



**South Caucasus Gender Assessment Technical Assistance  
(P160432)**

**Report**

**Value Chain Selection**

**Georgia**

**June 2017**

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## EXECUTIVE SUMMARY

### METHODOLOGY AND COUNTRY CONTEXT

The value chain (VC) selection review was implemented as part of the World Bank-funded South Caucasus Gender Program. The overall objective of the program is to strengthen the knowledge and capacity of the Government of Georgia and the World Bank’s team to design gender-informed policies that promote equality, help reduce poverty, and inform the development of the upcoming Systematic Country Diagnostic in Georgia. The program focuses on female entrepreneurship in Georgia through assessing constraints to women’s participation in priority VCs.

To compare the VCs as well as the links in each VC—by assessing the potential for growth and gender advancement criteria—the methodology involved the following three main instruments:

- (a) Desk review of secondary sources, research reports, strategies, and official statistics;
- (b) A stakeholder workshop and focus group discussions with 39 representatives of various governmental, nongovernmental organization (NGO), and private sector agencies with backgrounds in different agricultural and nonagricultural VC segments to collect data about the market demand and environment and to identify key actors in terms of agricultural and nonagricultural products/services in Georgia. Specific attention was given to the characteristics of the market structure for the relevant products as well as the potential of smallholders’ and women’s participation; and
- (c) In-depth interviews with 15 key actors and informal interviews with three international experts to gather qualitative data.

The first step to accomplish the project’s goal, a VC that has a potential to contribute to increased female empowerment and gender equality will be selected. The latest data on market trends and opportunities according to consumption and production, food balance, and price developments, as well as global trade (imports and exports), reveal good market prospects for

- Edible nuts;
- Processed fruits; and
- Alternative<sup>1</sup> tourism, hospitality services, and supporting/related industries.

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<sup>1</sup> Alternative tourism is an alternative form of tourism. It is an alternative to mass tourism and quite often has additional value and brings sustainability. It includes various categories of tourism, such as wine tourism, rural tourism, agritourism, gastronomy/culinary tourism, cultural tourism, heritage tourism, adventure tourism, responsible tourism, ecotourism, sustainable tourism, and so on. – Working Group on Facilitating Alternative Tourism Development in Georgia (FADG), CWD, 2007.

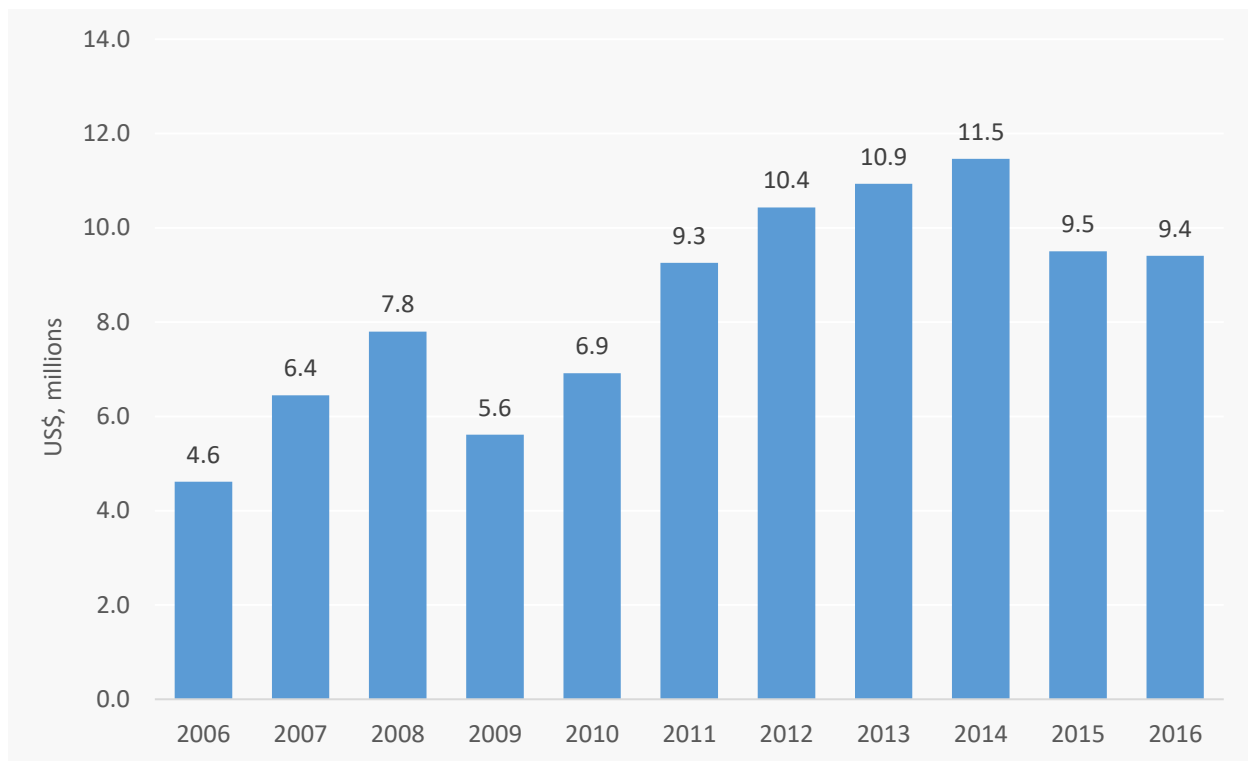
Additionally, focus group discussions and in-depth interviews noted a positive trend in agricultural and nonagricultural sectors, namely a high level of accessibility and potential for women entrepreneurs' interaction.

Georgia's rich agricultural tradition dates back many centuries. Agriculture has played a crucial role in the preservation of its unique history, mentality, and cultural heritage and has contributed significantly to its economic development. Georgia has favorable climatic and natural conditions for agricultural development because it boasts a variety of ecological and climatic zones favorable for the growth of numerous different crops.

According to data for 2015, about 43 percent of the country is made up of agricultural land and agriculture contributed to 9.2 percent of Georgia's gross domestic product (GDP). Meanwhile, 48 percent of the added value in primary production comes from cattle breeding, and 21 percent comes from the production of fruits, nuts, and agricultural crops used to make drinks and spices. About 39 percent of the added value created in food processing comes from household-based food processing. A large proportion of agricultural production is concentrated within small-scale farming households (0.6 ha agriculture land per household). In total, employment includes both hired and self-employed people, of which 47 percent comes to agriculture industry. Agriculture is the main source of employment for the rural population because there are few alternative employment opportunities in rural areas in Georgia. However, 90 percent of those working in agriculture are self-employed. The labor force participation rate is also higher in rural areas than urban areas (75 percent versus 60 percent). The labor force participation rate is significantly different for men and women (78 percent versus 59 percent). This disparity may be explained by the high number of women operating as housewives or unpaid family workers.

According to the latest statistics, Georgia's foreign trade is increasing. From 2006 to 2016, turnover from foreign trade more than doubled, and by 2016, it had reached US\$9.4 billion. Hazelnuts and wine are Georgia's main exported agricultural goods. Imports of primary agriculture and food products significantly exceeded exports during this period. This was caused by a low level of productivity and the lack of competitiveness among producers in the relevant sectors compared to their foreign counterparts.

**Figure 1. External Trade Turnover, 2006–16**



Source: National Statistics Office of Georgia (GeoStat).

Liberal trade regimes can provide favorable conditions for the export of primary and processed agricultural products. The agreement signed with the European Union (EU) on the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) was provisionally entered into force on September 1, 2014. Georgia has also signed free trade agreements with the Commonwealth of Independent States (CIS) and Turkey; is treated as a Most-Favored-Nation by the World Trade Organization; and benefits from General System of Preferences with the United States, Canada, and Japan. In 2016, Georgia concluded negotiations with the European Free Trade Association on creating a free trade area,<sup>2</sup> and a Free Trade Agreement between Georgia and China has been signed earlier this year.

As a result, the export of agricultural goods to the EU member states has increased significantly in the last five years (between 2012 and 2016):

- Export of hazelnut and other nuts increased by more than twice compared to 2012 and reached US\$179 million in 2016. In the corresponding period, exports have significantly increased to Italy (by 3.5-fold) and Germany (by 3.3-fold). Georgia's main export markets for hazelnuts and other nuts are Italy, Germany, Spain, and the Czech Republic.

<sup>2</sup> European Free Trade Association, Free Trade - Free Trade Agreements, website: <http://www.efta.int/about-efta>.

- Hazelnut powder—increased by almost three times and reached US\$7.2 million in 2016. Exports significantly increased to Germany by 3.2-fold amounting to US\$4.9 million in 2016. Georgia’s main export markets for this product are Germany and France (GeoStat 2015a).

The Ministry of Sustainable Economic Development of Georgia along with the Ministry of Agriculture through Produce in Georgia<sup>3</sup> encourages manufacturing and agriculture in Georgia by offering financial resources and infrastructure. The program was initiated by the Prime Minister of Georgia and is directed toward entrepreneurship development through establishing new enterprises, advancing existing ones, and promoting entrepreneurial culture in the country. Additionally, the EU-funded European Neighborhood Programme for Agriculture and Rural Development provides support for rural development and agriculture in Georgia, with a total budget of €102 million for 2013–2019.<sup>4</sup> The United States Agency for International Development (USAID) supported programs facilitated improvement of the agriculture sector of Georgia (USAID 2012b). The current USAID programs in Georgia include Restoring Efficiency to Agriculture Production; Developing Georgia’s Agricultural Economics Capacity; Georgia Agricultural Policy Initiative; Farmer-to-Farmer Program; Georgia Hazelnut Improvement Project; and Governing for Growth in Georgia Activity, overall with a budget of more than US\$50 million. All programs are focused on enterprise development to increase income and employment in rural areas by delivering firm-level investment and custom-tailored technical assistance to Georgian agribusinesses.

At present, the Strategy of Agricultural Development in Georgia 2015–2020 (Ministry of Agriculture of Georgia 2015) is the main policy document guiding sectoral reforms in the country. The main objective of the strategy is the development of agriculture through strengthening small households and forming profitable production chains. To achieve the set goals, the Government of Georgia, through various programs, provides financial and technical assistance to entrepreneurs involved in agricultural and nonagricultural activities, including tourism in all regions of Georgia. The Government has started two new projects that support agricultural development in Georgia:<sup>5</sup> the cheap agro-credit program and grant funding. The total budget for both initiatives is more than US\$40 million.

Another fast-changing, dynamic, and highly competitive industry in Georgia is tourism, which has significantly contributed to the country’s development. In 2016, Georgia reached a record number of 6,360,503 international arrivals, which led to improved economic indicators (JAKO FM 2016). The money spent by foreign visitors coming to Georgia has a significant effect on the balance of payments. The total value added in the tourism sector increased by 11.8 percent and reached GEL

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<sup>3</sup> Enterprise Georgia, website: <http://enterprisegeorgia.gov.ge>.

<sup>4</sup> The European Union for Georgia, ENPARD: Support to Agriculture and Rural Development, website: [www.enpard.ge](http://www.enpard.ge).

<sup>5</sup> Agricultural Projects’ Management Agency (APMA), website: [www.apma.ge](http://www.apma.ge).



2.1 billion from 2015 to 2016. In the mentioned period, the share of tourism’s gross value added to GDP increased as well from 6.7 percent to 7.1 percent. This progress was achieved by a GEL 217.7 million increase in value added from tourism-related activities in 2016. Tourism contributed approximately 64.6 percent of Georgia’s service export revenue in 2016. The number of people employed in tourism-related<sup>6</sup> work reached 32,271 in 2016. The share of tourism industry employment to total business sector employment equals 5.4 percent in 2016. (see Table 1)

**Table 1. Tourism Industry Statistics**

	2010	2011	2012	2013	2014	2015	2016
Tourism Value Added to GDP (%)	6.1	6.0	6.1	5.9	6.3	6.7	7.1
Tourism Export to GDP (%)	5.7	6.6	8.9	10.7	10.8	13.8	15.1
Tourism Export to Total Service Export (%)	41.2	47.6	55.5	58.0	59.2	61.8	64.6
Tourism Employment to Total Employment (%)	4.0	4.8	5.2	5.5	5.3	5.4	5.4

*Source:* GeoStat, Georgian National Tourism Administration (GNTA), and National Bank of Georgia.

Recently, the Government of Georgia has started to promote for tourism development for mountain and rural villages to improve local communities’ livelihoods. From 2016, the Government of Georgia has been providing financial and technical assistance to entrepreneurs involved in the hotel industry and actively supported tourism development throughout the country, for example, offering favorable terms for investors in selected locations. Additionally, the Government of Georgia with the support of the World Bank finalized Georgia’s National Tourism Strategy 2025.

The agriculture and tourism sectors face numerous challenges such as conversion of land into industrial and residential plots, outdated technologies, cultivation of traditional agricultural products, poorly educated/skilled farmers and processors, insufficient education and training programs for hotel staff, and limited access to finance.

## KEY FINDINGS

### Overarching Gender Framework

Georgia witnessed some structural shifts after the collapse of the Soviet Union, which affected gender relations. While there have been some positive changes such as in legislation, the society struggles with the ‘acknowledgement of gender inequalities in Georgia’ (Sabedashvili 2014; Dzotsenidze 2014; ADB 2014). However, women’s economic advancement remains an issue as well as gender disparities in earning power and income generation—for example, generally,

<sup>6</sup> Accommodation and food service activities are counted as a tourism-related work. If the number of employed persons in the transportation and storage industries is added, the share of tourism-related work employment is 13.6 percent.

female-headed households earn less than male-headed households, and the average gender pay gap is about 34.7 percent, rising to 42 percent for small enterprises (GeoStat 2015c). According to 2014 data, 16 percent of women (compared to 0 percent of men) are not considered to be in the labor force and are assigned the status of ‘housewife’ implying that they specifically focus on unpaid family work.

