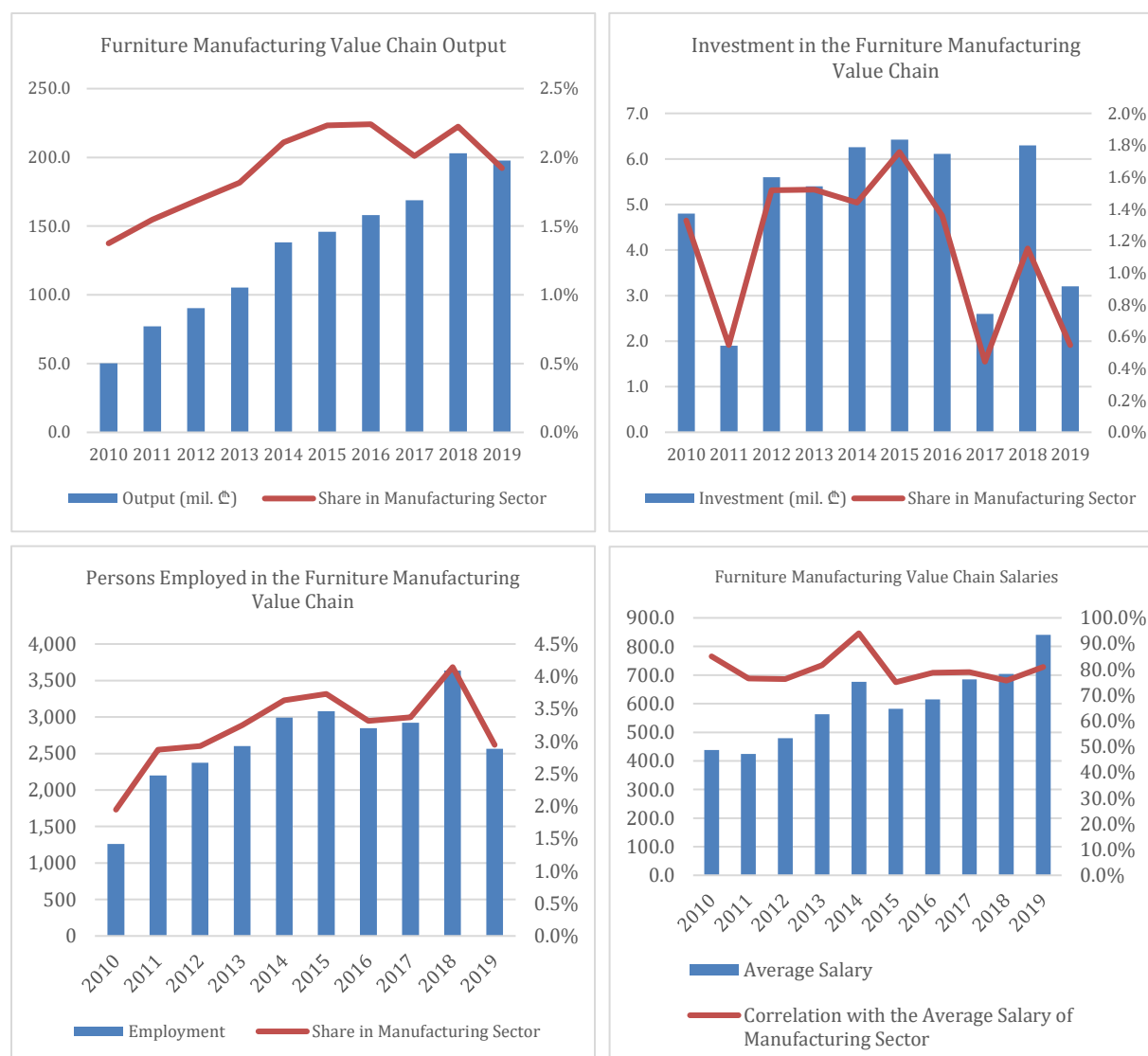
Furniture manufacturing in Georgia has been steadily growing in recent years, reaching its peak in 2018 (GEL 203 million), before falling by 2.6% to GEL 198 million in 2019 (see Figure 2). Research into the Georgian furniture cluster has attributed that decrease to a reduction in furniture use⁵. The share of furniture production in the whole output of the manufacturing sector fell from 2.2% to 1.9% during the same period. Notably, furniture manufacturing during the first two quarters of 2020 increased year-on-year. However, the COVID-19 crisis is likely to negatively affect the overall figure for 2020. Meanwhile, the employment figures in the value chain reflect similar trends. In 2019, employment in the value chain decreased by 29.5% compared to the previous year (to 2,563), before rebounding in the first two quarters of 2020 and averaging 2,840 people. The average monthly salary of persons employed in the furniture manufacturing value chain increased to GEL 840 in 2019, which is 81% of the average monthly salary in the processing sector.

Fixed asset investment in the furniture manufacturing value chain has been volatile since 2012, falling by 57% in one year in 2017 before rebounding to the 2016 level a year later. Moreover, fixed asset investment in the furniture manufacturing value chain in 2018 (GEL 6.3 million) accounted for 1.2% of total investment in the processing industries. This figure decreased substantially to 0.5% in 2019, as the volume of such investment halved to GEL 3.2 million. To summarize, these trends show that investment in the sector is unstable, which may be explained by the sector's vulnerability to external factors.

⁴ ENTERPRISE GEORGIA, INDUSTRIAL PRIORITIES [HTTP://WWW.ENTERPRISEGEORGIA.GOV.GE/](http://www.enterprisegeorgia.gov.ge/)

⁵ [HTTP://EUGEORGIA.INFO/KA/ARTICLE/831/QARTULI-AVEJIS-KLASTERI-SEQTORIS-KVLEVA/](http://eugeorgia.info/ka/article/831/qartuli-avejis-klasteri-seqtoris-kvleva/)

Figure 2. Dynamics of output, investment, employment, and salaries in the furniture manufacturing value chain (2010-2019)

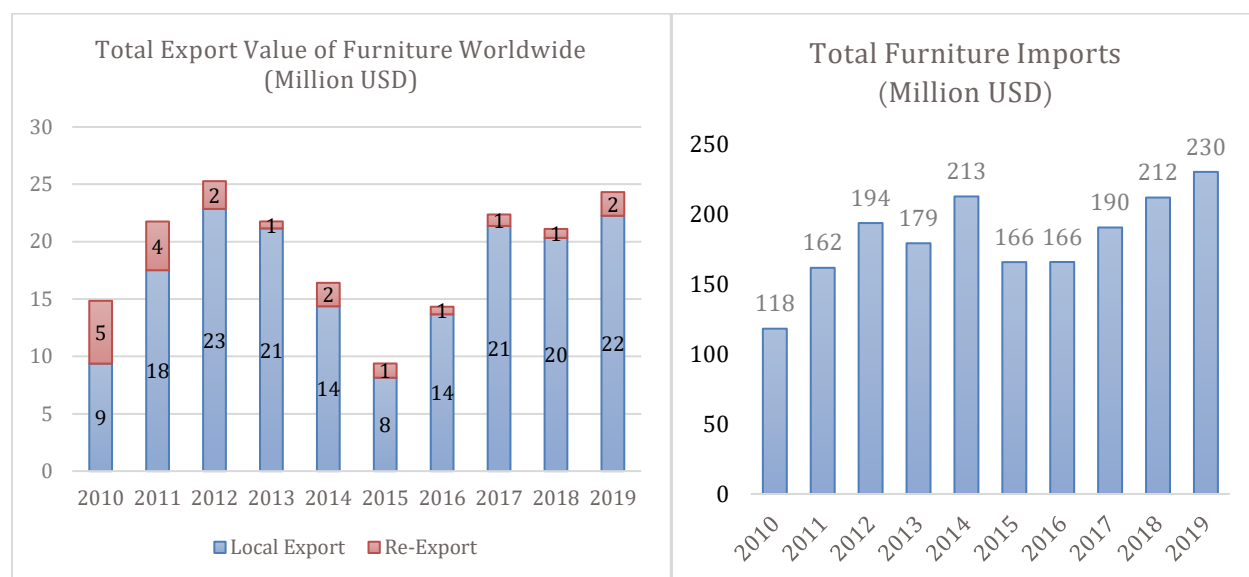


Source: Geostat

Based on external trade figures (Figure 3), the dynamics of total furniture imports⁶ in 2010-2019 were characterized by volatility. However, furniture imports started to grow after 2016, reaching the USD 230 million mark in 2019. Meanwhile, after four years of falling figures, global furniture exports also began to grow in 2016, largely on the strength of higher local exports. Re-export figures have ranged between USD 1 million and USD 2 million in recent years, while local exports jumped from USD 8 million in 2015 to USD 22 million in 2019, narrowly short of the 2012 figure (USD 23 million).

⁶ FURNITURE VALUE CHAIN HS ITEM CODES ARE SHOWN IN TABLE 2.

Figure 3. Furniture export and import dynamics (2010-2019)



Based on the furniture import figures for 2010-2019 (Figure 4), the leading importer countries were Turkey (38%), China (23%), Italy (6%), Ukraine (6%), and Russia (4%). The value of furniture imports from Turkey, China, and the EU gradually increased over this period (Figure 5).

Figure 4. Total furniture imports by country (2010-2019)

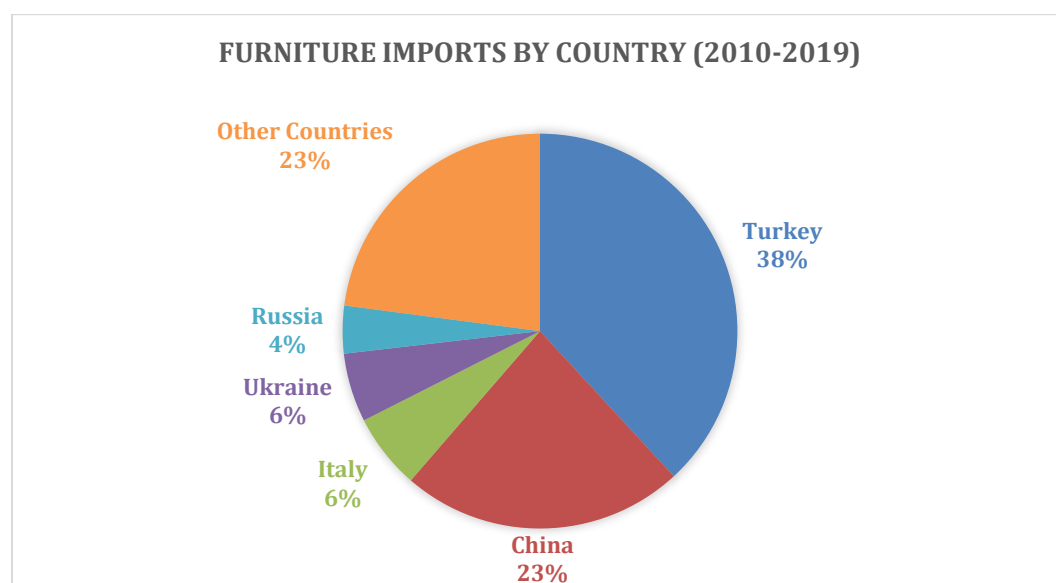
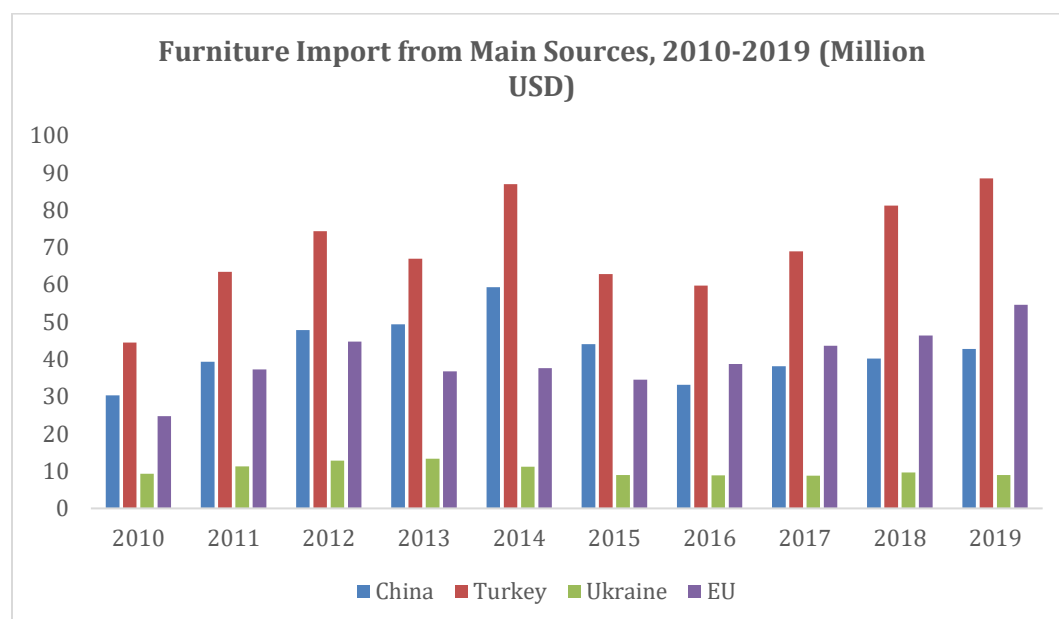
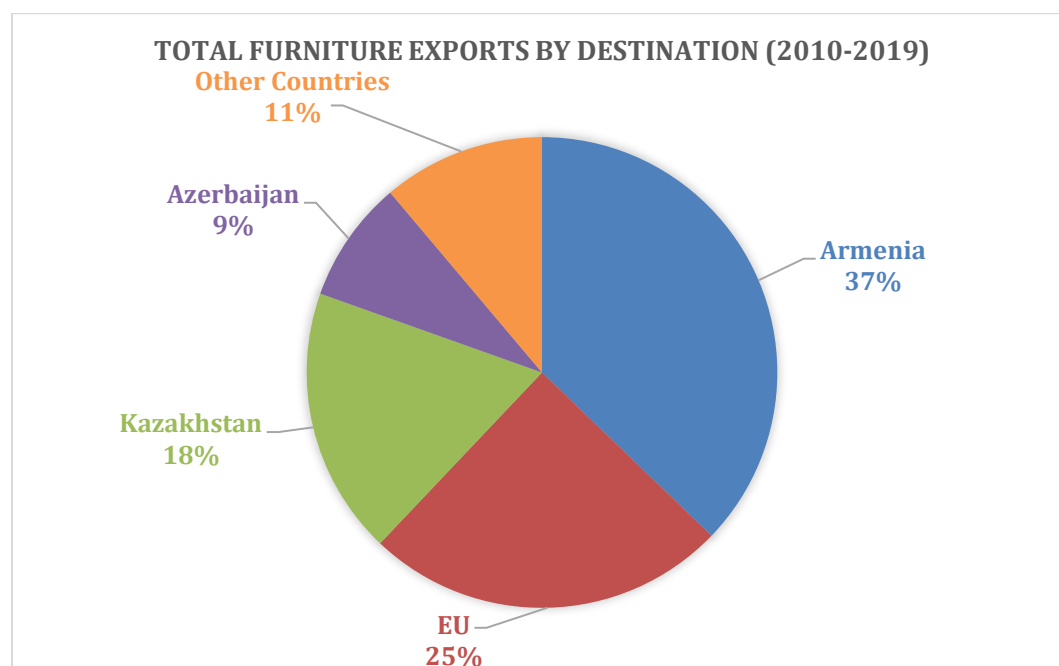


Figure 5. Furniture imports from main sources (2010-2019)



With regard to exports during the period of 2010-2019 (Figure 6), the main destinations for Georgian goods included Armenia (37%), the EU (25%), Kazakhstan (18%), and Azerbaijan (9%).

Figure 6. Total furniture exports during 2010-2019 by destination



The dynamics of furniture exports to the aforementioned destinations in 2010-2019 (Figure 7) reveal considerable growth in exports to the EU between 2015 and 2019. Indeed, exports to the EU totaled USD 1 million in 2015 and had increased to USD 14 million by 2019.

Figure 7. Furniture exports from Georgia to main destinations, 2010-2019

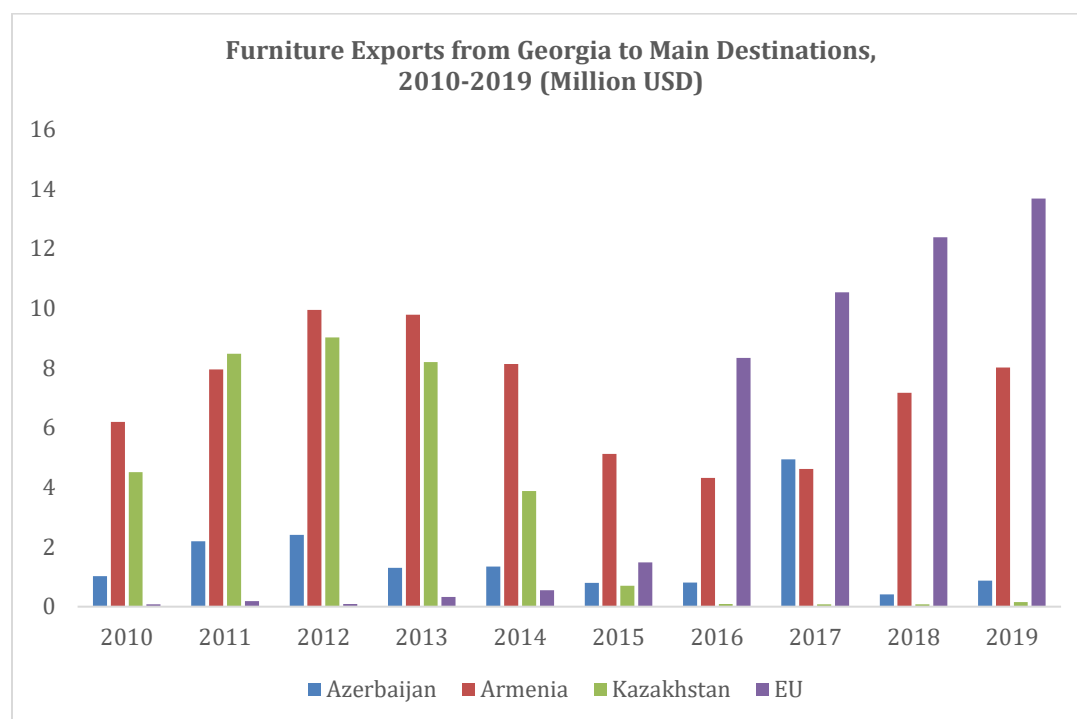


Table 2 presents the export dynamics of products manufactured in the furniture manufacturing value chain, based on the harmonized system of codes (HS). According to the 2019 data, exports were dominated by 'other articles of wood' (45%) and particle boards (24%). The significant growth in the export of goods marked with the HS code 4421 ('other articles of wood') in 2010-2017 is particularly remarkable. Meanwhile, the 2019 study conducted by GIZ entitled Value Chain Analysis and Action Plan – Furniture and other Wood Products stated that the use of the HS code 442190 in exports may be particularly attractive for manufacturers, as products under this code are largely unaffected by the restrictions regarding the rules of origin. Furthermore, for products under this code, companies are allowed to freely export goods manufactured using imported raw materials. The same study highlighted the use of this code for the export of pet furniture (see <http://geoproducts.ge> as an example).

To summarize, the GIZ analysis of the wood processing and furniture manufacturing value chains shows that instead of finished items of furniture, the production of furniture parts (including wood panels, drawer boards, and veneered panels) has been identified as a sub-sector with high export potential for Georgia. The same study points out that the manufacturing of intermediary products is a priority with respect to gaining better access to markets, as Georgian manufacturers have limited control over the quality and cost of imported furniture raw materials. In addition, they have limited access to certain types of furniture parts that are imported into Georgia. All of this has a negative effect on both final product quality and customer satisfaction.