According to the Global Gender Gap Index by the World Economic Forum (WEF), over the last 10 years, the overall rank of Georgia dropped from 54 (in 2006) to 90 (2016), while in the economic participation and opportunity subindex, it dropped from 41 (2006) to 61 (2016). Gender equality is de jure affirmed by the Law of Georgia on Gender Equality; however de facto cultural barriers exist in the Georgian society resulting in the limiting of women’s ownership and control over land, which influences their access to finance. According to the World Bank Group and European Bank for Reconstruction and Development (EBRD) ‘Georgia - Enterprise Surveys 2013’,<sup>7</sup> women in Georgia own 33.8 percent of all businesses, while just 32 percent of women serve in senior management positions (ADB 2014; GeoStat 2015c; GeoStat 2016e; USAID 2010; USAID 2012a; WEF 2017).<sup>8</sup>

Key informant interviews and focus group discussions highlighted that not all actors involved in private sector development programming acknowledge the existing gender constraints. The research team started by exploring various agricultural and nonagricultural sectors and, as supported by secondary data, it is evident that gender inequality is present in various business spheres. This means that even though, legally, women are entitled to inherit estates, in reality, inheritance rights are not often upheld. One of the agriculture experts observed that, despite some positive changes, no more than 5 percent of rural women inherited a plot of land or a house. According to another expert, if the alternative tourism sector is observed (rural tourism or agritourism), women dominate in terms of running guesthouses; however, they usually do not own the property or control their income. This means that, at the gender analysis stage, the research team is to provide the most thoughtful and in-depth recommendations on pro-gender interventions and strategies to be designed, to avoid any backfire at the implementation stage.

The research team tried to identify the amount of capital investment needed to enter each VC. It turned out that VC participants (small-scale farmers or micro/small entrepreneurs) observed that they needed smaller amounts for VC entrance. However, it was obvious that sometimes, costs were not acknowledged by entrepreneurs (for example, to allocate funds to meet the food safety requirements that became obligatory), while experts were providing total amounts needed to start a profitable business (small-scale farmers comprising agricultural households, which rely on unpaid family work and are yet to enter commercial farming). According to experts, to establish a profitable fruit growing and processing business, a primary producer needs to purchase at least 2 ha of land and total expenditure for 2017 would be at least US\$40,000. For those who do not

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<sup>7</sup> Enterprise Surveys, The World Bank.

<sup>8</sup> Also, studies by CARE and Mercy Corps.

possess a plot of land, the total investment for a profitable fruit-growing enterprise is expected to be about US\$50,000. A commercial mini fruit-processing enterprise will require at least US\$50,000 of total investment cost to start the business.

Of the three VCs, the tourism sector requires the lowest initial investment. In general, US\$2,100 is enough to complete considerable refurbishment of a house for operating as a guesthouse business (however, for agritourism, one only needs to redecorate one room and add hot water/shower facilities and thus can launch a business with an investment of about US\$1,200). With US\$2,100, one can start a tailoring business or an artisanal craft business, while for more sustainable business, an investment of US\$4,000–5,000 is advised. Tourism provides an opportunity to a micro entrepreneur to start a comparatively low-cost business, and the rate of return is relatively high for this sector. According to a representative of the GNTA, some employees of brand hotels, after some time, change their employment status by going on self-employment and launching an enterprise in the hospitality industry with the knowledge and experience gained from working in brand hotels.

**Table 2. VC Entry Capital Investment - 2017**

VC	VC Entry Capital Investment, US\$	
	Small-scale Farmer (Primary Production), Micro and Small Entrepreneur, and so on	Processing, Small- to Medium-size Enterprise
Edible Nuts	10,000–15,000	600,000–800,000
Processed Fruits	40,000–50,000	50,000–100,000
Alternative Tourism, Hospitality Services, and Supporting/Related Industries	2,100	15,000

Based on Table 2, it could be stated that market entry is rather problematic for edible nuts and fruit processing because women do not possess many assets and, therefore, they cannot apply for bank credit. Lately in Georgia, donors have started to require a cash co-sharing arrangement for their grant programs, which is also problematic. Although market entry is a barrier, suitably designed programs and interventions supporting women’s economic advancement for edible nuts and fruit processing VCs could be provided. For tourism, the entry capital investment is significantly lower, especially compared to the hazelnut processing sector.

The rate of return on investment is also better in the tourism industry because some agricultural activities require long-term commitment. To illustrate this point, consider the cultivation of almonds and nectarines. For the full commercial production of almonds and nectarines, no less than five years are required and for hazelnuts and persimmon it is about eight years. However, the full commercial production cycle for berry crops is lower, for example, strawberries being the lowest (two years). In terms of edible nuts and fruit processing sectors, women are presented predominately at lower, entry-level positions. In the tourism sector, women are seen at different

levels and positions—sometimes as owners and often as managers.<sup>9</sup> The available statistical data (GeoStat 2016e) for hotels and restaurants illustrate that women in this sector earn 58 percent of what men earn. Therefore, compared to edible nuts production, women are more likely to earn more in the tourism industry and have more decision-making power over their professional and personal lives. Further, as mentioned above, there is evidence that the tourism sector can unlock new opportunities for women as they quit their jobs and establish their own businesses in the same industry.

While all three sectors seem to have very high potential for growth, according to gender equality criteria, the tourism sector outperforms the other two VCs. Moreover, it should be stated that alternative tourism, hospitality services, and supporting/related industries have links with agricultural VCs as well, for example, fruit and vegetable growers can supply guesthouses with local and fresh farm produce or homemade fruit preserves.

### **Edible Nuts including Walnuts, Hazelnuts, and Almonds**

According to GeoStat (2016c), edible nuts including walnuts and hazelnuts account for more than 30 percent of Georgia’s agricultural exports. Since 2012, the export of edible nuts has increased significantly. In 2012–2016, the export of edible nuts increased by 114 percent from US\$83,645 to US\$179,198 (GeoStat 2016c). Overall, 90 percent of exports went to the EU, Turkey, or post-Soviet states, and 10 percent went to other countries.

Industry representatives have been receiving training, either from the Government or with one of various international development partner institutions such as the EU or USAID. However, to achieve technical progress, there is no systematic approach that is necessary to maintain high-quality production and to compete internationally. Farmers also can arrange consultations with the Agriculture Department of the municipalities.

Local varieties of nuts in Georgia have some basic advantages. Due to their root system, they grow naturally and do not require much chemical fertilizers. Meanwhile, some interviewees suggested that they also do not need many pesticides because problems with insects or other pests are minimal.

In Georgia, to improve the edible nuts sector, a complex approach is necessary in terms of integrated pest and disease management (IPDM). As traditions endure, small-scale households in western Georgia have not yet moved to commercial farming, family labor is unpaid, and nut plants are not well managed. In eastern Georgia, farmers do take care of their nurseries. For households in western Georgia, it is recommended that they learn from the experience of farmers from eastern Georgia to avoid an undesirable result. As the number of plantations is growing and the area in which edible nuts are cultivated has already reached 60,000 ha, the risk of disease spreading

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<sup>9</sup> There is not much sex-disaggregated data on the ownership and management across the three industries. However, it might be available for a fee as stated in the research proposal.

increases massively. While large-scale farmers consider their activities to be commercially oriented and they actively try to maximize revenue and reduce losses by taking relevant measures and actions, pest management is now becoming a significant issue for all farmers, requiring constant attention and monitoring to safeguard product quality. However, because of a lack of practical skills and relevant qualifications, the application of IPDM practices remains a substantial challenge.

Even though walnuts and hazelnuts are part of Georgia's culture, edible nuts do not have a well-developed VC in Georgia. The edible nut VC in Georgia is of a medium length with several actors and different pathways involved until the product reaches the final customer.

The future of edible nuts in Georgia looks good in theory. However, edible nuts are relatively expensive to produce, which precludes small-scale farmers from joining the VC because they cannot afford the required investment. Additionally, processing and shipping infrastructure is very weak, and Georgia's competitiveness will depend on improving these systems. Technical development is a key factor in labor efficiency and productivity. Small-scale farmers in Georgia generally have no or very little access to machinery, and collection is usually done manually. In addition, land ownership issues seem to be problematic concerning ownership identification/verification and gender discrimination when it comes to inheritance.

### **Fruit Processing**

Fruit processing is one of the most traditional forms of agriculture in Georgia. However, its commercialization is rare. Investment is sorely needed to enter this market, and the lack of cold storage units makes it difficult to boost processing activities. Additionally, farmers have had difficulties with operating their cold storage facilities because most lack business management skills and are not knowledgeable about modern technologies. Farmers are not informed about market standards regarding crops related to size, color, aroma, and so on. They are not conscious of what to buy and how to access new markets as well. Therefore, crops are normally selected after visual inspection. From 2013 to 2015, the export of processed fruit, including jams, fruit jellies, and purees, decreased by 47 percent from US\$609,100 to US\$325,200 underlining the key challenge of VC actors, namely the limited production capacity (GeoStat 2016c).

Based on the USAID-funded VC analysis (Dzotsenidze 2011), gaining access to export markets has been identified as a key factor in improving fruit processing and export. Due to the natural and climatic conditions of the different regions, the range of fruits that can be grown is wide and diverse, which should allow the fruit processing VC to compete on the world markets, generate high profits (especially with the use of cold storage and other processing facilities), fulfill the role of import substitution, and generate employment.

Wild berries grow across Georgia. However, their commercial production only started recently, and the sector remains in its starting phase. For berries, as well as for edible nuts, the application

of IPDM practices by small-scale farmers represents a significant challenge for the sector's development and is at an early stage. Meanwhile, the quality of imported or locally produced nut seedling and the organization and maintenance of plantations are significant factors for the sector's development. For both edible nuts and berries, there are some ongoing projects regarding the preparation of normative documents. Starting from January 2018, Georgia will advance in terms of IPDM.

The fruit processing VC may commercialize Georgian tradition and culture by adding value to the fruit sector. Due to the well-established and functional VC that is connected to the foreign markets, the sector seems to have good prospects. On the international market, there is also a demand for deeply processed products for which production requires only a few medium-size factories. Exports to the EU are based on GSP+, which is a component of the EU's Generalized Scheme of Preferences (GSP). This system allows the entry of Georgian exports into the EU at a reduced tariff.

The volume of processed fruit is one of the main problems in Georgia. The vast majority of factories are not multifunctional, with the only exception of some companies in regions. There is minimal potential for relatively high-tech enterprises in fruit processing including juices, jams, fruit purees, and other products because of the low capacity of fruit production. The absence of a modern production line and modern virus-free nurseries is a key challenge for this sector's development.

In mountainous regions, the use of machines for the transportation of collected goods from forests is not possible, while some villages are scarcely populated, if at all. Manufacturers need to hire people from other locations as a result, which brings certain problems for the producer or wholesaler. Additionally, there is no governmental system of extension and training programs. Currently, entrepreneurs verbally share their experience and knowledge among each other. There are no state programs specifically aimed toward the development of fruit processing, although some general programs might have a positive impact, including the following programs executed by the Ministry of Agriculture: Produce in Georgia; Preferential Agro-credit; and Agricultural Cooperatives Development Programs.

### **Alternative Tourism, Hospitality Services, and Supporting/Related Industries**

Domestic and international tourism is an important ingredient in the Georgian economy. The money spent by foreign visitors to Georgia has a significant effect on the balance of payments. Approximately 64.6 percent of Georgia's service export revenue comes from tourism (GeoStat 2016a) in 2016. Revenues from international tourism receipts have increased and reached US\$2.17 billion in 2016, while money spent by domestic visitors equaled US\$0.8 billion. Tourism contributed 7.1 percent to total GDP in 2016. This is due in part to a US\$92 million increase in value added from tourism-related activities.

Tourism development in Georgia is based on an understanding of tourism as a labor-intensive sector that provides significant employment opportunities, promotes income distribution, and is generally supported by a wide range of small and medium enterprises (SMEs) that integrate into this VC at the local level. In recent years, brand hotels as well as guesthouses have started to appear in new areas as more international travelers visit more of Georgia's regions. Alternative and Meetings, Incentives, Conferences and Events (MICE) tourism is another segment that could further attract high-spending visitors to Georgia. New areas can be designated for adopting and popularization of MICE tourism after approval by the Commission on the Facilitation of the Development of Free Tourist Zones set up under the Ministry of the Economy and Sustainable Development of Georgia. Georgia has hosted several high-profile events in recent years, with more scheduled for the near future. Here, it is possible to identify short-, medium-, and long-term potential interventions that will have targeted and tailored approaches for groups and will improve the overall economic performance of the sector.

The biggest advantage of this VC is the good collaboration opportunities arising between the VC actors. Additionally, tourism is one of the main income generators for women who are heavily involved in tourism services and supporting/related industries.

According to a study of the tourism sector by the GNTA, the main problems Georgia faces are the lack of decent small and medium-size hotels, high accommodation costs, underdeveloped tourism infrastructure, complicated logistics, and poor hospitality services. Additionally, a lack of accurate tourism statistics is a major institutional obstacle that complicates any assessment of the sector and its potential (GNTA 2017).

Among other factors, the tourism sector faces the following challenges: lack of skilled labor, inadequate road infrastructure, insufficient tourism infrastructure, preservation and promotion of cultural heritage sites, poor air transport infrastructure, limited transparency of bilateral air service agreements, and insufficient stringency and enforcement of environmental regulations and wastewater treatment.