Table 2. Furniture manufacturing value chain exports from Georgia by HS code (USD 1000)

| HS4 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|------|------|-------|------|------|------|------|-------|-------|-------|
| 4410 Particle boards | 6834 | 8021 | 10964 | 7848 | 6458 | 3952 | 3370 | 7199 | 5904 | 5779 |
| 4411 Fiberboard made of wood or other ligneous materials | 1067 | 1971 | 2073 | 2072 | 1274 | 753 | 804 | 1042 | 1010 | 1607 |
| 4412 Plywood, veneered panels and similar laminated wood | 0 | 4 | 16 | 31 | 109 | 9 | 3 | 37 | 22 | 145 |
| 4413 Densified wood, in blocks, plates, strips or profile shapes | 231 | 216 | 128 | 105 | 59 | 2 | | 0 | | 5 |
| 4414 Wooden frames (for paintings, photographs, mirrors or similar objects) | 0 | 0 | 5 | 0 | 5 | 4 | 2 | 4 | 2 | 0 |
| 4415 Packing cases, boxes, crates, drums and similar packings made of wood | 55 | 14 | 68 | 108 | 61 | 7 | 13 | 28 | 26 | 106 |
| 4418 Builders' joinery and carpentry made of wood | 327 | 588 | 337 | 285 | 435 | 245 | 253 | 1324 | 1055 | 1332 |
| 4419 Tableware and kitchenware made of wood | 9 | 1 | 0 | 0 | 2 | 1 | 2 | 1 | 16 | 6 |
| 4420 Wood marquetry and inlaid wood | 10 | 2 | 14 | 20 | 15 | 99 | 56 | 5 | 24 | 12 |
| 4421 Other articles made of wood | 27 | 34 | 76 | 248 | 330 | 1297 | 8150 | 10340 | 10094 | 10872 |
| 9401 Seats and parts thereof | 697 | 1901 | 2567 | 3178 | 1875 | 721 | 461 | 558 | 625 | 420 |
| 9402 Medical, surgical, dental or veterinary furniture | 1 | | 10 | 46 | 2 | 9 | 107 | 79 | 7 | 208 |
| 9403 Furniture and parts thereof | 5553 | 8999 | 8978 | 7693 | 5675 | 2208 | 1083 | 1480 | 872 | 1766 |
| 9404 Mattress supports; articles of bedding | 30 | 6 | 40 | 131 | 112 | 76 | 26 | 273 | 1454 | 2063 |

The furniture manufacturing value chain includes a furniture cluster that was established in 2017 as part of the “SME Development and DCFTA in Georgia” project, which is organized by GIZ and co-financed by the EU. In 2019, the Design Georgia association was established separately from the cluster, aiming to enable better coordination between furniture manufacturers and designers. The cluster currently has 37 members. Apart from furniture manufacturers, it also includes other representatives of the value chain, such as wood manufacturers and other service providers. The cluster’s main objective is to enhance the competitiveness of furniture manufacturers, to increase export potential, and to act as a platform for dialogue between the public and private sectors. With GIZ and EU support, the cluster has taken part in international exhibitions, organized training programs under the leadership of foreign specialists, and established a school for craftsmen. However, the study also points out that the cluster became less active upon the completion of the “SME Development and DCFTA in Georgia” project at the end of 2019⁷, which is particularly important with regard to the future activities of donor organizations that recently became involved in the value chain.

It is important here to highlight some examples of successful business activities in the value chain. To this end, the study highlights the cases of Georgian Products Ltd. (GEOP), Madera, and Global Futuro.

Based on the consolidated financial reports of Georgian Products for 2019, the company’s success was largely enabled by an agreement with a company supplying animal furniture, food, and other accessories to the European market. By 2019, GEOP’s sales revenues exceeded GEL 33 million, with export markets (EU member states and the UK) accounting for 100% of that. In 2016, the company established a subsidiary firm called Bobini, which produces paper tubes – an important material for the final product manufactured by the parent company. GEOP plans to significantly increase its exports by expanding into the Japanese and US markets.

Madera Georgia produces various items of furniture (tables, chairs, doors, chandeliers, floor and wall décor) from recycled wood materials. The company was founded in 2004. It initially operated in Georgia exclusively, but soon began exporting its goods to Israel. Meanwhile, it upgraded its technical equipment, trained its personnel, and learned to operate in accordance with international quality standards and requirements. The company regularly cooperates with international experts and organizations, and is currently conducting exports to the US, the EU, and Israel. Notably, its wall panels are used by the European cosmetics manufacturer Rituals.

Elsewhere, having studied the Georgian market in advance, the Italian firm Global Futuro invested EUR 1 million in an enterprise that manufactures high-quality spray materials for metal, wood, and glass products. The main goal of that investment was to provide services for the companies that are part of the Avchala agglomeration. The presence of such a geographic agglomeration and cluster will ensure sustainable demand for the company’s products and services. Together with the members of the Georgian furniture cluster, the company began supplying other products to the Georgian market.⁸

The investment appeal of the Georgian furniture manufacturing value chain was confirmed in November 2018 when the Georgian Ministry of Economy and Sustainable Development, the Georgian Chamber of Commerce and Industry, and the Foreign Economic Relations Board of Turkey organized a visit of more than 20 Turkish furniture manufacturers to Georgia. As part of this mission, Georgian furniture manufacturers (including furniture cluster members) attended an investment conference, where potential

⁷ [HTTP://EUGEORGIA.INFO/EN/ARTICLE/831/GEORGIAN-FURNITURE-CLUSTER-SECTORAL-RESEARCH/](http://eugeorgia.info/en/article/831/georgian-furniture-cluster-sectoral-research/)

⁸ SOURCE: GEORGIAN FURNITURE CLUSTER.

investors learned about the business environment and furniture market in Georgia. Furthermore, Georgian companies were invited to participate in future B2B meetings⁹.

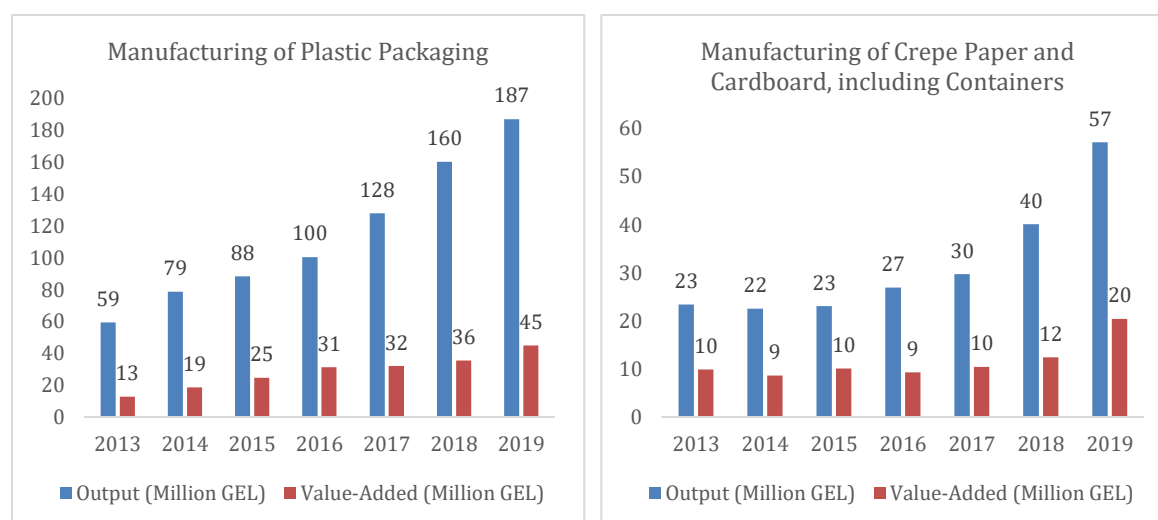
It should also be noted here that some unsuccessful examples, some of which are described below, have revealed the presence of systemic problems in the value chain. For example, despite the demand for certain goods and services, it has often been difficult to fully realize export potential.

- In January 2017, several Georgian manufacturers and designers visited the Cologne International Trade Fair and established numerous business connections, including one with a local hotel that was looking to optimize renovation costs by purchasing furniture in Eastern Europe. One of the Georgian companies wished to accept the offer but was unable to design furniture and create prototypes in accordance with the hotel's requirements due to its lack of technical capacity.¹⁰
- In 2018, the Bulgarian furniture cluster contacted the Georgian furniture cluster to purchase 10,000 wooden boxes. Completing the order would have required 15,000 m³ of pine wood. Although Georgia produces around 1 million m³ of pine wood each year, the order could not be fulfilled, possibly due to existing forest management issues and/or the ineffectiveness of Georgian supply channels.¹¹

PACKAGING MATERIAL MANUFACTURING

The economic data analysis of the packaging material manufacturing value chain is based on the available data from the following two sub-sectors: (1) plastic packaging; and (2) paper and cardboard packaging, cardboard containers, and crepe paper. Figure 8 shows the dynamics of output and value-added in these two sub-sectors in 2013-2019. Plastic packaging output increased from GEL 69 million to GEL 187 million over this period, and value-added from GEL 13 million to GEL 45 million during the aforementioned period. The manufacturing of paper and cardboard packaging, cardboard containers, and crepe paper increased from GEL 23 million to GEL 57 million in 2013-2019, while value-added doubled to GEL 20 million.

Figure 8. Dynamics and value-added of packaging material manufacturing value chain (2013-2019)



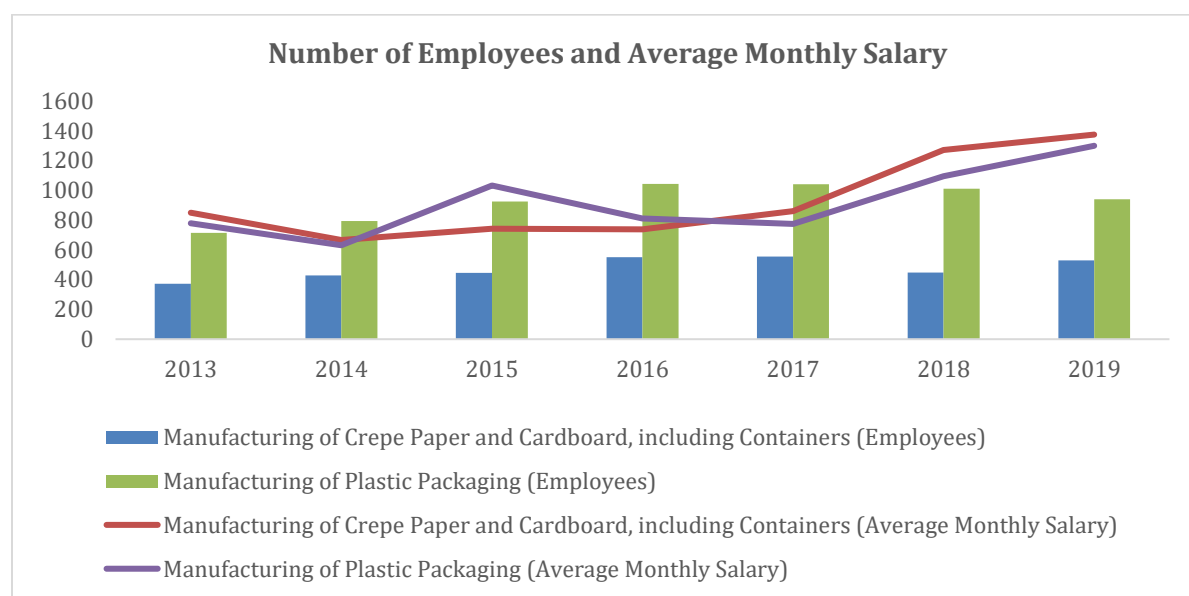
⁹ <https://www.facebook.com/georgianchamberofcommerceandindustry/posts/2206232629401082>

¹⁰ SOURCE: GEORGIAN FURNITURE MANUFACTURING COMPANIES.

¹¹ SOURCE: GEORGIAN FURNITURE MANUFACTURING COMPANIES.

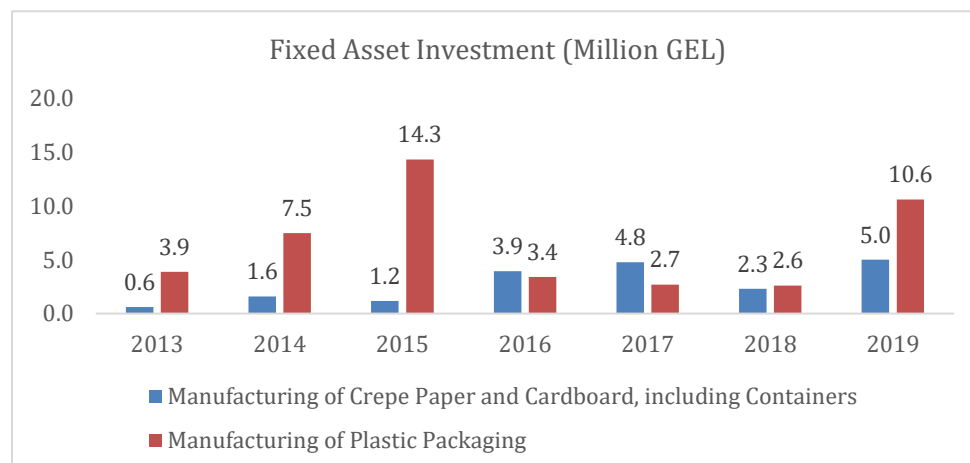
The dynamics of employment and average monthly salary figures in these sectors are presented in Figure 9. Clearly, employee numbers increased steadily in both sectors until 2017, but fell in 2018-2019. Average monthly salary figures fluctuated in the plastic packaging sector but increased significantly in 2017-2019. Monthly salary figures in the paper and cardboard packaging, cardboard container and crepe paper manufacturing sector increased steadily from 2014. As of 2019, the average monthly salary in the plastic packaging manufacturing sector was GEL 1,300, and the average monthly salary in the paper and cardboard packaging, cardboard container and crepe paper manufacturing sector was GEL 1,375. The number of employees in these two sectors in 2019 was 941 and 529, respectively.

Figure 9. Dynamics of employment and average monthly salary in the packaging material manufacturing value chain (2013-2019)



Fixed asset investment in these two sectors was characterized by certain instability in 2013-2019 (Figure 10), although the increase in investment in the plastic packaging sector from GEL 2.8 million in 2018 to GEL 10.6 million in 2019 was unprecedented. Investment in the paper and cardboard packaging, cardboard container and crepe paper manufacturing sector also increased by GEL 2.7 million in 2019, totaling GEL 5 million.

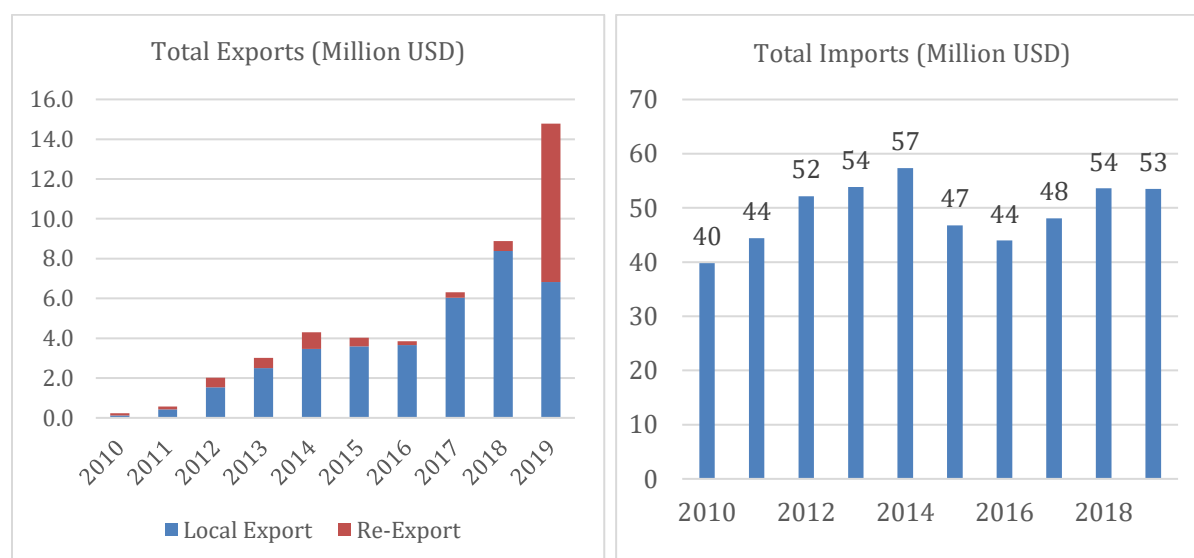
Figure 10. Fixed asset investment in the packaging material manufacturing value chain (2013-2019)



With regard to Georgia's international trade in packaging materials, the first stage of research examined two major HS classification groups – 3923 ('plastic articles for the conveyance or packing of goods') and 4819 ('cartons, boxes, cases, bags and the like, of paper, paperboard, cellulose wadding or fibres'). These codes were chosen due to the availability of data and their compatibility with the above-listed data about the given enterprises.

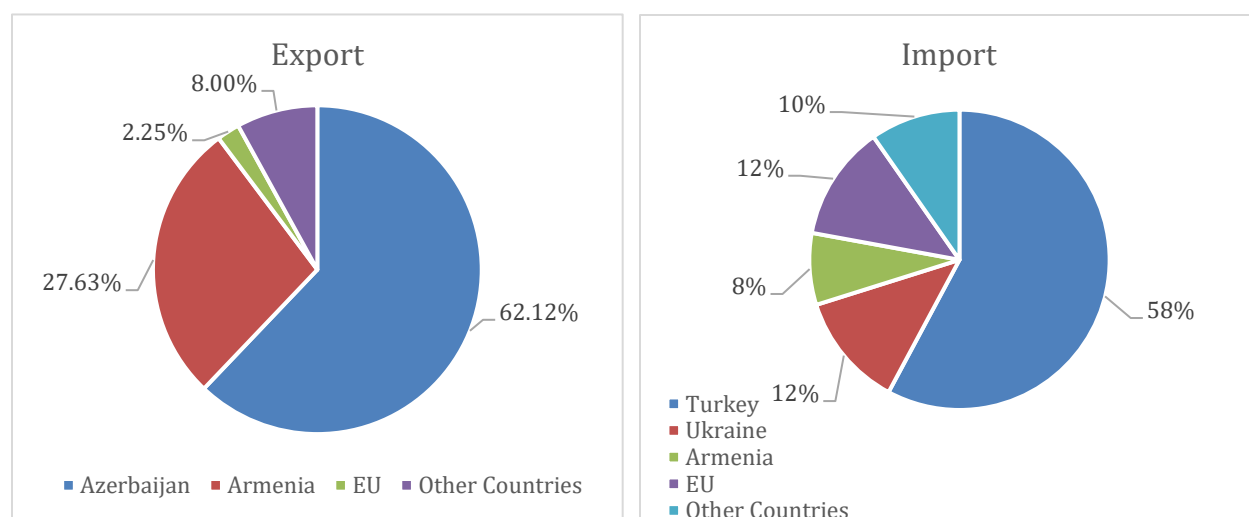
The 2010-2019 period saw significant growth in the export of packaging materials from Georgia. Local products accounted for the lion's share of the growth until 2018, while 2019 saw a sharp increase in re-exports. In the latter regard, paper packaging re-exports to Azerbaijan accounted for the largest share of the re-export figures. When it comes to import figures, they significantly exceeded exports and were characterized by the following dynamics during this ten-year period: imports increased from USD 40 million in 2010 to USD 57 million in 2014, before falling to USD 44 million in 2016. Thereafter, imports increased once again over the following three years, reaching the USD 53 million mark by 2019 (Figure 11).

Figure 11. Dynamics of the import and export of plastic and paper packaging (2010-2019)



The majority of packaging material exports during the 2010-2019 period (approximately 90%) went to the two neighboring countries of Azerbaijan and Armenia, while only 2.25% of exports went to the EU. In terms of imports, Georgia's main trading partner in this field is Turkey (58%), followed by Ukraine and Armenia (Figure 12).