Entry into the alternative tourism VC generally has a positive impact on female employment generation, providing an important step toward economic independence. This has important economic and social implications because access to paid employment remains one of the most important avenues toward more economic independence for women.

## CHAPTER 1: EDIBLE NUTS

Georgians have traditionally considered walnuts and hazelnuts as part of their culture and of immense economic importance. However, there is no organized market for almond production. There is also no stable supply, and the market largely depends on imports. According to GeoStat (2016c), edible nuts including walnuts and hazelnuts account for more than 30 percent of Georgia's agricultural exports. Georgia is one of the world's largest producers of edible nuts, mainly walnuts and hazelnuts. The production of edible nuts has been increasing from 2013, and in 2016, its production amounted to more than 50,000 tons (GeoStat 2016b). From 2006 to 2015, turnover from foreign trade more than doubled, and by 2015, it had reached US\$9.9 billion. Edible nuts made up 27.8 percent of Georgia's exports of agricultural goods, while the total share of agricultural goods in imports reached 14.3 percent. Hazelnuts and wine are Georgia's main exported goods. The import of primary agriculture and food products significantly exceeded exports by 2015. This was caused by the low level of productivity and the lack of competitiveness among producers in the relevant sectors compared to foreign producers. Compared to 2014, in 2015, the export of agriculture goods to the EU member states increased significantly, with the export of hazelnuts increasing by 4 percent and the export of hazelnut powder increasing by 50 percent. Agriculture contributed 9.1 percent of Georgia's GDP in 2015. Overall, 48 percent of the added value generated in primary production comes from cattle breeding, while 21 percent is derived from the production of fruits and nuts.<sup>10</sup>

At present, the Strategy of Agricultural Development in Georgia 2015–2020 (Ministry of Agriculture of Georgia 2015) is the main policy document guiding the sectoral reforms in the country. To achieve the set goals, the Government of Georgia, through various programs, provides financial and technical assistance to entrepreneurs involved in agriculture, including edible nuts. The Government has started new projects that support agricultural development in Georgia:<sup>11</sup> Plant the Future, cheap agro-credit program, and grant funding with a total budget exceeding US\$40 million. The Ministry of Economy and Sustainable Development of Georgia along with the Ministry of Agriculture of Georgia through Produce in Georgia<sup>12</sup> encourages the manufacturing and agriculture industries in Georgia with financial resources and infrastructure. Additionally, the EU provides support for rural development and agriculture in Georgia through the European Neighborhood Programme for Agriculture and Rural Development with a total budget of €102 million for 2013–2019.<sup>13</sup> USAID has also invested more than US\$1.5 billion in Georgia. The current programs include Restoring Efficiency to Agriculture Production; the ZRDA Activity in Georgia; and the Georgia Hazelnut Improvement Project.<sup>14</sup> All programs are focused on enterprise

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<sup>10</sup> Rural Development Strategy of Georgia 2017–2020, P. 15

<sup>11</sup> APMA, website: [www.apma.ge](http://www.apma.ge)

<sup>12</sup> Enterprise Georgia, website: <http://enterprisegeorgia.gov.ge>

<sup>13</sup> The European Union for Georgia, ENPARD: Support to Agriculture and Rural Development, Publications, Brochures, and Newsletters, Rural Development Strategy of Georgia 2017–2020.

<sup>14</sup> Cultivating New Frontiers in Agriculture (CNFA), website: <https://www.cnfa.org/program/georgia-hazelnut-improvement-project/>

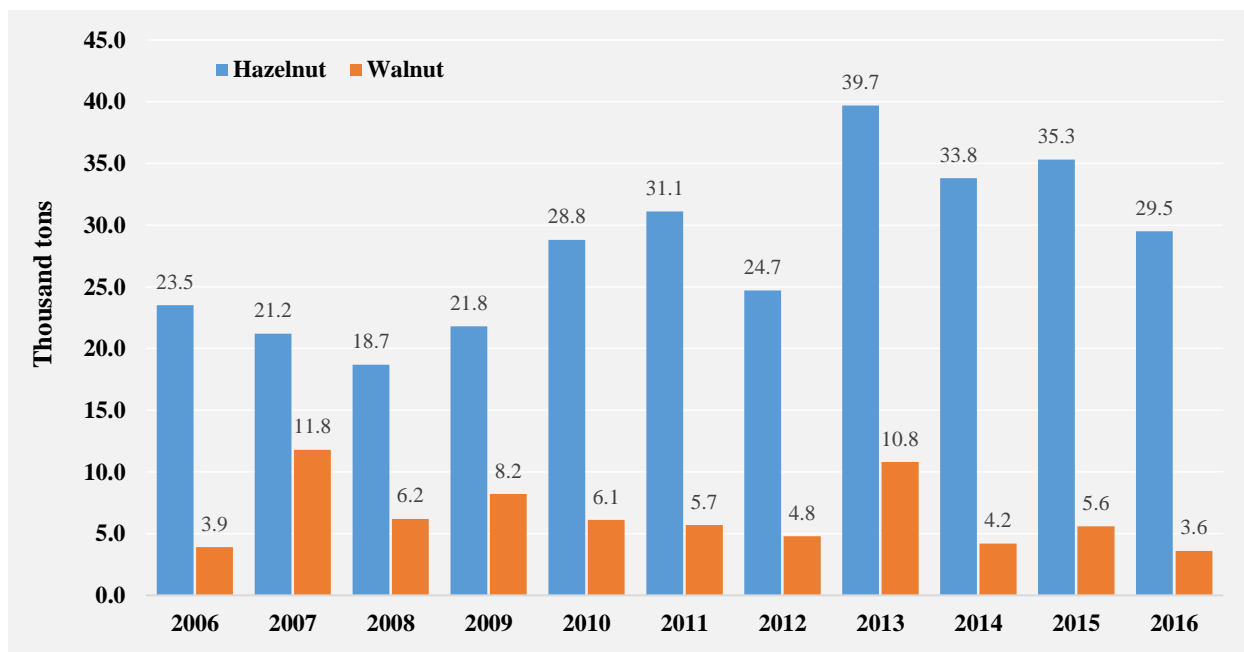


development to increase income and employment in rural areas by delivering firm-level investment and custom-tailored technical assistance to Georgian agribusinesses.

### 1. Positive growth trend of the VC and unmet market demand

The future of edible nuts in Georgia is theoretically very good because it is a high-value strand of agriculture. Georgia is ideally situated for producing nuts. It can generate a much bigger economic impact than growing wheat or corn. According to GeoStat (2016c), edible nuts account for more than 30 percent of Georgia’s agricultural exports. Georgia is the world’s fifth largest producer and exporter of hazelnuts/in-shell hazelnuts and the fourth largest exporter of shelled hazelnuts in the world. Data from GeoStat shows that the production of hazelnuts in shells has almost doubled from 2006 to 2013, reaching its peak at 39,700 tons. Although there was a decrease in production of 5,000 tons from 2015 to 2016, the overall trend indicates that production has increased.<sup>15</sup> The production of edible nuts has been increasing from 2013 and in 2016 reached more than 50,000 tons, of which hazelnuts accounted for 36,400 tons and walnuts accounted for 5,900 tons. According to the data of GeoStat, outputs of nuts have increased by more than 20 percent during 2006–16. The almond market in Georgia is chaotic and unorganized.

**Figure 2. Production of Hazelnuts and Walnuts in Georgia (thousands of tons)**



Source: GeoStat.

There is no stable supply chain, and the market largely depends on imports, for example, input supply. The main problem here is the lack of commercial orchards, making the local market less

<sup>15</sup> The data from 2006–2013 cannot be directly compared to the data of 2014–2016 because there were significant changes in the research methods and sources in 2014. However, the reconciliation result of the data will be in a range of 10 percent (GeoStat 2016c).

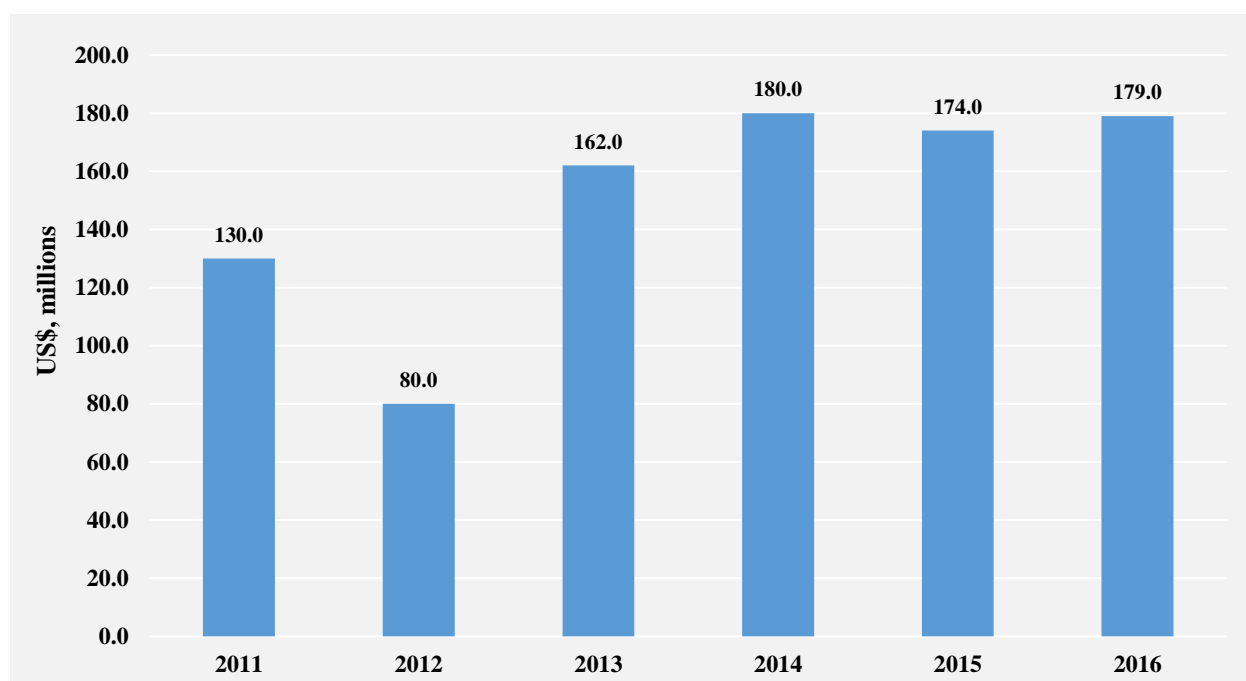
attractive. For the last three years, commercial orchards have been established on 1,200 ha. It is also expected that in the future, hundreds of hectares of almond orchards will be established that will increase the demand for almond-processing facilities.

There are several factors behind the low level of production. The VC of the nut market is not well-developed and there are very few collection centers or large agro-processors who rely on local produce but only in small quantities. Many producers operate in small plots of land and use outdated technology and traditional seeds, varieties, and practices. As such, their yields are low, and they cannot achieve economies of scale in production. Additionally, there is a lack of investment in production and processing technology including for storage of produce. Investment into production technology would enable an increased supply of nuts and would provide an opportunity to generate both production expansion and employment generation. Due to the low demand for produce and the need for investment in production technology, producers do not have the resources to meet the necessary product standards for exports, such as consistency, size, quality, and variety, which further limits their opportunities for export.

## **2. Available sales outlet and high interest of buyers in the product**

Georgian nuts that are exported mostly go to the EU because there are no barriers to trade. The main importers of Georgian nuts are the EU member states, including Italy, Germany, Spain and the Czech Republic and CIS member states. The export volume has increased by approximately 1.6 percent (US\$2.9 million) and reached US\$179.5 million in 2016 compared to 2015. Exports have significantly increased to Italy (by 5.7 percent, US\$2.6 million) and Germany (by 1.6 percent; US\$0.8 million) in 2016. Georgia has the potential to increase the production due to its wide variety of ecological and climatic zones. On the international market, there is also a high demand for deeply processed products, but this requires large factories. Exports to the EU are based on GSP+, which is a component of the EU's GSP. This system allows Georgian exports to benefit from a reduced import tariff (The ISET Policy Institute 2017). There are no large supermarket chains based in many of Georgia's regions. Interviewees identified the approximate export volume of white almonds to be 15 tons in 2015 and 24 tons in 2016. In 2016, the import of white almonds amounted to 95.5 tons. The main export countries for nuts are the EU member states (including Italy, Germany, Spain and the Czech Republic) and CIS member states.

**Figure 3. Walnuts, Hazelnuts, and Other Edible Nut Exports from Georgia (US\$, millions)**



Source: GeoStat.

### **3. Scope for expanding production and/or scope for value addition through processing or product improvement (new products for which there is a market)**

All nut products have a market of some kind. Shells are valuable for the energy industry because they are of high calorific value with 4,100–4,410 cal/kg. Buyers of nut shells process them into briquettes or charcoal using a biomass briquette machine, producing solid biomass fuel.

Shells are also bought by bakeries for their combustive and calorific qualities. To a lesser extent, shells are used in horticulture to build paths and, in recent years, there have been some studies conducted for the use of hazelnut shells as a renewable and low-cost lignocellulosic material for bioethanol production.

### **4. Low cost of the VC in relation to competitors**

The main problem regarding nuts is that a significant share of inputs is imported, and this adds to the cost, making products less attractive compared to that of competitors. Additionally, the limited development level of the nut VC has had multiple negative impacts on producers. Due to the small level of outputs—as a result of small/fragmented plots of land for farming, lack of access to quality fertilizers, certified seeds, improved varieties, and lack of irrigation and mechanization services—many individual producers do not have easy access to buyers (retailers and wholesalers). This significantly increases their marketing costs.