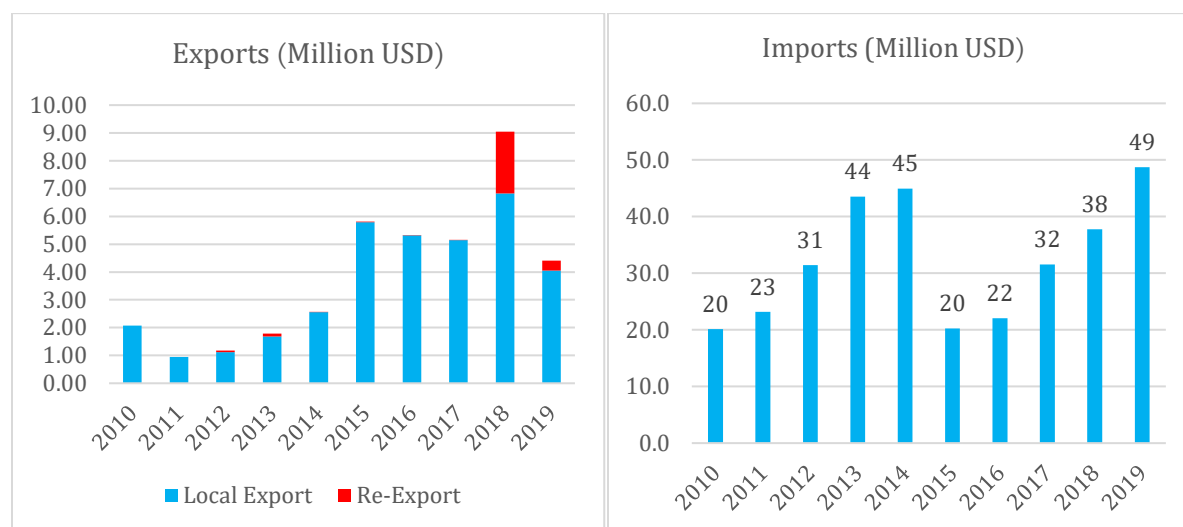
Figure 12. Distribution of plastic and paper packaging material imports and exports by country (2010-2019)



To summarize, the Georgian manufacturers of plastic and paper packaging materials posted a total turnover of GEL 244 million in 2019. Meanwhile, Georgia imported packaging materials worth USD 53 million (GEL 150 million) during the same period.

Although information about manufacturers of glass packaging materials was unavailable, we consider it appropriate to analyze relevant foreign trade data within the scope of this research (Figure 13).

Figure 13. Dynamics of export and import of glass packaging materials (2010-2019)



In the 2010-2019 period, approximately 98% of glass packaging exports went to Azerbaijan, Turkey, France, and Italy. Imports were considerably more diversified, with the list of Georgia's main trading partners including Armenia, Russia, Ukraine, Moldova, Italy, and Turkey.

Finally, it should be noted that since early 2020, the packaging material manufacturing value chain has included a cluster that was established under UNDP, the aim of which is to help the packaging industry and its representatives by enhancing their competitiveness and cooperating with them at various stages of the value chain. Currently, the cluster has more than 20 members.

METHODOLOGY

The main objective of this policy brief is to inform the target groups about the need to resolve the identified issues and challenges. To this end, stakeholders were involved throughout the policy development process, the main stages of which were as follows:

- **Identifying the main problems inside the value chain.** In order to identify and study the main challenges, the research team conducted individual interviews and group meetings with a broad range of stakeholders that included public and private sector representatives, industry experts, and non-governmental organization representatives (see Appendix 1).
- **Identifying priority issues and challenges.** Having pinpointed a broad range of problems as a result of desk research and consultations with stakeholders, the next stage entailed determining priority issues. To this end, a working group of stakeholders (see Appendix 2) examined the findings yielded during the first stage of research, identified the main challenges based on pre-arranged criteria, and discussed ways to resolve these issues. The methods in question shall be discussed during the private-public dialogue that will take place as part of the project.
- **Developing the policy document.** The next stage involved the development of the policy brief itself including an overview of the problems, the resolution methods, as well as the possible effects of problem resolution on the development of the furniture manufacturing and packaging material manufacturing value chains.

EXISTING CHALLENGES

Below is a short overview of the problems and challenges identified during consultations with the stakeholders.

1. Lack of access to raw materials

Difficulty in obtaining raw materials was named as one of the main challenges by the interviewed stakeholders. More specifically, furniture manufacturers claimed to struggle to find large locally produced wood materials on the Georgian market. According to them, local raw materials are often obtained and sold illegally, rendering their price, quality, and supply unstable. Therefore, furniture manufacturers find it difficult to source wood manufacturers that can supply them with high-quality materials in a regular and reliable manner. The interviewed stakeholders attributed this issue to the inadequacy of the logging mechanism. Aside from the fact that the current supply of raw materials does not satisfy demand, the logging system in place has made it difficult to obtain quality raw materials, as bureaucracy often delays the process of obtaining and processing timber. Furthermore, the National Forestry Agency (NFA) routinely issues logging permits for trees that are of low quality and unsuitable for industrial purposes¹². The issues of a disorganized forestry register, and illegal logging were also highlighted in an EU/GIZ study. Due to these cited problems, companies tend not to use solid wood materials in their manufacturing processes¹³. Based on the recommendations outlined in the study, strategic measures implemented by the Georgian government should include the implementation of an orderly forest management and control system together with an appropriate enforcement mechanism, as well as ensuring greater access for Georgian manufacturers to high-quality local wood materials.

The Forest Code of Georgia, which was approved by the Georgian Parliament on 22 May 2020, aims to eliminate the aforementioned problems¹⁴. The Code outlaws social logging, and wood can henceforth be purchased for commercial purposes or as firewood from timber yards. Logging will now only be carried out by the NFA and its contractors. The NFA states that this mechanism will improve the situation for furniture manufacturers, who will now have access to a much wider range of wood resources than was previously the case¹⁵. However, the extent of potential supply from the existing forest resources is currently unknown and will continue to be unknown until a forest inventory is undertaken.

2. Lack of qualified personnel

The vast majority of stakeholders cited the lack of professional personnel as the main problem in both the furniture manufacturing and packaging material manufacturing value chains. Many manufacturers claimed that it is difficult to find professionals with the necessary technical knowledge on the local labor market, and that finding specialists who can operate high-tech equipment is almost impossible. Companies are therefore left with no option but to invite foreign specialists to train local staff, which naturally leads to higher expenses.

For both value chains, cooperation with vocational institutions is weak. Furniture manufacturers noted that the programs currently offered by such institutions are not up to speed with modern approaches to furniture manufacturing. They also described the level of training of students/graduates as inadequate, while packaging material manufacturers stated that they rarely had any dealings with vocational colleges.

¹² [HTTP://EUGEORGIA.INFO/KA/ARTICLE/831/QARTULI-AVEJIS-KLASTERI-SEQTORIS-KVLEVA/](http://eugeorgia.info/ka/article/831/qartuli-avejis-klasteri-seqtoris-kvleva/)

¹³ VALUE CHAIN ANALYSIS AND ACTION PLAN. FURNITURE AND OTHER WOOD PRODUCTS, EU. GIZ

¹⁴ [HTTPS://MATSNE.GOV.GE/EN/DOCUMENT/VIEW/4874066?PUBLICATION=0](https://matsne.gov.ge/en/document/view/4874066?publication=0)

¹⁵ [HTTP://EUGEORGIA.INFO/KA/ARTICLE/834/GAUCHNDEBA-TU-ARA-AVEJIS-WARMOEBAS-XIS-NEDLEULI-TYIS-AXALI-KODEQSIT--/](http://eugeorgia.info/ka/article/834/gauchndebe-tu-ara-avejis-warmoebas-xis-nedleuli-tyis-axali-kodeqsit--/)

In addition, interviewed stakeholders stated that companies find it difficult to retain trained employees. According to the furniture manufacturers, the value chain is characterized by a high outflow of trained workers – upon obtaining practical knowledge and experience, employees tend to leave enterprises and establish their own companies, or operate independently without registration. Not only is such an outflow associated with additional direct and indirect costs for the manufacturers due to the need to hire and train new personnel, but the process also puts registered manufacturers at a disadvantage; the unregistered manufacturers entering the market do not pay taxes and are therefore able to offer products at lower prices.¹⁶

3. Lack of access to finance (long-term bank loans and leases)

Similar to the issue of a lack of qualified personnel, the difficulty to obtain funding was cited as a high priority problem by the majority of the furniture and packaging material manufacturers alike. Most manufacturers in both value chains are SMEs who do not own property and are operating from rented spaces. This presents them with a two-pronged problem: on the one hand, manufacturers tend not to invest in upgrading a rented property, which would increase the value and effectiveness of their production; and, on the other hand, not owning property prevents them from obtaining bank loans. Indeed, the need to provide security for loans was cited as the main obstacle to accessing finance by the majority of private enterprises.

Furthermore, representatives from both value chains cited outdated equipment as a key problem also associated with access to finance. Most companies cannot afford to purchase high-tech equipment, which hinders production.

4. Lack of management skills

Some stakeholders believe that a lack of business management skills significantly hinders the competitiveness of companies and prevents them from fulfilling their export potential. Most furniture manufacturers are small companies that are unable to devise a business strategy taking market trends and challenges into account. Such companies are usually managed and staffed by a few craftspersons who do not have sufficient knowledge of business administration and marketing (and, in many cases, of a foreign language), which prevents them from unlocking markets and establishing contacts with potential partners abroad. Stakeholders also asserted that most manufacturers do not realize the importance of original design in furniture manufacturing. Relationships between furniture manufacturers and designers are underdeveloped, with some Georgian companies copying the products of well-known designers. Stakeholders also claimed that cooperation with designers would significantly increase the value of Georgian furniture and its competitiveness on the international market. According to them, Georgian furniture would have the potential to find its own niche on the global market if such cooperation was to materialize. Based on the recent EU/GIZ study¹⁷, effective management of the processes within the furniture and wood processing value chain requires companies to improve management skills, while also acquiring and enhancing skills in innovation, modern design, internationalization and the use of digital technologies, as well as professional and technical skills.

5. Inadequate state procurement procedure

Some furniture manufacturers claimed that the current state procurement procedure, where the winning bidder is usually the one who offers the lowest price¹⁸, creates an unfair environment for them, as they

¹⁶ [HTTP://EUGEORGIA.INFO/KA/ARTICLE/831/QARTULI-AVEJIS-KLASTERI-SEKTORIS-KVLEVA/](http://EUGEORGIA.INFO/KA/ARTICLE/831/QARTULI-AVEJIS-KLASTERI-SEKTORIS-KVLEVA/)

¹⁷ VALUE CHAIN ANALYSIS AND ACTION PLAN. FURNITURE AND OTHER WOOD PRODUCTS, EU. GIZ

¹⁸ PROVIDED THEY MEET THE MINIMUM QUALIFYING REQUIREMENTS.

are unable to compete against cheaper low-quality products. They also pointed out that tendering documents are often incomplete, which makes it difficult for companies to present a competitive offer.

6. Inadequate enforcement of the law banning the use of plastic bags

To reduce the harmful effect of plastic bags on the environment and people's health, the Georgian government introduced Ordinance N472¹⁹, which outlawed the production, import, and sale of plastic carrier bags with thickness of less than 15 microns from 1 October 2018, and outlawed the production, import, and sale of all plastic carrier bags from April 2019. Later, the 26 July 2019 Ordinance of the Government of Georgia²⁰ introduced changes to Ordinance N472, allowing the production of plastic carrier bags for export purposes.

When the ban on the use of plastic bags came into effect, some packaging material manufacturers changed their business processes in accordance with the new regulations. However, due to the inadequate enforcement of the law, they are still having to compete with manufacturers of polyethylene bags.

PRIORITY CHALLENGES

After their interviews elicited primary findings, stakeholders were asked to identify two issues, the resolutions of which are of the highest priority for the short- and long-term development of both value chains. In the process, stakeholders used an online form to give each of the listed issues a score of 1 to 5 (where 1 represents the lowest priority and 5 represents the highest priority). Levels of priority were determined based on the following criteria:

- Scale of economic impact
- Technical and legal feasibility
- Political feasibility
- Amount of time required to resolve the issue

The results of this evaluation are summarized in Table 3 below.

Table 3. Existing challenges within the furniture manufacturing and packaging material manufacturing value chains by priority

| Identified Problem | Furniture Manufacturing Value Chain Representatives | Packaging Material Manufacturing Value Chain Representatives | Collective Figure |
|---|---|--|-------------------|
| Lack of access to raw materials | 2.4 | 2.8 | 2.6 |
| Lack of qualified personnel / management skills | 4.2 | 4.2 | 4.2 |
| Lack of access to finance | 4.4 | 3.4 | 3.9 |
| Inadequate state procurement procedures | 3 | 2.2 | 2.6 |
| Inadequate enforcement of the law banning the use of plastic bags | 1 | 2.4 | 1.7 |

¹⁹ [HTTPS://MATSNE.GOV.GE/KA/DOCUMENT/VIEW/4325640?PUBLICATION=0](https://matsne.gov.ge/ka/document/view/4325640?publication=0)

²⁰ [HTTPS://MATSNE.GOV.GE/KA/DOCUMENT/VIEW/4622676?PUBLICATION=0](https://matsne.gov.ge/ka/document/view/4622676?publication=0)

The research team itself used the information obtained through its desk research and consultations with stakeholders to carry out its own evaluation of the identified challenges based on the aforementioned criteria. The team's assessment of the priority challenges was identical to that of the stakeholders. Therefore, the following sections of the policy brief will be devoted to analyzing the two main priority challenges and presenting recommendations for their resolution.

LACK OF QUALIFIED PERSONNEL

Furniture manufacturers and other representatives of the value chain cited a lack of qualified personnel as their most significant problem. According to them, Georgia has a deficit of specialists who can operate modern equipment and machinery. This can be partly explained by the fact that modern manufacturing was only introduced in Georgia quite recently, and there has not been sufficient time to accumulate the appropriate skills and experience. Although company representatives expressed their willingness to provide inexperienced staff with internal training, they claimed to struggle to find such personnel, citing a lack of interest among young people in becoming involved in manufacturing.

Another reason cited by furniture manufacturers for the shortage of qualified personnel is the lack of appropriate education. Some manufacturers stated that in their experiences of employing students and graduates of vocational colleges, most did not possess the basic skills needed to work in furniture enterprises. Manufacturers asserted that the aforementioned vocational colleges do not offer adequate practical teaching, and that the program teaching furniture manufacturing focused on the artistic processing of wood, while ignoring modern approaches towards furniture construction and manufacturing.

Artistic processing of wood is only taught at few vocational colleges in Georgia (Spectre, Mermisi, Opizari, and New Wave), while furniture construction is only taught at the Akaki Tsereteli State University in Kutaisi²¹. Several universities teach design at undergraduate level, however. For example, the University of Georgia, the Georgian Technical University, and the Batumi Art Teaching University all offer undergraduate courses in interior design. The Tbilisi State Academy of Arts is the only institution in the country to teach industrial design, which includes the artistic processing of wood and furniture design. Short-term courses in interior design are also offered by the Georgian-American University, the Free University, and the Georgian Institute of Public Affairs (GIPA). In addition, Mermisi offers an 18-month course that covers the construction of solid wood furniture. However, according to the Career Planning Manager at Mermisi, this course is only completed by 9-10 students, which is not enough to satisfy demand among furniture manufacturers. The college representative claimed that reasons for low enrolment include the college's limited resources, as well as a shortage of young people interested in this field.

As part of the research conducted under the "SME Development and DCFTA in Georgia" project, GIZ outlined recommendations to ensure that the furniture manufacturing value chain is provided with the necessary workforce. It stated that the Georgian government's strategic activities should include strengthening the VET and TVET systems through cooperation with partners from various countries.

Elsewhere, lack of qualified personnel is also a problem for packaging material manufacturers. Specifically, it is considered very difficult to find equipment/machinery operators and operations managers on the local market. This situation was confirmed by the value chain prioritization report compiled for the USAID Economic Security Program. Not only do companies struggle to find highly qualified specialists, but they also find it difficult to hire unqualified staff. Most interviewed manufacturers are willing to hire inexperienced employees and train them internally, but sourcing and retaining staff has still proven difficult.

²¹ [HTTP://VET.GE/ORIENTATION/%E1%83%90%E1%83%98%E1%83%A0%E1%83%A9%E1%83%98%E1%83%94-%E1%83%9E%E1%83%A0%E1%83%9D%E1%83%A4%E1%83%94%E1%83%A1%E1%83%98%E1%83%90?DIRECTION=8&DARG=65&PROGRAM=&COLLEGE=&SUBMITFORM=%E1%83%AB%E1%83%98%E1%83%94%E1%83%91%E1%83%90](http://vet.ge/orientation/%E1%83%90%E1%83%98%E1%83%A0%E1%83%A9%E1%83%98%E1%83%94-%E1%83%9E%E1%83%A0%E1%83%9D%E1%83%A4%E1%83%94%E1%83%A1%E1%83%98%E1%83%90?DIRECTION=8&DARG=65&PROGRAM=&COLLEGE=&SUBMITFORM=%E1%83%AB%E1%83%98%E1%83%94%E1%83%91%E1%83%90)

The lack of interest in packaging material manufacturing among young people was mentioned regularly as an obstacle in this respect.

In Georgia, there are no vocational programs covering topics related to the manufacturing of packaging materials. Therefore, manufacturers do not cooperate closely with vocational colleges. Only a few company representatives stated that they had past experience of hiring graduates of vocational colleges, and the same representatives claimed the graduates were lacking in sufficient knowledge and skill and work discipline.

Significant measures have been devised in response to the lack of suitably qualified staff though. Specifically, the packaging cluster and the Georgian Technical Training Centre (GTTC) will jointly implement a one-year project with the help of a grant from the USAID Economic Security Program. The goal of the project is to improve workforce skills through short-term training courses in mechatronics and electrical engineering. The program will consist of both theoretical and practical components. Around 95 people will receive training under the project, half of whom will be current company employees, while the other half will be newcomers who will be hired once they successfully complete the training. Priority will be given to hiring young people aged between 18 and 25. The most significant benefit of the project will be the development of joint packaging cluster and GTTC training courses that will be submitted to the Ministry of Education and Science of Georgia with a view to obtaining accreditation and additional funding.

In July 2020, the packaging cluster and the Kutaisi Akaki Tsereteli State University signed a memorandum of cooperation with the aim of devising joint educational programs and developing interest in working in this value chain among young people. As part of the initiative, the parties will help to develop qualified personnel by implementing educational projects and sharing resources.

Furthermore, there are plans to implement significant changes aimed towards strengthening the link between the private sector and the vocational education system. Furniture and packaging material manufacturers will both benefit from this development. Specifically, the Ministry of Education, Science, Culture and Sport of Georgia will work with the private sector and international donor organizations to establish a national agency for vocational skills, which will maximize the benefits of private-public partnership in the field of vocational education. The agency concept is currently being developed with the help of relevant stakeholders.

In addition to the industry knowledge and skills of people employed in light manufacturing companies, the development of general and specific business management skills also represents a challenge. In this regard, there is a need to increase the level of financial education among small-scale entrepreneurs, and to train / retrain staff on the effective management of exports. Pertinently, the National Strategy for Financial Education introduced by the National Bank of Georgia (NBG) aims to support entrepreneurs by raising the level of their financial education. For example, the NBG actively cooperates with higher education institutions in pursuit of integrating the financial education component into various courses (including entrepreneurship). In addition, the online platform for financial education launched in 2020 has made the most important information related to various financial topics easily accessible to entrepreneurs²².

Enterprise Georgia is also actively involved in the development of employee skills in small and medium enterprises. Within the scope of the export promotion component, Enterprise Georgia provides 80-90% of funding for Georgian companies to implement certified training courses for export managers.²³ Within

²² [HTTPS://FINEDU.GOV.GE/GE/METSARMEEBISTVIS-I](https://finedu.gov.ge/ge/metsarmeebistvis-i)

²³ 263 EXPORT MANAGERS HAVE BEEN CERTIFIED THROUGH THIS PROGRAMME (INCLUDING 65 IN 2019). SOURCE: ENTERPRISE GEORGIA, 2019 REPORT. AVAILABLE AT:

this program, the agency actively cooperates with educational institutions in Georgia and abroad. Moreover, Enterprise Georgia, with the support of the USAID Governance for Growth (G4G) program, launched an online course on the basics of export management, which is accessible to all²⁴.