## **5. Other competitive advantages of the VC in relation to competitors (unique product/local specialty)**

Local varieties of nuts in Georgia have some basic advantages. They have a powerful root system that draws in sufficient quantities of all the necessary components to grow from the soil, and therefore, chemical fertilizers are applied only to a minimum degree. According to interviewees, some varieties also do not require pesticides to any notable extent. However, the interviewed respondents and focus group participants identified that fertilizers represent the main input, costing US\$200–450 per year per household. The potential competitive advantage of Georgian edible nuts is that they are of higher quality but are not expensive to produce.

## **6. Potential for collaboration and coordination between actors for VC upgrading**

The level of cooperation between farmers (horizontal integration) and between farmers and processors and traders (vertical integration) is minimal. The VC is not well-defined, and there is a gap between growers and processors. According to the focus group discussions, farmers, even in the same rural areas, are highly fragmented and do not collaborate to jointly supply the markets. Consequently, nut producers cannot benefit from the advantages of knowledge transfer, scale in inputs and outputs, and bargaining power with input suppliers, buyers, and financial institutions. Therefore, they cannot expand their production capacities or offer high-quality produce at competitive prices in the market. This, in turn, limits the development of agro-processors. As a result of small/fragmented plots of land for farming and a lack of access to quality fertilizers, certified seeds, improved varieties, and irrigation, numerous individual producers do not have access to buyers (retailers and wholesalers). In addition, there is room for improvement, including through increasing access to mechanization centers, and/or supporting the establishment of cooperatives as small-scale farmers cannot buy substantial modern production machinery and facilities.

## **7. Sufficient technological and managerial level of enterprises in the sector for upgrading and innovation**

There are more than 50 companies involved in nut business activities, of which 80 percent are Georgian processors. The vast majority of companies are exporters. Almost 14 percent of these companies are well informed about the industry and have good access to information. However, respondents generally emphasized that the main problem in terms of innovation is the lack of resources and expensive credit. Therefore, farmers cannot invest in innovation. Another factor identified during the discussions was the lack of knowledge to innovate. However, when asked whether they have the capacity for upgrading and innovating, the majority of the participants in the research only listed the lack of technological capacity as a barrier. Access to infrastructure and technology for the protection of crops from harsh climate conditions and insects, equipment for storage and processing, planting and spraying machines, and tractors were all listed as things needed by stakeholders in the VC.

## **8. Access to infrastructure, qualified labor force, raw material, and inputs**

A lack of technological capacity has been listed as a major inhibitor to increased productivity and expansion of activities in the agricultural sector in general. However, when asked whether they have the capacity to upgrade, the majority of participants in the research mainly noted a lack of technological capacity. Regarding labor force, there is an abundant supply of labor given the relatively high rate of unemployment.

Nevertheless, research participants reported that it is very difficult to find specialized staff and expert support in the local market. There are agro-shops in almost every village that ensure a stable supply of agriproducts for farmers. These shops are usually located quite close to the bigger cities, and during the spring and autumn, new plants are available to buy. Their role in the VC is crucial in terms of knowledge and skill transfer, especially for smaller producers who do not have access to official advisory services, either due to lack of information or excessive cost.

## **9. Access to financial services**

The participants listed several financial instruments that they have access to, or have benefited from, in their operations. However, the receipt of commercial loans was characterized by much discontent due to high interest rates, short grace and repayment periods, high collateral requests, and difficulties in making repayments on time. Several stakeholders in the VC had also benefited from agricultural loans and were very satisfied with both access to this instrument as well as the conditions. Numerous research participants had benefited from grants from donor organizations such as USAID, the Ministry of Agriculture, or subsidies from the Ministry of Economy and Sustainable Economic Development, and they found them very helpful in expanding production and processing. However, it must be noted that small-scale producers, in particular, have problems with access to financial instruments from the Government, which does not provide subsidies for small parcels of land, which are essential for the livelihoods of households that do not receive financial support.

## **10. Access to business development services to improve production process**

In recent years, agriculture has returned as a priority for policymaking and public investment. The prioritization of the agricultural sector in the Government's agenda, as a means of contributing to economic development and employment generation, is also reflected in the abundance of trainings and services available in the sector. Various research participants reported that trainings on both production and business processes are available, and they attend them and find them very useful in their operations. Some of the trainings mentioned in the focus group discussions included the topics of production, storage, processing, pest management, and so on. Many focus group participants stated that they need to be trained for the technology they use. Advisory services also play an important role in the edible nuts sector. Most nut growers in the regions have years of experience, and nut growing is usually a family business. However, training sessions are necessary

to maintain the quality and yield at an international level. The training programs in nut production and further processing are actively organized by various organizations, including USAID in cooperation with Ferrero.

Since 2011, training has been provided for 1,800 Georgian hazelnut farmers. Moreover, farmers can arrange consultations at the municipal Agriculture Departments. For example, in the region of Guria, there is an analysis center that provides soil analysis and gives recommendations for appropriate fertilizers.

Unfortunately, there are no official courses focusing on nut growing, quality enhancement, processing, or certification in Georgia. The establishment of new training centers to fill this gap would be beneficial.

In 2007, the Hazelnut Growers Association (HGA) was established incorporating 22 main players on the Georgian market, including AgriGeorgia. The main objective of the association was to unite growers and improve their skills, especially in terms of cultivation, processing, and know-how. The HGA aimed to support hazelnut growers to increase the production and quality of hazelnuts, to implement modern technologies of primary treatment or processing, and to help in marketing expansion.

## **11. Overview of Gender Dynamics in the Edible Nuts VC**

Women are present in this VC,<sup>16</sup> but at a low level. Only a few women are in management positions, with 1–2 de facto processing factory owner(s) out of 38. Women are mostly involved in harvesting, storing, selecting, and sorting. Men are responsible for decision making for technical issues. In terms of women controlling equipment and assets, there were mixed responses ranging from ‘almost none’ to ‘2–3%’ to ‘yes, they do’. The data above concerning producers (commercial farmers and peasant farmers) and processors allow for proper gender analysis—‘yes, they do’ was a popular response among subsistence-oriented agricultural households, and ‘almost none’ and ‘2–3%’ were common answers among commercial growers and processors. Therefore, there is no real access to qualitative data highlighting whether women lost their decision-making power at the stage of turning into market-oriented growers and processors. The same could be said for the control of sales income and the enterprise as a whole.

While women have, and can acquire, the skills required to gain employment in the hazelnut sector even at the technical specialist level (recent graduates of the Agrarian University of Georgia have successfully launched careers in the hazelnut industry), normally, women do not have proper access to information and miss a lot of opportunities, whether it be participation in training programs or other activities. A person will more likely be informed if he or she joins an NGO in the relevant field. Even though processors are in urban areas, geographical location is not

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<sup>16</sup> Data mostly concern hazelnuts because the commercial production of other edible nuts is yet to be achieved.

important for the VC as transportation is often provided and factories are not far away from their homes in any case. Responses on the question on entry barrier clearly stated that there is a problem with entry for the poor to start the business. As noted earlier, full commercial production does take time and unless a household has other means of making a living, this is a barrier for the poor. Considering women have almost no access to, or control over, assets, for women, it is harder to establish their own enterprise in this VC. Time and cultural values add to other obstacles. As for new opportunities, these mostly concern very small-scale primary production activities such as a start-up or an expansion.

Generally, this VC can be economically viable, particularly for agricultural households, and it has a high potential to provide good income and employment opportunities. When it comes to IPDM, peasant farmers think mostly about profits and are not in the habit of employing disease prevention practices, unlike market-oriented growers and processors.

## CHAPTER 2: FRUIT PROCESSING

Fruit farming is one of the most traditional forms of agriculture in Georgia. It is common in almost all parts of the country and, due to the natural and climatic conditions of the different regions, the ranges of fruits grown is wide and diverse. Data analysis shows that, in recent years, the export of some processed fruits has been decreasing. During the 1990s, 75 small- and medium-scale canneries as well as 15 large-scale canneries were functioning.

To ensure the fruit processing sector's growth, the VC selection study showed that the main areas in which entrepreneurs need state support are access to modern equipment to reequip enterprises and increase productivity and short-term preferential credits to purchase seasonal raw materials that need to be stocked within the factories beforehand. Currently, there are no state programs specifically aimed toward the development of the field of fruit processing, although some general programs might have a positive impact, including the following programs executed by the Ministry of Agriculture: Produce in Georgia; Preferential Agro-credit; and Cooperative Development Programs.

### **1. Positive growth trend of the VC and unmet market demand**

Fruit processing is one of the traditional forms of agriculture in Georgia. From 2012, fruit production in Georgia has been increasing and reached 229,000 tons in 2014. However, the processing practices are generally for household consumption rather than commercial aims.

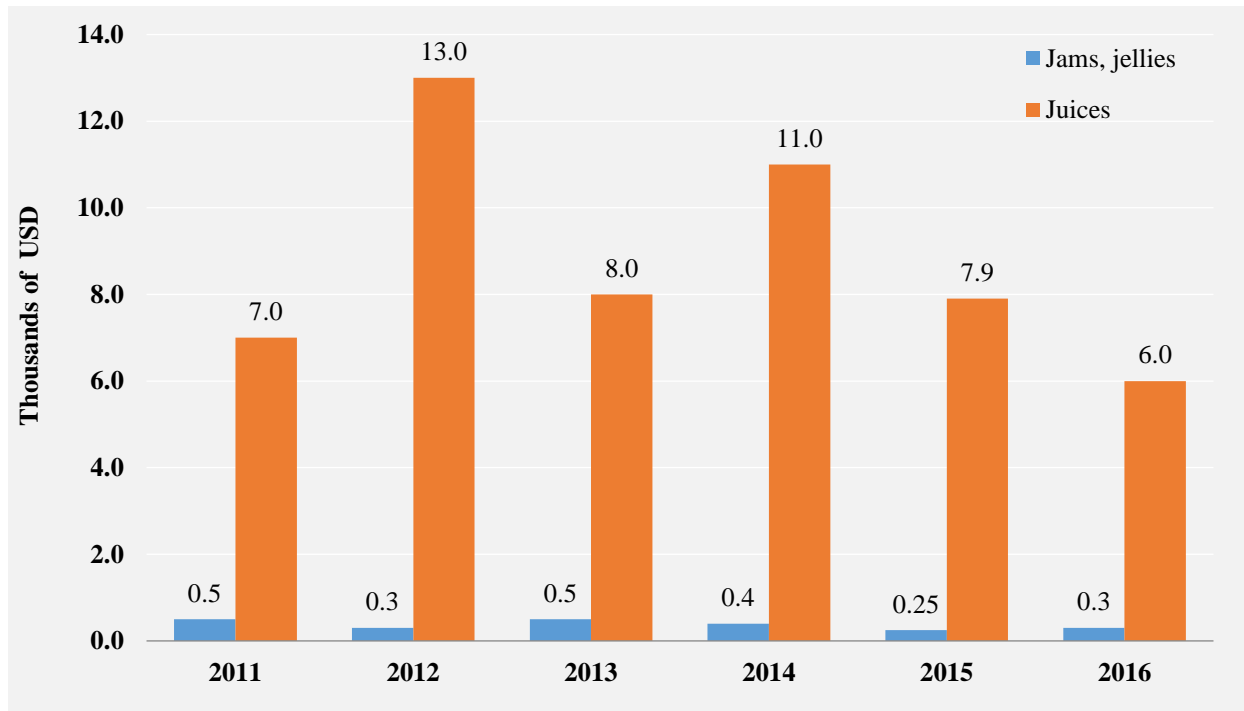
Data analysis shows that, in recent years, the export of some processed fruits has been decreasing. During the 1990s, 75 small- and medium-scale canneries as well as 15 large-scale canneries were functioning. Canneries maintain a production capacity of less than 25 percent, amounting to 1,000,000 tons in total.<sup>17</sup> Currently, one of the most popular crops for fruit processing is berries because, according to experts, berries have some of the highest potential in Georgia for processed production.

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<sup>17</sup> Economic Prosperity Initiative (EPI), Processed Products, Value Chain, P. 4



**Figure 4. Georgia's Processed Fruit Exports, including Jams, Jellies, and Juices (US\$, millions) (GeoStat 2016d)**

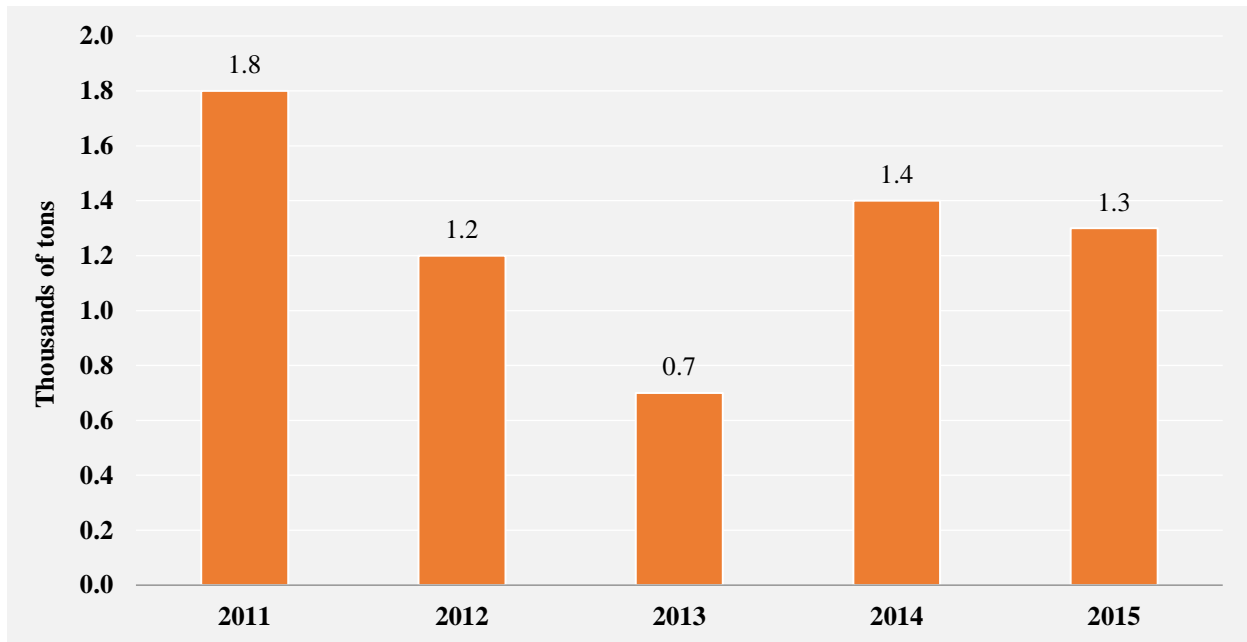


Source: GeoStat.