Capacity building of companies operating in the furniture manufacturing value chain, including raising the qualification of staff, was one of the main strategic directions outlined in the 2019 GIZ study (Value Chain Analysis and Action Plan – Furniture and other Wood Products). The study emphasized the need to develop internationalization skills, innovation and design opportunities, digitalization, as well as managerial, professional and technical skills, and the need to develop different types of training / certification courses in this field.

ACCESS TO FINANCE

Lack of access to finance and problems related thereto are prevalent among manufacturers of furniture and packaging materials. According to the 2019 study conducted by the USAID Economic Security Program, the lack of financial resources poses challenges for both contracted furniture manufacturers and small manufacturers of cabinet furniture. To attract international clients such as IKEA, local companies need to expand their production and, in many cases, modify their production facilities. However, it is likely that such agreements will require certification of compliance with international standards, which also requires significant investment to increase the scale of production²⁵. For cabinet furniture manufacturers, most of whom are small-scale entrepreneurs, lack of access to finance makes it difficult to expand production and upgrade technical equipment. Similar problems are faced by manufacturers of all types of packaging materials, many of whom need to upgrade obsolete machinery and improve their overall production capacity.

Manufacturers of furniture and packaging materials cited high interest rates on bank loans and financial institutions' demand for collateral assets as the main reasons for a lack of access to finance. Most manufacturers claimed that securing a substantial loan was impossible, as most companies do not own property and are operating from rented or leased buildings. At the same time, the limited scale of output of these enterprises does not enable them to pay high monthly interest rates.

According to some stakeholders, one of the reasons for the lack of access to finance is a shortage of business management skills among manufacturers. Most manufacturers are small enterprises where furniture crafts persons lead the administrative and management processes themselves. Consequently, they often do not have enough time, knowledge, and experience to seek out various sources of funding, to complete grant application forms, and to prepare relevant documents. At the same time, the lack of human capital significantly hinders the growth of the companies' efficiency, affecting their revenues and financial sustainability. For example, stakeholders say that most small- and medium-sized manufacturers do not have enough skills to develop their own business strategy based on market trends and challenges. They also lack the necessary marketing experience to unlock new markets, or even to source clients on the local market. The USAID Economic Security Program study stated that small-scale manufacturers of

[HTTP://WWW.ENTERPRISEGEORGIA.GOV.GE/UPLOADS/FILES/PUBLICATIONS/5E9FF7A844A85-ANNUAL-REPORT-2019-SMALL-PDF.PDF](http://www.enterprisegeorgia.gov.ge/uploads/files/publications/5E9FF7A844A85-ANNUAL-REPORT-2019-SMALL-PDF.PDF).

²⁴ [HTTP://WWW.ENTERPRISEGEORGIA.GOV.GE/KA/EXPORT-MANAGEMENT-FUNDAMENTALS](http://www.enterprisegeorgia.gov.ge/ka/export-management-fundamentals)

²⁵ THE 2019 GIZ STUDY (VALUE CHAIN ANALYSIS AND ACTION PLAN – FURNITURE AND OTHER WOOD PRODUCTS) ADDITIONALLY HIGHLIGHTS THE NEED FOR PROVIDING GEORGIAN COMPANIES WITH TECHNICAL SUPPORT TO ENABLE THEM TO MEET THE EXPORT MARKET STANDARDS AND CERTIFICATION REQUIREMENTS. THE STUDY MENTIONS STANDARDS AND CERTIFICATES SUCH AS EUTR (EU TIMBER REGULATION), REACH (REGISTRATION, EVALUATION, AUTHORISATION AND RESTRICTION OF CHEMICALS BY THE EU), AND CE MARKING (CERTIFICATION MARK THAT INDICATES CONFORMITY WITH HEALTH, SAFETY, AND ENVIRONMENTAL PROTECTION STANDARDS FOR PRODUCTS SOLD WITHIN THE EUROPEAN ECONOMIC AREA).

furniture do not have the appropriate administrative capacity and production scale to participate in construction procurement, which precludes them from a significant opportunity to expand production.

At the same time, it should be noted that in the last few years, manufacturers of furniture and packaging materials have had the opportunity to obtain preferential terms for loans and leases under the Enterprise Georgia program, which involves co-financing of interest rates accrued on new loans and leases (currently equal to 11% and 13% co-funding, respectively) during the first 36 months. Within the same program, Enterprise Georgia offers beneficiaries co-financing of 80% of the costs of informational and consulting services received on the territory of Georgia.

Since its inception, Enterprise Georgia has implemented significant changes in the design of the aforementioned industrial component of its business development program. Based on the initial (2014) design, the agency covered 10 and 12 percent of loan and lease financing, respectively, during the first 24 months of using the service. A change was also made to the agency's credit guarantee mechanism, in order to better meet the loan collateral requirements for SMEs. As of 2019, credit guarantees were issued on commercial bank loans to the amount of no more than 70% of the loan principal (instead of the initial 30% in 2014), and as of today, the State's co-funding share in collateral is already 90%. This change has partly been a response to the additional challenges of access to finance for enterprises as a result of the COVID-19 pandemic. However, it should also be noted that the opportunity to participate in this program depends significantly on the commercial interests of banks and their willingness to cooperate. The 2018 BDO survey²⁶ found that government support for financial institutions was viewed as secondary due to its perceived low liquidity (from the point of view of commercial banks), which has prevented some beneficiaries from successfully participating in the credit guarantee scheme. The aforementioned changes in the credit guarantee mechanism were implemented in 2020 partly as a response to this challenge. This should have a significant positive effect on access to the private sector (loan products).

Table 4 provides information on the projects funded by the program under the industrial component in 2014-2019. It should be noted that the number of funded projects in furniture manufacturing is quite low, which is probably related to the reasons described above by the private sector representatives²⁷.

According to the representative of the Georgian furniture cluster, it is important to better inform the manufacturers about state programs, as small-scale entrepreneurs often lack full information about the available opportunities. However, furniture manufacturers pointed out that companies often fail to meet program criteria, thereby losing access to state support. Therefore, they believe that it would be better to make the program more flexible and to assess the capabilities of each company individually.

Table 4. Projects funded under the industrial component of the Enterprise Georgia program (2014-2019)

| Year | Sector | Number of Projects | Volume of Co-Financed Loans | | Investments Received by Beneficiaries | | Jobs Created |
|------|------------------------------------|--------------------|-----------------------------|--------------------------------|---------------------------------------|--------------------------------|--------------|
| | | | Value (million GEL) | Share in the Program Portfolio | Value (million GEL) | Share in the Program Portfolio | |
| 2019 | Manufacturing of Plastic Packaging | 8 | 6.23 | 6.4% | 8.39 | 5.7% | 41 |

²⁶ ASSESSMENT OF THE 'TECHNICAL SUPPORT' AND 'ACCESS TO FINANCE' COMPONENTS OF THE INDUSTRIAL SECTION OF THE ENTERPRISE GEORGIA PROGRAM. BDO (2018)

²⁷ [HTTP://WWW.ENTERPRISEGEORGIA.GOV.GE](http://www.enterprisegeorgia.gov.ge)

| | | | | | | | |
|-------------|------------------------------------|----|-------|-------|-------|-------|-------|
| | Manufacturing of Paper Packaging | 18 | 16.86 | 17.4% | 20.18 | 13.6% | 489 |
| | Manufacturing of Furniture | 3 | 0.61 | 0.6% | 0.72 | 0.5% | 18 |
| | Wood Processing | - | - | - | - | - | - |
| 2014 - 2019 | Manufacturing of Plastic Packaging | 33 | 46.10 | 9.3% | 62.40 | 8.0% | 563 |
| | Manufacturing of Paper Packaging | 59 | 72.00 | 14.5% | 92.90 | 11.9% | 1,371 |
| | Manufacturing of Furniture | 7 | 2.80 | 0.6% | 5.50 | 0.7% | 193 |
| | Wood Processing | 16 | 12.10 | 2.4% | 17.50 | 2.2% | 596 |

Source: www.enterprisegeorgia.gov.ge

Notable recent government initiatives include the launch of the “State is your Partner” platform, which combines a variety of government programs to promote business and increase access to information about the existing financial and technical assistance.

The challenges that exist in the furniture manufacturing and packaging material manufacturing value chains with regard to access to finance are also common among the SMEs operating in other industries in Georgia. According to the OSCE’s 2020 SME Policy Index²⁸, Georgia and other Eastern Partnership countries have not made significant progress in developing non-banking financial instruments (e.g. leases and factoring). The study also noted a lack of progress in developing a legal framework to encourage venture capital investment, and therefore predicts that venture financing is not expected to play a significant role in the economic development of the country/countries in the near future.

²⁸ OECD ET AL. (2020), SME POLICY INDEX: EASTERN PARTNER COUNTRIES 2020: ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE, SME POLICY INDEX, OECD PUBLISHING, PARIS/EUROPEAN UNION, BRUSSELS, [HTTPS://DOI.ORG/10.1787/8B45614B-EN](https://doi.org/10.1787/8b45614b-en).

CONCLUSION AND RECOMMENDATIONS

The research conducted, which relied heavily on information from stakeholders, showed that a lack of qualified personnel is a major problem for the manufacturers of furniture and packaging materials alike. Private sector representatives cited a lack of relevant skills on the labor market and a lack of interest in these value chains among young people. They also suggested that one of the ways to solve this problem would be to improve the vocational education system and to adapt the educational programs to accommodate modern-day manufacturing requirements. Important steps are being taken to this extent. In particular, the Ministry of Education, Science, Culture and Sport of Georgia is working with the private sector and international donor organizations to establish a National Agency for Vocational Skills, which will aim to strengthen public-private partnerships in the field of vocational education. The agency, once established, will set up a platform to enable the private sector, with government support, to develop training and retraining programs tailored to its needs. It should be noted that the state policy with regard to the development of new certification or training programs is based on interest from the private sector and the involvement of private companies or business associations. This approach is critical to establishing a sustainable system for skills development, as it is based on the demand for professional development in the private sector.

In response to the challenges in the field of vocational education, the Ministry of Education, Science, Culture and Sport of Georgia began to develop a vocational education system for adults in early 2019. The purpose of this system is to update and upgrade the skills and competences of the adult population by offering short-term vocational training programs. Furthermore, the program involves the participation of the private sector in the process. In particular, the short-term training program can be implemented by any legal entity under private law that meets the established minimum requirements, along with the educational institutions²⁹. As a result, organizations such as the Georgian Distributors Business Association and Adjara Textile Ltd were granted permission to implement such programs³⁰.

We believe that a first step towards solving the existing problems would be holding a private-public dialogue: it is important to declare expectations between the two value chains, which would allow for better identification of the existing needs and the ways to meet them. Thus, the private-public dialogue planned under this project is an important platform that is critical for deepening the partnership between the private and public sectors, and is of particular importance given the involvement of various public institutions in the educational and training / retraining processes.

Notably, there is already a positive example of private-public dialogue to refer to in the furniture manufacturing value chain: in 2018, the Georgian Minister of the Economy visited Turkey, where he met local furniture manufacturers³¹. The Minister publicly stated that the export of Georgian furniture is a priority, and called on Turkish investors to study the Georgian market. This initiative caused some misunderstanding among Georgian entrepreneurs however, as they saw Turkish investors as a threat, and proceeded to make critical statements³². Nevertheless, through the efforts of the Georgian Chamber of Commerce and Industry and the Georgian furniture cluster, a working meeting was held in November 2018 between the Minister and Georgian furniture manufacturers, where the Minister responded to the stated concerns.³³ Other problems in the industry were also examined in this discussion. As a result of

²⁹ [HTTPS://WWW.MES.GOV.GE/UPLOADS/FILES/N67.PDF](https://www.mes.gov.ge/uploads/files/N67.pdf)

³⁰ [HTTPS://EQE.GE/GEO/STATIC/879](https://eqe.ge/gEO/STATIC/879)

³¹ [HTTP://WWW.ECONOMY.GE/?PAGE=NEWS&NW=939](http://www.economy.ge/?PAGE=NEWS&NW=939)

³² [HTTPS://COMMERSANT.GE/GE/POST/DJOBDA-QOBULIAS-DJER-CHVENTVIS-EKITXA-RAME-AVEDJIS-MWARMOEBELI-ADGILOBRIVL-KOMPANIEBI-EKONOMIKIS-MINISTRIS-INICIATIVAS-AKRITIKEBEN](https://commerciant.ge/ge/post/djobda-qobulias-djer-chventvis-ekitxa-rame-avedjis-mwarmoebeli-adgiobrivl-kompaniebi-ekonomikis-ministris-iniciativas-akritikeben)

³³ [HTTP://WWW.ECONOMY.GE/INDEX.PHP?PAGE=NEWS&NW=970&LANG=GE](http://www.economy.ge/index.php?page=NEWS&NW=970&LANG=GE)

the meeting, dissatisfied manufacturers were convinced that Turkish investors had been invited due to the opportunities offered by the DCFTA, allowing the investors to enter the European market through Georgia, which would also stimulate local economic activity. Furthermore, in March 2019, the furniture cluster also participated in a public-private dialogue with the GCCI and the Ministry of Agriculture and Environment, where the latter announced the Government's vision and ideas with respect to amending the Forest Code³⁴.

As for the second priority challenge facing the light manufacturing sector (lack of access to finance), local manufacturers listed the following three main challenges in this regard:

- High interest rates on bank loans and the need for fixed assets as collateral to obtain finance.
- Manufacturers having insufficient knowledge, experience, and time to explore different sources of funding and to prepare grant applications.
- Low awareness among manufacturers about the state support programs.

It is worth noting that the government initiatives and programs implemented in recent years, especially in response to the COVID-19 pandemic, largely address all of the aforementioned challenges in their stated goals and design. Since the launch of Enterprise Georgia in 2014, the industrial component of the program offers the manufacturers of furniture and packaging materials significant benefits in the form of co-financing interest rates on bank loans and leases (11% and 13%, respectively), as well as co-financing 80% of the costs of informational and consulting services received on the territory of Georgia. Since 2020, the credit guarantee mechanism of Enterprise Georgia has offered manufacturers securities on 90% of their bank loans, which considerably exceeds the volume of securities offered during previous years.

To assess the extent to which the existing government support programs focused on increasing access to finance and skills development are tailored to the needs of manufacturers, and to ascertain what external factors may be hindering the successful achievement of the program goals, it is important to have mechanisms in place to evaluate the effectiveness of the existing programs. It should be emphasized that Enterprise Georgia has already taken significant steps in this direction. In particular, with the support of GIZ, the agency is in the process of developing a comprehensive impact assessment framework.

In order to raise awareness among manufacturers, a new project entitled "The State is Your Partner" was launched in 2020, bringing the existing state programs into a single (both digital and physical) space, thereby improving the private sector's access to financial and technical support. The project envisages the creation of common spaces in more than 100 community centers and Public Service Halls across Georgia, where entrepreneurs will be able to receive detailed information about state business incentive programs that are already underway or will be implemented by state agencies in the future.

Based on the findings of the study, the following recommendations have been outlined:

The effectiveness of private sector support measures could be increased through strategic coordination between public institutions during the program design, awareness-raising, and direct implementation stages.

Strengthen sectoral organizations, which is important with regard to: (1) accurately identifying the technical needs of the private sector; (2) providing entrepreneurs with accessible and sustainable services

³⁴ <https://www.facebook.com/georgianchamberofcommerceandindustry/posts/2393288620695481>

tailored to their needs; and (3) developing channels of effective communication with sector representatives. To address this issue, the involvement of donor organizations should be enhanced.

It would be advisable to develop additional online courses based on the successful example of the training course on the basics of export management developed by Enterprise Georgia and to ensure the availability of such courses to the general public. The effective implementation of this recommendation would be possible through the coordinated activities of various public institutions (such as Enterprise Georgia, the NBG, and Ministry of Education, Science, Culture and Sport) and donor organizations. Training courses could be designed to develop managerial and other general skills, or to focus on specific priority sectors.

Evaluate the accessibility and impact of the state programs – this will enable public institutions to increase the effectiveness of the private sector support measures and to tailor their planned activities to their needs accordingly.

The discussion of and effective response to the recommendations will be made possible through the public-private dialogue planned under this project, as well as through future monitoring of the recommendations agreed within the dialogue.

APPENDIX I: INTERVIEWS

| # | Name | Position | Organization |
|-----|-----------------------|---|--|
| 1. | Ekaterine Saralidze | Senior Export Manager | Enterprise Georgia (EG) |
| 2. | Mariam Lashkhi | Deputy Director | Georgian Innovations and Technologies Agency (GITA) |
| 3. | Tamar Samkharadze | Deputy Head of Department for Development of Vocational Education | Ministry of Education, Science, Culture and Sport of Georgia |
| 4. | Ketevan Buachidze | Chairwoman | Design Georgia |
| 5. | Revaz Topuria | Managing Director | Packaging Cluster |
| 6. | Besik Verdzeuli | Director / Chairman | Avangardi Ltd. / Georgian Furniture Cluster |
| 7. | Papuna Tsereteli | Designer | Prof Art Ltd. |
| 8. | Sergo Maruashvili | Head of Organization | MasterDesign Ltd. |
| 9. | Ioseb Janghulashvili | Head of Organization | Kakh-Imeri |
| 10. | Beso Matkava | Head of Organization | Madera Georgia |
| 11. | Davit Tsertsvadze | Director | Home Made Ltd. |
| 12. | Guram Makarovi | HR Manager | Caucaspac Ltd. |
| 13. | Veronika Gogokhia | Procurement Director | Georgian Packaging Ltd. |
| 14. | Salome Kareli | PR and Marketing Manager | Greenpack Ltd. |
| 15. | Zaza Mchedlishvili | Director | Megaplast Ltd. |
| 16. | Beka Manjavadze | | Geobox Ltd. |
| 17. | Gvantsa Meladze | Expert | GIZ |
| 18. | Konstantine Chanturia | Project Manager | UNDP |
| 19. | Lali Beshkenadze | Career Planning Manager | LLC Mermisi |

APPENDIX 2: WORKING GROUP MEETING PARTICIPANTS

| # | Name | Position | Organization |
|---------------------------|-----------------------|---|---|
| Public Sector | | | |
| 1 | Ekaterine Saralidze | Senior Export Manager | EG |
| 2 | Mariam Lashkhi | Chairwoman | GITA |
| 3 | Mariam Khvtisiashvili | Senior International Relations Specialist | GITA |
| Furniture Sector | | | |
| 3 | Besik Matkava | Director | Madera Georgia |
| 4 | Besik Verdzeuli | Chairman / Director | Avangardi Ltd. / Georgian Furniture Cluster |
| 5 | Papuna Tsereteli | Designer | Prof Art Ltd. |
| Packaging Sector | | | |
| 6 | Revaz Topuria | Managing Director | Packaging Cluster |
| 7 | Salome Kareli | Communications Manager / PR and Marketing Manager | Packaging Cluster / Greencap Ltd. |
| 8 | Guram Makarovi | HR Manager | Caucaspack Ltd. |
| 9 | Zurab Alavidze | Founder and Managing Partner | Packaging Cluster / Fabrika 1900 |
| Other Participants | | | |
| 10 | Giorgi Darchia | Component Leader | USAID GESP |
| 11 | Giorgi Akhalaia | Component Leader | USAID GESP |
| 12 | Gaga Nikabadze | Sector Leader | USAID GESP |
| 13 | Giorgi Papava | Consultant | PMCG |
| 14 | Ketevan Babiashvili | Consultant | PMCG |
| 15 | Davit Lezhava | Head of Public Policy Sector | PMCG |

| | | | |
|-----------|--------------------|---------------------------------------|------|
| 16 | Eka Ghvinjilia | Project Manager | PMCG |
| 17 | Natia Katsiashvili | Public-Private Dialogue Consultant | PMCG |
| 18 | Mariam Khubashvili | Project Officer | PMCG |
| 19 | Nika Kapanadze | Research Assistant | PMCG |