Data analysis shows that, in recent years, the export of some processed fruits has been decreasing. The industry has the potential to further benefit from canned, frozen, or dried processed goods as this area is not currently being exploited. However, to achieve low production costs and become self-sustainable, it is recommended to increase the fruit yields.

The key challenge for companies is the limited volume of raw materials rather than the demand from local or foreign markets. If production is increased, they would easily increase sales, without the need for any additional promotional activities. Some processing companies are oriented exclusively toward the markets of Russia and Belarus. They send products to a foreign middleman in large containers, which is later repacked and sold to a final consumer. In terms of jams and juices, no official data are available. However, in Georgia, people generally prefer to make their own jams and juices, which may limit potential sales.

**Figure 5. Production of Berries in Georgia (tons, thousands)**



Source: GeoStat.

No official data are available for jams and juices. According to some experts, berries have high potential for processed production in Georgia. Approximately US\$15 million of strawberries, raspberries, and blueberries were consumed.<sup>18</sup> The demand for these products is mostly from Tbilisi and other main cities. The berries are mainly consumed in fresh form. Demand and supply are at their highest in summer. The consumers do not consider greenhouse berries to be healthy, and they avoid daily consumption, buying for special occasions only. In addition, it is very popular to make the jams from berries and to stock these for months, if not years. Hence, many families (both in urban and rural areas) buy berries in large amounts in summer and make jams with their own traditional recipes.

According to statistics, the volume of annual fruit production of Georgia increased by approximately 300 percent from 2009 to 2016.<sup>19</sup> The quality of the fruit, which is sold on the market, is subject to the control of the National Food Agency. However, in reality, the products are not subject to stringent checking. The farmers themselves believe that their production would meet quality control standards because it is produced in a clean environment, using natural products. The main demand for processed products comes not only from the local market but from export markets as well. At this stage, some companies are already exporting products to the EU. Some processing companies are oriented exclusively toward the markets of Russia and Belarus. The key challenge for companies is the limited volume of raw materials.

<sup>18</sup> European Neighborhood Programme For Agriculture and Rural Development, Berry Farming, 2015, P. 14

<sup>19</sup> National Statistics Office of Georgia, Agriculture of Georgia, 2015, P. 46

## **2. Available sales outlet and high interest of buyers in the product**

Generally, there is a strong competition between fruit-processing factories in Georgia, especially among those that sell natural juices. Competition on the Georgian market is quite high because of the number of local producers as well as the number of imported products. Local products are slightly more expensive although most consumers believe that local products are more natural and therefore of better quality. However, juice is not produced in some regions and, due to the existing competition, it has very limited potential for development. Demand from foreign markets for Georgian juice is higher than supply, meaning there is no real competition among Georgian producers in this regard. Some enterprises have established relationships with foreign consumers over the years, which make it easier for them to export their products.

The VC selection study showed that local producers have no problems selling their products and, at times, are unable to meet demand. The majority of finished products are exported to either post-Soviet states or the EU member states. Processed berries are not generally considered by households as a source of economic activity. Most respondents do not see much commercial potential in berries. Many local wholesalers have verbal agreements with rural populations and sell procured raw materials to local processing factories at preliminarily agreed prices and in set amounts. Some also deliver the product to local markets, but no more than 10 percent of local wholesalers. Wholesalers also generally organize the fruit collection process. In summer, they hire local farmers to go into forests and collect the wild fruits to be delivered to a factory located in their municipalities. Sometimes, farmers, mainly wholesalers, provide fruits to the local market. Some fruits are bought by the urban population to be used for their own consumption. Local wholesalers generally take collected fruit to processing factories, where the raw materials are processed and final products are made. The DCFTA will help Georgian products to meet the necessary standard for exporting to the EU.

To develop the field of fruit farming and to export to the European markets, the products must abide by the regulations of European law, including the Basic Law on Food, food labeling rules, hygiene regulations, processing standards, plant health control, import license, and permitted food additives and their provisions.

## **3. Scope for expanding production and/or scope for value addition through processing or product improvement (new products for which there is a market)**

For business diversification purposes, processing enterprises in eastern Georgia are processing not only fruit, but other agricultural products, such as vegetables because both are highly dependent on climatic conditions. It is believed that where one crop fails, another will succeed, meaning a greater level of stability. It would be possible for other parts of Georgia to use, even partially, the experience of eastern regions and to also carry out processing in other fields. Most household farms in the regions work in various different segments of agriculture.

It has been observed that large-scale farmers grow different types of berries to diversify their business. For example, a large-scale farm in Imereti region grows raspberries and blueberries allowing for a high yield in one crop to compensate for a low yield in another.

As well as blueberries, farmers have the opportunity to develop seedling nurseries. In addition, if production could be increased, the processing of berries could be a profitable option for local farmers. The factories located in Georgia are not multifunctional with some exceptions, which can be used for drying, sorting, packaging, and so on. However, their contribution to the total production is very low.

#### **4. Low cost of the VC in relation to competitors**

The main problem in fruit processing is that a significant share of the inputs is imported, and this adds to the cost, making products less competitive. Prices for fruit and its processed products vary according to the season and species. Prices are largely dictated by the harvest. A small harvest for a particular crop causes prices to rise and vice versa. According to interviewees, the variation range is about 20 percent. Another factor causing uncompetitive pricing is the lack of processing facilities, including cold storage. However, the price could be competitive in economies of scale. Once production volumes are doubled, processing enterprises will price competitively and grab the market share more easily. Additionally, fruit orchards should be updated, and high-quality seedlings should be imported because there is a lack of virus-resistant seedlings locally.

#### **5. Other competitive advantages of the VC in relation to competitors (unique product/local specialty)**

In Georgia, the price of land and labor is relatively low, and taxation is not high compared to many European countries. However, to gain a competitive advantage, more modern fruit orchards are needed. There does not appear to be much potential for relatively high-tech enterprises to engage in fruit processing (juices, jams, fruit purees, and other products) because of low fruit production in some regions. However, the planting of new orchards would put pressure on the capacity of existing processing factories and may lead to the building of new factories.

Additionally, the improvement of processing technologies will contribute to an increase in the production of different types of products for retail sale in small packages as well as to the diversification of production. Such diversification may entail vegetable processing or using different methods of fruit processing to bring a certain level of stability to enterprises allowing them to expand their target markets.

#### **6. Potential for collaboration and coordination between actors for VC upgrading**

The level of cooperation in the field is limited to information exchanged through personal relationships. The small number of entrepreneurs poses a problem with the formation of cooperatives. If there were more entrepreneurs, farmers would be able to plant and keep orchards

together as well as divide the costs of transportation, stock materials, and conduct other activities. They might even be able to create a joint brand and processing factory. The production line, which is the most important component for processing fruits, is quite expensive; the regional enterprises mainly use old Soviet-made equipment, which in most cases cannot produce the required quality. Fruit processing has some export potential if entrepreneurs manage to extend their production line and develop a packaging system to produce final products ready for direct sales.

### **7. Sufficient technological and managerial level of enterprises in the sector for upgrading and innovation**

The study showed that fruit processing in Georgia mostly does not require high levels of technology because production is normally done through traditional means. The factories basically use household technologies except for the drying of fruit in special drying chambers. Several respondents emphasized that the main problem faced is the lack of resources and expensive credit. Thus, farmers cannot invest in innovation. Open discussions also identified a lack of scientists in the field of agriculture as another major problem in Georgia.

### **8. Access to infrastructure, qualified labor force, raw material, and inputs**

In this field, labor demand is characterized by seasonality. In particular, farmers hire workers during the processing period, mainly in late spring and summer. According to the surveyed entrepreneurs, the share of labor costs does not exceed 10–15 percent of the total costs of production. Workers are paid on a daily basis—average US\$7–10 per day. High qualifications are not required for employees; therefore, recruitment is usually not a problem.

However, the situation is different in remote villages. In mountainous regions, the use of machines for transportation of collected goods from forests is not possible, while some high villages are no longer populated, so farmers need to hire people from other locations, which can be problematic for producers and wholesalers.

### **9. Access to financial services**

One of the key barriers for existing factories is low access to finances. There are no state programs that are specifically aimed toward increasing access to finance, although some general programs might have a positive impact, including the following programs executed by the Ministry of Agriculture: Produce in Georgia; Preferential Agro-credit; and the Cooperative Development Programs.

The research identified that there is a high need to utilize modern equipment through leasing, to reequip enterprises and increase productivity, and to acquire short-term preferential credits to purchase seasonal raw materials that need to be stocked within factories until they are processed. In addition, the participants listed several financial instruments that they have access to/have benefited from in their operations.

However, obtaining commercial loans is difficult due to the high interest rate, short grace period, high collateral requirement, and problems with making repayments punctually. Many research participants had benefited from grants from donor organizations such as USAID or had gained subsidies from the APMA of the Ministry of Agriculture of Georgia, which they found very helpful in launching a fruit-processing business. The processors interviewed said they face some major issues with cash flow and access to commercial or agricultural loans.

#### **10. Access to business development services to improve the production process**

There are no clear means of receiving formal information or expertise regarding modern technology for processing fruit. The University of Agriculture in Tbilisi is one of the few actors with bachelor's and master's programs related to this industry.<sup>20</sup> There are some universities that offer programs in fruit production, but not many cover processing technologies. Additionally, there are no extension services provided by the Government or nongovernment sector for berries producer/processor farmers, and such opportunities are not being sought anyway. As the farmers have no problem selling their products, their motivation to pursue development is minimal.

Regarding the berry processing sector, there are no efficient and effective mechanisms for controlling the quality of berry production and to ensure that only high-quality products go to the market. The low level of interest shown by National Food Agency of Georgia regarding berry products is due to the small amount of self-produced berry products in the country. Laboratories and quality management and certification services typically take care of quality analysis of produce and approve them for exports. Advisory extension services are available to collectors, cultivators, and collection centers. Considering the large potential of the sector, advisory services are provided by multiple stakeholders including donor organizations such as USAID, the World Bank Group, and United Nations Development Programme (UNDP).

#### **11. Overview of Gender Dynamics in the Fruit Processing VC**

Women are present in this VC, with a few women owners and managers. Men tend to be more involved in processing. There are some women who are farmers,<sup>21</sup> but extensive data were not available to assess the underlying dynamics among commercially oriented and subsistence-oriented farmers. In terms of women controlling equipment, assets, the sales income, and enterprises, the feedback was mixed—responses varied from ‘not much’ to ‘yes, they do’—externally an enterprise could be represented by a man, but there is always his family, and everyone thinks that women control it. However, men are the real decision makers, and women are only formal representatives.

Discussions about women's ability to have and acquire skills for value addition brought a positive ‘yes’ and several reasons for why such acquisition is rare. This led to further discussions and

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<sup>20</sup> The Agricultural University of Georgia, Programs, Degrees, website: <http://www.agruni.edu.ge/en>

<sup>21</sup> Growers.

identified entry barriers due to various factors such as traditions, mentality, fear (including feelings of anxiety about risk-taking), inability to detect opportunities, disempowerment because of being a woman, and the involvement of hard physical labor.

Most respondents did not see many problems with geographical location and living conditions,<sup>22</sup> although there were some comments about a lack of knowledge on how to control the usage of agrochemicals.<sup>23</sup>

Responses on the questions regarding the entry barriers for the poor were mixed: respondents stated that there is not enough interest, there is low motivation, and there are failures and financial support is needed to survive. Also, respondents stated that for the poor, it is hard to enter the market. For sole entrepreneurs, it is difficult to meet the market demand, and creating group of entrepreneurs or cooperatives will be more beneficial. Once again, fruit-growing is a part of the fruit-processing VC, and as mentioned above, the full commercial production does take time, which might be a barrier if the poor entrepreneur will need to establish a new orchard.

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<sup>22</sup> Articulating that a rate of return for some fruits, such as berry fruits, is higher.

<sup>23</sup> Cases of improper usage, including swallowing chemicals and treating more than needed.

## **CHAPTER 3: ALTERNATIVE TOURISM, HOSPITALITY SERVICES, AND SUPPORTING/RELATED INDUSTRIES**

The tourism industry in Georgia has been growing significantly in recent years. According to the GNTA, in 2015, Georgia received a record number of 5,901,094 international visitors. Domestic and international tourism is an important ingredient in the Georgian economy. The money spent by foreign visitors to Georgia has a significant effect on the balance of payments. Approximately 61.4 percent of Georgia's service export revenue comes from tourism. The tourism sector is expected to grow further and is seen by the Government as a potential source of job creation and income generation.

According to the 'Agritourism and its Development Potential in Georgia',<sup>24</sup> tourists in Georgia can be broken down into the following categories:

- Nature - 52 percent
- Cultural - 23 percent
- Adventure - 13 percent
- Wine and Gastronomy - 5 percent
- Relaxation - 4 percent
- Sports - 1 percent
- Health - 1 percent
- Agritourism - 1 percent<sup>25</sup>

### **1. Positive growth trend of the VC and unmet market demand**

Over the past decade, Georgia has transformed itself from a lesser-known destination into a competitive regional destination for tourists from the CIS and the Middle East, as well as visitors from Europe and Asia. The Government of Georgia has been investing significantly in tourism infrastructure and launching international public relations (PR) campaigns to promote the country as an attractive destination. The success achieved is significant, as measured by the rise in international visitors in 2015.

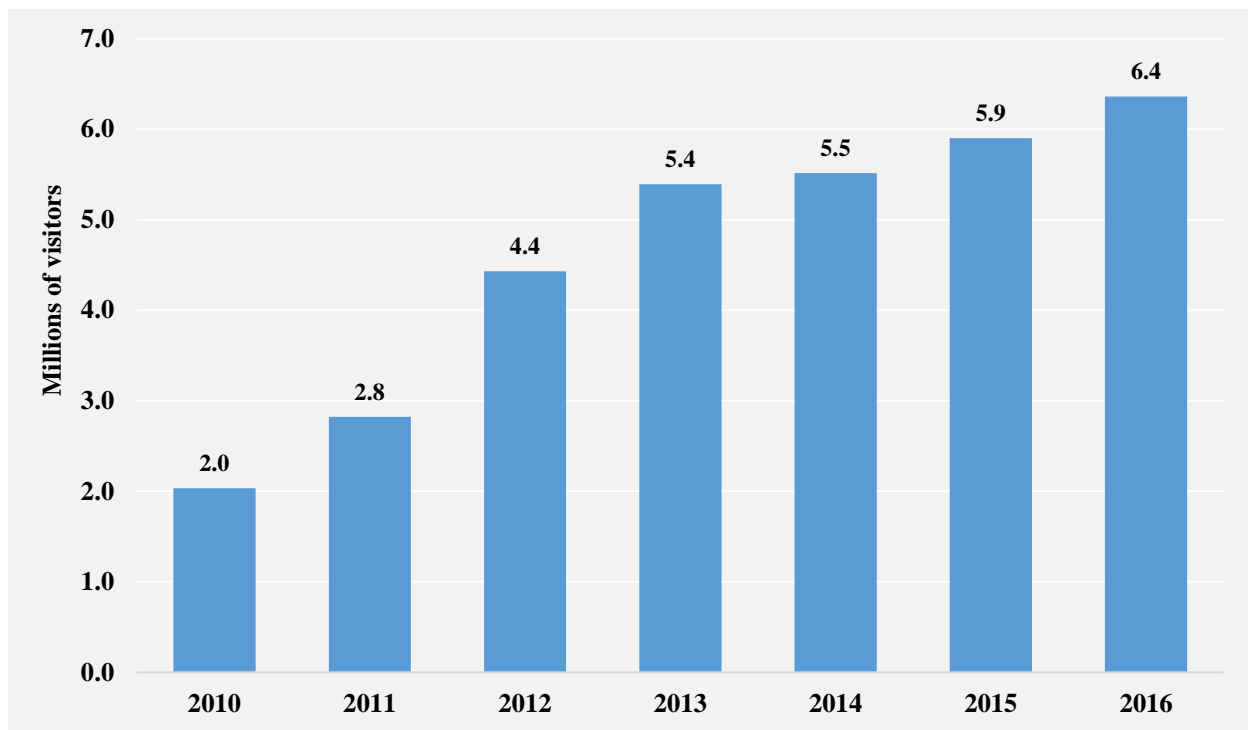
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<sup>24</sup> "Agritourism and Its Development Potential in Georgia" by Lela Khartishvili, PhD Candidate, 2017

<sup>25</sup> As stated in Agritourism and its Development Potential in Georgia by Lela Khartishvili, if it is considered that in 2016, Georgia welcomed its 6 millionth tourist, about 25,800 persons visited the country aiming to get an authentic farm experience.



**Figure 6. International Arrivals by Year (millions of visitors)**

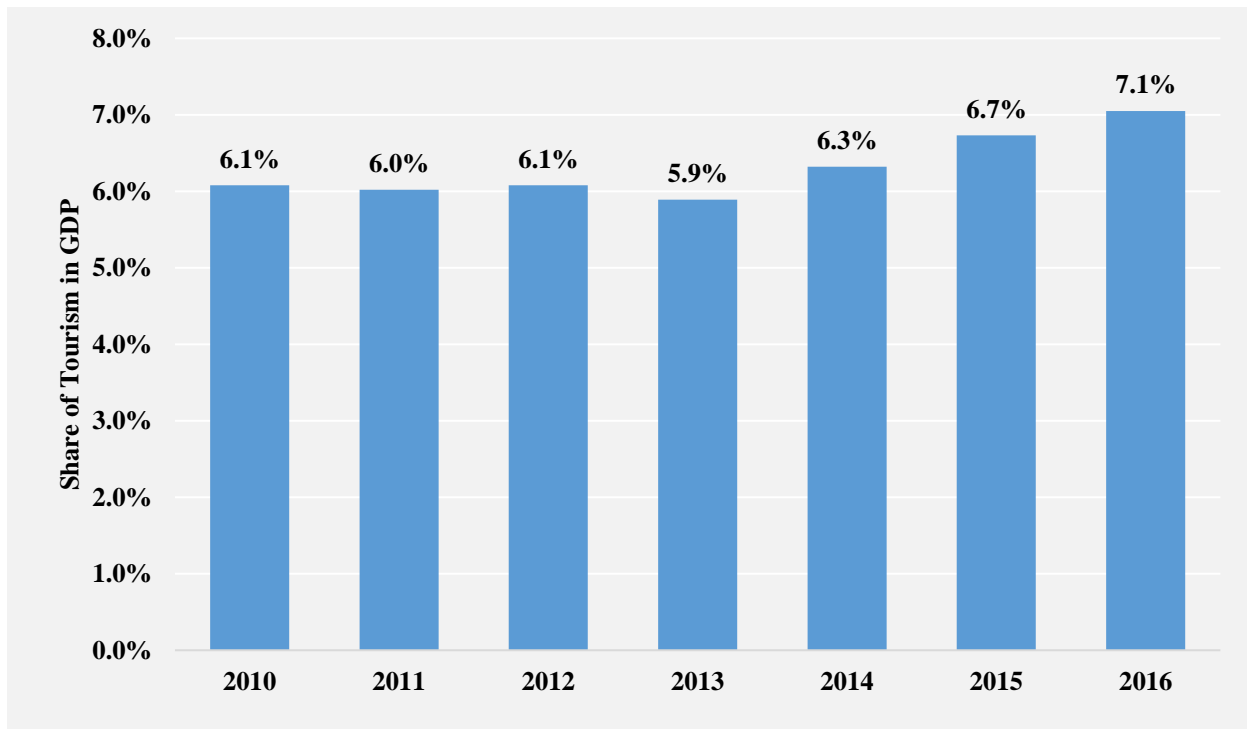


*Source:* The Ministry of Internal Affairs of Georgia.

There is strong private sector involvement in the current VC, in the form of tour operators, guides, and the hospitality industry. International tourism accounts for 39 percent of all visits, and it remains the biggest source of revenue for the hospitality industry. Georgia has good potential to increase tourist inflows by further developing its winter resorts and wellness and spa destinations. In recent years, brand-name hotels have started to penetrate previously untapped areas as more international travelers visit Georgia's regions. MICE tourism is another segment that could attract higher-spending visitors to Georgia.

Tourism provides opportunities to develop poor and marginal areas through exports and diversification. It also provides more working opportunities, particularly for women, and brings value to natural resources and local culture. However, tourism requires the integration of stakeholders across the VC to be effective. The outlook for the travel and tourism industry in Georgia looks bright because the country has a great potential for development. Attempts by the GNTA to attract more visitors to the country and to develop Georgia's image as an attractive tourist destination are expected to yield some positive results.

**Figure 7. Share of Tourism in GDP**



Source: GeoStat.

## **2. Available sales outlet and high interest in products**

Georgia's rich culinary resources provide increasing possibilities when it comes to targeting travelers with curious tastes. Ecotourism and adventure tourism are of particular interest in the highland communities of Georgia.

Several small château-type hotels have been built in the Kakheti region. Located nearby to the capital, Kakheti is the main wine-producing region of Georgia. These hotels, some of which are built next to a private lake, offer a full range of on-site hotel and entertainment services and are becoming popular among foreign and local visitors.

Tbilisi, the capital of Georgia, is becoming an increasingly global city with a vibrant expat community and a popular destination for tourists and business travelers. Tbilisi has hosted several high-profile international business and sporting events recently, including the European Youth Olympic Festival in 2015, the UEFA Super Cup, EBRD Forum, Annual Meeting of the Board of Governors of the Black Sea Trade and Development Bank (BSTDB), and Tbilisi Silk Road Forum 2015.

During the last decade, major infrastructure developments have transformed Batumi into a key tourist destination with several international brand hotels and guesthouses. However, occupancy rates in Batumi have been relatively low (40–60 percent), because Batumi is a seaside city and mostly visited in summer.

### **3. Scope for expanding production and/or scope for value addition through processing or product improvement (new products for which there is a market)**

Hotels and guesthouses and connected infrastructure provide long-term employment to communities by attracting high-spending tourists. Efforts need to be directed at developing a sustainable tourism model that benefits the population and ensures minimal impact on the environment.

New eco resorts could be developed to provide much-needed employment to rural population as well. Countries with potential for tourism development realize its economic importance and implement various promotional activities. In this regard, the Government of Georgia supports the development of tourism infrastructure and creating other new tourism outlets including ecotourism, wine tourism, adventure, ski, spa, and so on.

The interviewees suggested that winter resorts and wellness and spa destinations have a good potential in Georgia's tourism industry. Recently, active posting by guesthouses and family hostels on social networks and websites (for example, AirBnB) has become common. In the mountainous destinations, family-owned hostels and guesthouses are the main providers of accommodation. Small resorts also have good potential. These small hotels are located away from populated areas, sometimes near a lake, and offer a relaxing environment for visitors.

### **4. Low cost of the VC in relation to competitors**

Georgia is a low-cost destination country with relatively cheap prices, which is one of the motivating factors attracting foreign tourists. Labor costs are relatively low.

### **5. Other competitive advantages of the VC in relation to competitors (unique product/local specialty)**

Georgia's geographical location, history, and culture are core elements of its tourism potential. Various activities, including the development of small business opportunities supplying tourists with goods, such as handicrafts, or services, such as accommodation, food, and transport, or with other forms of assistance, such as guides, all have the potential to directly support local hospitality and tourism and gain a competitive advantage.

Through this segmentation, it is possible to identify short-, medium-, and long-term potential interventions that could increase the economic benefits of any or all of these target groups, or even contribute to the general competitive development of Georgia itself as a tourism destination. The biggest advantage of this VC is the excellent collaboration opportunities between VC actors. Another advantage for Georgia is its visa-free arrangement for citizens of 97 countries, as well as the country being suitable for tourism all year round. Besides, casinos are legalized in Georgia, which attracts visitors from nearby countries in which gambling is prohibited.

## **6. Potential for collaboration and coordination between actors to upgrade the VC**

The development of community-based organizations and local cooperatives can allow the fruits of tourism to be ploughed back into local development, such as through the establishment of community funds and the sharing of economic benefits among the whole community, such as through joint management of communal resources for tourism purposes, for example, local land rented out as campsites.

Companies endeavor to establish and maintain effective cooperation with other actors with the aim of achieving sustainable performance. By participating in various joint undertakings, tourism companies attempt to reduce transaction costs and gain economies of scale. In many cases, such joint work allows participants in various projects to share ideas and knowledge, resulting in an enhanced understanding of the market, new trends, and new patterns of tourist behaviors. Some companies seek partners with a view to sharing research and development costs.

## **7. Sufficient technological and managerial level of enterprises in the sector to upgrade and innovate**

Tourism is a multi-profile sector that is very open to innovations and constantly needs upgrades. New online applications and web portals allow guesthouses and other accommodations to be more visible online. In addition, entrepreneurs try to implement innovative products on location as well. In Georgia, there is a serious need to develop in-room technology to cater better for visitors.

Hotel companies are lagging behind in terms of implementing technologies, with some hotels in the regions not even offering free Wi-Fi. Many hotels have also not made the strategic decision to integrate technology in their processors. However, costs, such as for providing free high-speed Internet, are an obstacle for some hotels.

## **8. Access to infrastructure and qualified labor force**

The development of tourism infrastructure is one of the main priorities of the Government. In 2015, signposts for tourist locations were mounted in 15 towns and cities in Georgia. In 17 towns and cities, two-sided lit signs were installed, which illustrate a map and a list of recommended sights. Further, projects to plan and mark hiking trails have been earmarked for Samtskhe-Javakheti, Mtskheta-Mtianeti, Samegrelo-Upper Svaneti, Racha-Lechkhumi, and Lower Svaneti regions. In addition, cycling parks have been constructed in Gudauri and Bakuriani ski resorts.

The preparation of a new project to equip Mtskheta's historical monuments for persons with disabilities is particularly noteworthy. The construction works in this regard are planned for next year.

According to the Travel and Tourism Competitiveness Report 2015, Georgia ranks 71st among 141 nations. Compared to 2013, the country has improved in the following categories: Tourism

Service Infrastructure, Air Transport Infrastructure, Environmental Sustainability, Safety and Security, and Health and Hygiene.

In 2015, the total number of people employed in tourism-related work amounted to 158,515. The largest proportion of these jobs were in transport with hotels and restaurants also significant in this regard.

## **9. Access to financial services**

The participants listed several financial instruments that they have access to or have benefited from in their operations. Obtaining commercial loans was described as problematic due to the high interest rate, short grace and repayment periods, and high collateral requirements.

Some stakeholders of the VC have also benefited from loans as well as from the Government program, Produce in Georgia, supporting micro and small enterprises.

Financial support (or lack thereof) for tourism and tourism-related investment is very critical—national, regional, and local governments, in both the industrialized and developing world, are locked in fierce competition for investment. The most commonly used tools to attract investment include tax incentives, subsidies, streamlining of the investment approval process, and facilitating of access to credit (loan guarantees and the like). Financial institutions promoting access and the use of high-quality financial services are crucial for inclusive growth.

In Georgia, women are almost 20 percent less likely than men to have an account at a formal financial institution and 17 percent less likely to have borrowed formally in the past year. Lack of financial education is also limiting women in gaining access to, and benefiting from, financial services.

## **10. Access to business development services to improve the production process**

Considering the significant support already being provided to assist expansion of small or medium-size guesthouses or hotels, it is not surprising that several processors and larger entrepreneurs stated that they need promotional and marketing strategies and access to finance. Recently, the Government of Georgia has started promoting mountainous and rural villages for tourism development to improve local communities' livelihoods through tourism. From 2016, the Government of Georgia has been providing financial and technical assistance to entrepreneurs involved in the hotel industry in all regions of Georgia except the cities of Tbilisi and Batumi. Additionally, Georgia has two unique free-tourism zones in the Black Sea towns of Anaklia and Kobuleti. The Government of Georgia offers interested investors unprecedented terms for the construction of hotels in these zones. There are also various training programs to support business development services, for example, the Caucasus International University Regional Centre for Tourism Development's training course 'Agro-Tourism' that covers topics associated with agro-touristic products, issues of marketing and promotion, and aspects of business planning. In

addition, the Department Training Center offers free trainings to those employed in the tourism business, covering topics such as hosting, table etiquette, staff management, and service quality.

## 11. Overview of Gender Dynamics in the Alternative Tourism, Hospitality Services, and Supporting/Related Industries VC

While statistically it was difficult to comment on the rate of involvement of women in this VC, respondents stated that women are well-represented in it at various levels from the entry level up to the top level, including ownership. In this sector, women have high potential because communication skills play an important role for many tourism categories. Also, women are well-



represented in the artisan crafts and foods sector, and although this area still requires further improvement, there is reasonable potential for growth. In terms of the rate of women having control over equipment, assets, sales income, and enterprises, improvement is required. In this sector, women's economic advancement could be achieved more cheaply than in the other two, especially the edible nuts sector.<sup>26</sup> According to the Georgian Heritage Crafts Association, grants amounting to US\$5,000<sup>27</sup> made a difference to artisan craftspeople five years ago, and further development has allowed this organization to build a network of up to 250 craftspeople,<sup>28</sup> to introduce a fee-based membership, to organize regular market-oriented fairs, and to establish a shop.

The tourism sector recorded the highest results in terms of offering new opportunities for women, even though some comments said it required much work and further development with respect to infrastructure, skills, and pricing strategies. It should be mentioned that there have been examples of youths entering the craft sub-sector with good innovative ideas and obtaining support from Georgia's Innovations and Technology Agency (GITA) for the development of innovative craft projects, which means a new generation of artisan craftspeople might feel encouraged to introduce more innovative and, possibly, market-oriented products.

Regarding livelihood potential, some tourism categories do not guarantee year-long employment, but the seasonal income received is enough to meet the nutritional needs of families for the year.

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<sup>26</sup> According to the Tourism Department of Georgia: "Yes, because of the specificity of the tourism sector it is possible to start tourism project with smaller funds. Sometimes the skills and maybe the experience makes the difference."

<sup>27</sup> About US\$4,150.

<sup>28</sup> In total, the association unites 100 members, both individuals and organizations comprising 250 crafters.

For example, a guesthouse in Tusheti,<sup>29</sup> because of the climate, operates for only three months per year,<sup>30</sup> but receives income that allows a family to live a modest life in the capital or elsewhere for the following nine months. For rural families engaged in tourism activities, this brings additional value. According to Lela Khartishvili, families learn a lot from their guests, and sometimes, this contributes to changing a family's eating habits and taking healthier options. One concern about tourism is its impact on the environment and the depletion of natural resources and pollution. This will require regulations, however, as mentioned. Alternative tourism is based on social values, and some particular tourism categories demand a more responsible attitude toward the environment, for example, ecotourism.

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<sup>29</sup> According to Lela Khartishvili, a tourism expert, Georgian tour operator companies are interested to cooperate with such Tusheti guesthouses that are able to provide at least 10 rooms simultaneously.

<sup>30</sup> End of June – End of September

## CHAPTER 4: RECOMMENDATIONS

Edible Nuts	Fruit Processing	Alternative Tourism, Hospitality Services, and Supporting/Related Industries
<b>Potential of the sectors and success prospects</b>		
<i>Internal</i>		
<p>Edible nuts do not have the most developed VC in Georgia. Additionally, the almonds VC in Georgia is chaotic and unorganized. There is no stable supply. The edible nuts VC in Georgia is mostly of medium length with several actors and different pathways involved until the product reaches the final customer. There are approximately 38 processing entities involved in the manufacturing of edible nuts. The main challenges for the growth of production for the local retail and supermarket chains relate to quality and food safety. The future of edible nuts in Georgia is theoretically very good. However, edible nuts are a high-value crop that excludes small-scale farmers from the VC because of the required investment to enter the market and the time required to gain a return on the investment.</p>	<p>Fruit farming is one of the most traditional forms of agriculture in Georgia. The varieties of fruit grown are wide and diverse, giving rise to a fruit processing VC that has a high potential to compete with world markets and can generate high profits with the use of cold storage, processing facilities, and so on to obtain a higher potential for import substitution and to generate employment. The key challenges of the VC actors include the limited volume of production and comparatively high price due to the production costs. There is a lack of modern virus-free nurseries with new fruit varieties. Additionally, the investment needed to penetrate the market is very high.</p>	<p>Tourism development in Georgia will require it to become a labor-intensive sector that provides high employment opportunities, promotes income distribution, and is generally supported by a wide range of SMEs that integrate its VC, particularly at the local level. Through this segmentation, it is possible to identify short-, medium-, and long-term potential interventions that could increase the economic benefits of any or all of these target groups or even contribute to the general competitive development of Georgia as a tourism destination itself. The biggest advantage of this VC is the good collaboration opportunities between VC actors.</p>



Edible Nuts	Fruit Processing	Alternative Tourism, Hospitality Services, and Supporting/Related Industries
<i>External</i>		
<p>Due to the poorly established and functional VC that is connected to the foreign markets, the edible nuts VC does not seem to have good prospects for success. Georgian nuts that are exported mostly go to Europe. If production is doubled, this would still not meet the foreign demand. On the international market, there is also a high demand for deeply processed products. Exports to the EU are based on GSP+, which is a component of the EU GSP. However, quality control and certification remains a problem.</p>	<p>Fruit processing is one of the most traditional forms of agriculture in Georgia. However, the processing practices are for household rather than commercial aims. Data analysis shows that, in recent years, the export of some processed fruits is decreasing. However, there is a high demand in the local and foreign markets.</p>	<p>Future growth is expected to come from Russia, the Middle East, and the EU. Georgia has the potential to attract high-spending visitors from the EU, Russia, and the Middle East. In recent years, brand-name hotels as well as guesthouses have started to penetrate previously untapped areas as more international travelers visit Georgia's regions. MICE tourism is another segment that could further attract high-spending visitors to Georgia. New areas could be designated upon the approval of the Commission on the Facilitation of the Development of Free Tourist Zones set up under the Ministry of Economy and Sustainable Development of Georgia. Georgia has hosted several high-profile events in recent years, with more scheduled for the near future.</p>
<b>Advantages of Georgian products/services</b>		
<p>Local varieties of nuts in Georgia have some basic advantages. They have a powerful root system that draws in sufficient quantities of all their necessary components from the soil, and therefore, chemical fertilizers are scarcely used. The potential competitive advantage of Georgian edible nuts is their high quality and low cost. The problem in the case of nuts is that a significant share of inputs is imported, and this adds to the cost of production.</p>	<p>The price of processed fruits is not competitive due to the lack of processing facilities, including cold storages. However, the price could be competitive if it reaches economies of scale. If production volumes are doubled, processing enterprises would be able to offer a competitive price and grab the market share more easily. Additionally, fruit orchards should be modernized and high-quality seedlings should be imported. Additionally, the improvement of processing technologies would contribute to the production of different types of products for retail sale in small packaging, and diversification of production, for example, vegetable processing or the ability to use different methods of processing fruit, would bring some stability to enterprises.</p>	<p>The price of hotel accommodation, guesthouses, rest houses, and service is low compared to other countries. Additionally, the Black Sea region's culture, geographical location, and history are core elements of the tourism sector. Another advantage for Georgia is its visa-free system for 97 countries, being accessible all year round, and the country's security level. Besides, casinos are legalized, which can be advantageous in terms of attracting visitors from nearby states.</p>

Edible Nuts	Fruit Processing	Alternative Tourism, Hospitality Services, and Supporting/Related Industries
<b>Cooperation in the VC - Associations</b>		
<p>The level of cooperation between farmers (horizontal integration) and between farmers and processors and traders (vertical integration) is minimal. The VC is not well-defined, and there is a gap between growers and processors. According to the focus group discussions, even farmers in the same rural areas are highly fragmented and do not collaborate to jointly supply the markets. Resultantly, nuts producers cannot benefit from knowledge transfer, scale in inputs and outputs, and bargaining power with input suppliers, buyers, and financial institutions. Therefore, they cannot expand their production capacities or offer high-quality produce at competitive prices in the market. There are various organizations including one organization of hazelnut growers in Georgia. In 2007, the first attempt was made to establish the HGA with 22 main players on the Georgian market, including AgriGeorgia. The association is aimed at unifying growers and improving their overall skills particularly in terms of cultivation, processing, and know-how.</p>	<p>The level of cooperation in the field is limited to the information exchanged through personal relationships. The small number of entrepreneurs poses a problem with the formation of cooperatives. If there were more entrepreneurs, farmers would be able to run orchards together as well as divide costs of transportation, stock materials, and conduct other activities. They might even be able to create a joint brand and processing factory. Fruit processing has some export potential if entrepreneurs manage to extend their production line and develop a packaging system to produce final products for direct sales. The production line, which is the most important component for processing fruits, is quite expensive; therefore, the region enterprises mainly use old Soviet-made equipment, which in most cases cannot produce relatively technical products of good quality. There is room for development in terms of bottling and labelling lines because it would then be possible to export a finished product—ready for sales to the final consumer.</p>	<p>The development of community-based organizations and local cooperatives can allow the fruits of tourism to be ploughed back into local development, such as through the establishment of community funds and the sharing of economic benefits among the whole community. Companies endeavor to establish and maintain effective cooperation with other actors with the aim of achieving sustainable performance. By participating in various joint undertakings, tourism companies attempt to reduce their transaction costs and gain economies of scale. In many cases, such joint work allows participants in various projects to share ideas and knowledge, resulting in an enhanced understanding of the market, new trends, and new patterns of tourist behaviors. Some companies seek partners with a view to sharing research and development costs.</p>

Edible Nuts	Fruit Processing	Alternative Tourism, Hospitality Services, and Supporting/Related Industries
<b>Business development</b>		
<p>Numerous research participants reported that trainings on both production and business processes are available and that they attend them and find them very useful in their operations. Some of the trainings mentioned in the focus group discussion included topics about production, storage, processing, pest management, and so on. Advisory services also play an important role in the sector of edible nuts. The training programs in nut production and further processing is actively organized by various organizations, including USAID in cooperation with Ferrero. In addition, farmers have the opportunity to arrange consultations at Municipal Departments of Agriculture at their municipalities. In Guria region, there is also an analysis center, which provides soil analysis and recommends appropriate fertilizers. In 2007, the first attempt was made to establish the HGA with 22 main players on the Georgian market, including AgriGeorgia. The association aims to unify growers and improve their overall skills, particularly in terms of cultivation, processing, and know-how. In general, the Government has been supportive of agricultural development and rural poverty reduction and, particularly in recent years, agriculture has returned as a priority for policymaking and public investment.</p>	<p>The University of Agriculture in Tbilisi is the only entity with bachelor's and master's programs related to the fruit processing industry. There are some universities that offer programs in fruit production, but not many are in processing technologies. Advisory extension services are available to collectors, cultivators, and collection centers. Considering the large potential of the sector, advisory services are provided by multiple stakeholders including donor organizations such as USAID, the World Bank, and UNDP.</p>	<p>In terms of consultancy, the overall situation is positive. As for financial resources, the main barrier is the necessity to provide collateral, which is complicated for smaller businessmen.</p>
<b>Women in the VC</b>		
<b>Participation of women in the VC</b>		
<p>The participation of women is below average in this VC. Most employees are women, but mostly at the entry level.</p>	<p>Most employees are women, but only at the entry level.</p>	<p>Half of business owners are women.</p>

Edible Nuts	Fruit Processing	Alternative Tourism, Hospitality Services, and Supporting/Related Industries
Women are mostly represented in low skill level positions. The market entry cost is too high for both sectors.		Women are represented at various levels, but more attention is to be paid to interventions oriented toward increasing the access to assets.
For all three VCs, businesses could be established close to households.		
Work is usually done by family members in the case of small-scale businesses.	Women are not considered traditionally the main actors in the fruit processing sector. The market entry cost is also high.	Half of business owners are women.
<b>Low entry barriers</b>		
To start a small-scale business, the entry barriers are quite high.	To start a small-scale business, the entry barriers are high.	To start a business, the market entry costs are relatively low. The market entry costs can start from US\$1,200 (US\$1,000 could cover adding bathroom and hot water facilities and some craft equipment), although a more sustainable impact would be provided with at least US\$4,000–5,000.

Based on the primary and secondary data collected, it could be stated that all three sectors have very high potential for growth. Gender barriers exist in all VCs, and therefore, it is strongly recommended to develop adequate interventions addressing the raised issues.

**EDIBLE NUTS**

- Increase production volumes and decrease dependence on the local environment by relying on more productive species.
- The nut products produced in the country need to be diversified and supplied to the consumers. This should entail promoting locally produced nut products on local as well as foreign markets.
- Increase access to the machinery at the mechanization centers, considering the agricultural time frame for a given species.
- Support the establishment of cooperatives, increasing scale to achieve sustainability and increase access to modern production resources and technologies.
- It is recommended that farmers unite in cooperatives focused on nut storage, because this will support the development of storage and processing direction. The cooperatives can also establish a processing factory, which will guarantee added value for the farmers.

- It is necessary to enhance the knowledge of modern methods and approaches. In the universities and colleges of the regions, the courses teaching edible nut cultivation and processing should be improved, and they should be based on theoretical, as well as practical, teaching.

## **FRUIT PROCESSING**

- Plant fruit orchards. There is a potential for modern enterprises in fruit processing (juices, jams, fruit purees, and other products) because of the current relatively low fruit production. These are highly demanded products on the local and export markets. Increased production would require the extension of current processing factories and possibly the creation of new ones.
- It is necessary to increase the productivity of existing plantations by improving cultivation practices. In addition, the cultivation of intensive gardens should be encouraged, accompanied with the transfer of relevant knowledge. It is desirable to organize demonstration plots; this will enable farmers to learn about modern approaches.
- Improve processing technologies. The study showed that there are only a few factories that use simple technology and outdated processing techniques. It is important for factories to be equipped with modern production lines, which would allow the production of different types of processed fruit for retail sale as well.
- Diversify production, for example, vegetable processing, or use different methods of processing fruit to bring some stability to enterprises and to expand their target markets.
- To develop warehouses and processing facilities, it is recommended that farmers create cooperatives that focus on storage and engage directly with exporters. A processing enterprise could also be established by the cooperatives, which would add value for farmers.
- It is necessary to enhance the knowledge of modern methods and approaches. In the universities and colleges of the regions, the courses in fruit cultivation and processing should be improved, and they should be based on theoretical, as well as practical, teaching.
- Initiate programs on entrepreneurship among women farmers, empowering them to participate more fully in commercial agriculture.

## **ALTERNATIVE TOURISM, HOSPITALITY SERVICES, AND SUPPORTING/RELATED INDUSTRIES**

- The alternative tourism, hospitality services, and supporting/related industries VC is better in terms of meeting the needs of women. One of the main reasons for this is that to start a

business, market entry costs are relatively low, starting from US\$1,200. Therefore, alternative tourism has high growth potential.

- The available data for hotels and restaurants illustrate that women in this sector earn 58 percent of what men earn, which means women owners will be able to earn more than entry-, middle-, and in sometime maybe top-level employees and will have more decision-making power over their professional and personal lives.
- Alternative tourism, hospitality services, and supporting/related industries VC has links with agricultural VCs as well—for example, fruit and vegetable growers can supply guesthouses with local and fresh farm produces or homemade fruit preserves.
- There is a need for better knowledge and experience, and good practice in tourism development planning, product development, quality management, and marketing and customer relations.
- There is a need for investment and development programs focusing on the restructuring of existing administration buildings, visitor centers, and some tourism facilities (small hotels, guesthouses, and so on).
- Tourism development planning must meet demand. It is important to have valuable natural, cultural, and other resources, but it is more important to identify and get to know potential clients (type of visitors and tourist products and services to be developed).
- Development of infrastructure necessary for agricultural tourism is also important. This will add to the diversity of the services offered to an increased number of tourists.
- For women's promotion in the VC, it is necessary to focus on specialized promotion activities related to nature tourism, ecotourism, and adventure tourism. Women's participation in this sector could be well-presented.
- For wine tourism, it is advised to replace the lower-quality grape varieties with higher-quality varieties. It is also important for Georgian wine to participate in international festivals, expositions, conferences, and other events.
- Each company has different business goals and marketing needs. While the use of tourism as a marketing tool may not fit into every winery's marketing strategy, it is in the best interest of wineries to develop marketing information and actively pursue wine tourism as an avenue for marketing research, product testing, and building the brand equity of the winery and its brands.

- Facilitate women's tourism entrepreneurship by ensuring women's access to credit, land, and property as well as providing appropriate training.
- Promote women's participation in tourism education and training.
- Create strong tourism development plans that are sensitive to gender constraints for workers and entrepreneurs.
- Increased availability of loan financing in general for small tourism businesses would be helpful, especially for female-led micro enterprises. It is currently difficult to attain financing from private banks for tourism businesses due to fluctuations in demand.

## ANNEXES

### ANNEX 1. VC SELECTION QUESTIONNAIRE

Lead Questions	Edible Nuts	Fruit Processing	Alternative Tourism, Hospitality Services, and Supporting/Related Industries
	Scores		
<b>A. Assess growth potential</b>			
What are the prospects for future demand growth?	27	21	30
Are traders willing to buy more of the product?	18	14	20
Can new products be developed through processing or product improvement for which a market exists?	6	8	9
Can the product be supplied to the consumer at attractive costs?	7	8	7
What are the competitive advantages of producers (cost and product characteristics)?	24	24	27
Is there potential for increased cooperation in the VC?	14	16	18
Do enterprises in the VC have the management capacity for upgrading and innovation?	15	18	21
Are infrastructure, qualified labor force, raw material, and inputs sufficiently available?	21	18	24
Are financial services sufficiently available?	8	6	7
Are business development services for quality improvement of the production process sufficiently available?	8	6	6
<b>Total</b>	<b>148</b>	<b>139</b>	<b>169</b>
<b>B. Assess potential for women's empowerment and gender equality</b>			
Is the share of women employed in the VC relatively high?	24	24	36
Do women control equipment and assets?	15	15	21
Do women have (or can they acquire) the skills needed for interesting value addition through processing or product diversification?	5	6	8
Do women control the sales income and the enterprise?	20	8	14
Can the work take place close to home?	8	7	9
Is this a VC with low barriers to enter for poor entrepreneurs (small scale of production, low start-up costs, not requiring major capital investment, and using low-tech skills)?	5	5	8
Is this a VC with low barriers to enter for women (time and mobility, access to technology and assets, and cultural constraints)?	16	14	16



Lead Questions	Edible Nuts	Fruit Processing	Alternative Tourism, Hospitality Services, and Supporting/Related Industries
	Scores		
Does this VC offer new opportunities for women?	20	28	36
Is the activity in the VC in line with livelihood conditions (year-round income, using family labor, rapid returns, contributing to food security, keeping the environment intact, and not reducing availability of clean water)?	12	12	16
<b>Total</b>	<b>125</b>	<b>119</b>	<b>164</b>
<b>Weighted Grand Total</b>	<b>273</b>	<b>258</b>	<b>333</b>

## ANNEX 2. LIST OF RESPONDENTS

<b>N:</b>	<b>Name</b>	<b>Organization</b>	<b>Sector</b>	<b>Region</b>
1	Tevdoradze Maka	USAID/Restoring Efficiency to Agricultural Production (REAP) by CNFA Georgia	IDNGO	Tbilisi
2	Patsasia Ketevan	Association of Young Economists of Georgia (AYEG)	National NGO	Tbilisi
3	Kochlamazashvili Marita	APMA, under the Ministry of Agriculture of Georgia	Governmental agency	Tbilisi
4	Pkhovelishvili Irine	Women Farmers Association (AWF)	National NGO	Kakheti
5	Mamardashvili Pati	International School of Economics	Economic institute	Tbilisi
6	Kochlamazashvili Rati	International School of Economics	Economic institute	Tbilisi
7	Kartozia Irma	USAID/ZRDA Activity by Chemonics	IDNGO	Tbilisi
8	Poberezhna Kateryna	EBRD and Food and Agriculture Organization of the United Nations (UN FAO)	Donor	Tbilisi
9	Varazanashvili Nato	AWF	National NGO	Kakheti
10	Javakhishvili Irakli	Expert in Agro Marketing and Business Development	Expert	Tbilisi
11	Morgoshia Mariana	Enterprise Georgia - under the Ministry of Economy and Sustainable Development of Georgia	Governmental agency	Tbilisi
12	Kuchava Mikheil	Enterprise Georgia - under the Ministry of Economy and Sustainable Development of Georgia	Governmental agency	Tbilisi
13	Mdinaradze Konstantine	Enterprise Georgia - under the Ministry of Economy and Sustainable Development of Georgia	Governmental agency	Tbilisi
14	Shiolashvili David	Enterprise Georgia - under the Ministry of Economy and Sustainable Development of Georgia	Governmental agency	Tbilisi
15	Meparishvili Kristine	Enterprise Georgia - under the Ministry of Economy and Sustainable Development of Georgia	Governmental agency	Tbilisi
16	Kodua Marika	L.T.D. Keskia	Hazelnut, honey, and silage producing	Samegrelo
17	Gogotchuri Ketii	Georgian Farmers Association	National NGO	Tbilisi
18	Kherodinashvili Irakli	Mercy Corps	IDNGO	
19	Menabde Magda	ACDI/VOCA, USAID/F2F	IDNGO	Tbilisi
20	Morabito Vincent	Georgia Hazelnut Improvement Project (G-HIP)	IDNGO	Tbilisi
21	Pashalishvili Ana	UN Women	United Nations (UN) agency	Tbilisi

<b>N:</b>	<b>Name</b>	<b>Organization</b>	<b>Sector</b>	<b>Region</b>
22	Meladze Gvantsa	Export Development Association	National NGO	Tbilisi
23	Silagava Lika	Georgia's Agrarian Movement	National NGO	Tbilisi
Tbilis2 4	Sakevarishvili Revaz	Georgia-United Arab Emirates Business Council	Agency	Tbilisi
25	Nadaraia Lia	Women's Political Resource Center	National NGO	Tbilisi
26	Gerliani Tamar	Representative of agriculture household engaged in wine producing	Wine producing	Kakheti
27	Shubitidze Lali	LTD Nikozi	Nursery	Shida Kartli
28	Jikia Sophio	LTD Chirifruit	Industrial dried fruit processing	Tbilisi
29	Pipia Nana	Fruit-Berries Cultural Development Association	Strawberry producer	Samegrelo
30	Kurashvili Zaza	Gemuani Ltd.	Fruit processing	Samegrelo
31	Daraselia Leila	LTD Skiji	Fruit processing	Guria
32	Gogoshvili Darejan	AWF	National NGO	Kakheti
33	Kitesashvili Izoldi	Cooperative Gile	Berry fruits	Kakheti
34	Datunashvili Lola	AWF	National NGO	Kakheti
35	Bidzinashvili Maia	AWF	National NGO	Kakheti
36	Sukhishvili Maia	AWF	National NGO	Kakheti
37	Naskidashvili Ketiono	AWF	National NGO	Kakheti
38	Agulashvili Zaira	AWF	National NGO	Kakheti
39	Mania Irina	Georgian Craft Association	National NGO	Tbilisi
40	Shanshiashvili Ana	Georgian Craft Association	National NGO	Tbilisi
41	Zirakishvili Tornike	Convention and Exhibition Bureau of Georgia (GCEB)	Governmental agency	Tbilisi
42	Managadze George	G-HIP by CNFA Georgia	IDNGO	Tbilisi
43	Kapanadze Tornike	APMA, under the Ministry of Agriculture of Georgia	Governmental agency	Tbilisi
44	Jibladze Giorgi	APMA, under the Ministry of Agriculture of Georgia	Governmental agency	Tbilisi
45	Kavtaradze Nikoloz	APMA, under the Ministry of Agriculture of Georgia	Governmental agency	Tbilisi

<b>N:</b>	<b>Name</b>	<b>Organization</b>	<b>Sector</b>	<b>Region</b>
46	Turmanishvili Levan	APMA, under the Ministry of Agriculture of Georgia	Governmental agency	Tbilisi
47	Andro Khetereli	Georgia's Agrarian Movement	National NGO	Tbilisi
48	Ketevan Sharabidze	AMMAR	IDNGO	Tbilisi
49	Zviad Bobokashvili	Expert in Horticulture	Independent expert	Tbilisi
50	Lela Khartishvili	Expert in Tourism	Independent expert	Tbilisi
51	Rusudan Mamatsashvili	GNTA, Ministry of Economy and Sustainable Development of Georgia	Governmental agency	Tbilisi
52	Otar Skhvitaridze	National Food Agency of Georgia, Ministry of Agriculture of Georgia	Governmental agency	Tbilisi
53	Mikheil Pakatsoshvili	Empowering Poor Communities and Micro-Entrepreneurs in the Georgia Tourism Sector Project, ELKANA	National NGO	Tbilisi
54	Irma Inaridze	Peasants' Hospitality in Georgia ( <i>Accueil Paysan Georgia</i> [APG]), Agrotouristical Network in Georgia	National NGO	Tbilisi

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