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ACRONYMS

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

WHO – World Health Organization
WMA – Waste Management Association
WMC – Waste Management Code

EXECUTIVE SUMMARY

This quarterly report provides an analysis of economic trends, as well as denoting the challenges and opportunities (in local, regional, and global contexts) in the selected value chains within six sectors to improve evidence-based decision-making by providing quality information and analytics. These specific sectors are tourism, creative industries, light manufacturing, shared intellectual services, waste management, and recycling, along with cross-cutting sectors. The analysis tracks trends from 2016 to December 31, 2020.

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

Tourism (accommodation, catering, adventure tourism, gastronomic tourism, and cultural tourism): In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. A full recovery is not expected until at least the end of 2022. Georgia, being the most tourism-dependent country in the South Caucasus, and as one of the most tourism-dependent countries in the world, has been hit especially hard. The number of international visitors to the country decreased by more than 90% in each month in 2020 starting from April, compared to the 2019 figures. It was hoped that increased domestic tourism would compensate for the decline in international visitors, but it failed to do so as the number of domestic trips decreased by 12.5% in 2020 compared to the previous year. A similar pattern is expected in 2021, which is mainly due to the tendency of domestic visitors to stay in their own second home or the private home of a friend/relative, rather than staying in a hotel or other tourism-related accommodation.

Various impediments to the rapid recovery of the sector were however identified by the interviewed stakeholders. Among the existing challenges and obstacles, several have been common for each of the covered value chains. Initially, an absolute majority of actors in the three priority value chain actors underlined the vital importance of re-opening land borders as this would significantly boost the sector's prospects of recovery (this view is backed up by the fact that up to 80% of total visitors entering the country in 2015-2019 did so via land borders). However, as the respondents marked, initially the country has to demonstrate its readiness to implement the necessary strict protocol and control mechanisms. The need for improved communication with the GoG and the increased role of sector associations in public-private dialogue was highlighted by actors in the three priority value chains. According to them, insufficient cooperation between the public and the tourism sector reduced the chances of overcoming the crisis quickly. However, positive actions have also been taken in this matter recently by the tourism sector associations, founding the Georgian Tourism Industry Alliance. One of the main goals of the alliance is to encourage dialogue between the private and public sectors during the pandemic.

In line with the previous VCA report, a vast number of tourism sector representatives highlighted the significance and urgency of establishing an anti-crisis plan with concrete instructions and numbers. According to them, such a plan should give explicit definitions of what measures and actions are to be taken by respective units of the GoG for instance in the event that the daily growth rate of COVID-19 infections exceeds a certain threshold. Having such protocols in hand, the private sector would be able to act with more certainty, rather than having to react to abruptly announced decisions. On the other hand, such a plan might also help the respective government units to manage expectations of the actors of private sector.

Creative industries (media content production and post-production, and artisan): The media content production and post-production and artisan value chains are among the most vulnerable value chains during times of recession due to their business models. The former value chain had shown impressive

growth before the pandemic, with surging turnover, employment, and investments. Unlike other value chains, the turnover of media content production and post-production started to significantly reduce at the beginning of 2020: compared to the fourth quarter of 2019, turnover in the first quarter of 2020 dropped from GEL 38.8 million to GEL 14.4 million (a 62.8% contraction).

Both value chains have a relatively stable workforces: only 30.7% of artisan value chain stakeholders said that they had cut their number of employees during the pandemic, while in the media content production and post-production total workforce had reduced by 39% in fourth quarter of 2020, compared to the corresponding period of 2019. The artisan value chain is dominated by women, with more than 95% of its employees being female, while the average artisan value chain business employs 2-4 workers.

Artisan value chain businesses have suffered greatly during the pandemic, with the weighted average turnover decreasing by 34.2%. This decline was more significant for small-scale businesses with less than GEL 0.1 million turnover – 37.6% - whereas for businesses with turnover ranging from GEL 0.1-0.5 million the fall was slightly less severe at 31.7%. It is important here to highlight that artisan value chain businesses reported significantly worse contractions in the first three quarters of 2020, whereas 7.7% of surveyed businesses in the value chain said that their turnover had actually increased by 20-50% in the course of 2020. However, even if a few companies have managed to turn the tide in their favor, the overall picture is somewhat bleak: around 38.5% of artisan value chain stakeholders said that their turnover had decreased by more than 50% during 2020, with some businesses completely halting their operations. In total, more than two-thirds of artisan value chain businesses saw their turnover decrease by more than 20%.

When it comes to average monthly salary, the media content production and post-production value chain had the highest of these two value chains in 2020, contrary to expectations and falling turnover. In the artisan value chain, there were generally three types of scenario reported regarding salary: first, some companies reported being unable to pay salaries but had still maintained their operations; second, some companies employed staff on a part-time basis as and when orders came in; and, third, some businesses in this value chain reported a decrease in salaries for the first three quarters in 2020 before a significant increase in the final quarter of the year.

Uncertainties related to the cash incentive program remain a major threat to the film production and post-production industries. As mentioned by the stakeholders, timing is critical when it comes to maintaining investors' attention, therefore, the suspension of the cash rebate program will not only pause the industry but will take it back several years and leave it struggling to regain the country's attractiveness to foreign investors in this field. Georgia's competitiveness is further threatened by the recent progress made by countries in the region. For example, Bulgaria to introduce 25% cash rebate to attract international production. Bulgaria's cash rebate for film production passed its second Parliamentary vote on 17 February 2021. The new legislation will also significantly increase the support for Bulgarian film production¹.

Light manufacturing (furniture, packaging, construction materials, personal and protective equipment (PPE), and wooden toys): According to the quarterly data, turnover in the observed value chains had been exhibiting an overall upward trend since 2016. However, it should be mentioned that the COVID-19 pandemic has had a visible impact on turnover across all value chains, as has been reflected by the decreasing YoY revenues during both lockdown periods, especially during the first lockdown in Q2 2020.

Of the three value chains discussed below, according to available Geostat data, as of Q4 2020 the lowest number of hired employees was observed in the packaging value chain (3,011 hired employees), while the construction materials value chain recorded the highest employment in the same period (7,058 hired employees). The average monthly salary for Q4 2020 ranged between GEL 865 and GEL 1,533, with the construction materials value chain having the highest and the furniture value chain having the lowest. Meanwhile, the lowest productivity, measured as quarterly output per hired employee, was observed for the furniture value chain (GEL 77,000), however the highest productivity was identified in the packaging value chain (GEL 161,000).

Survey results for the PPE value chain and the wooden toys business activity showed that more than 50% of companies from both of these two groups experienced a decrease in turnover during 2020, compared to 2019. This decrease for most PPE producers was around 20%-50%, while for wooden toys business activity, the majority of companies reported a more than 50% decrease in turnover. As for employment, 55% of PPE value chain representatives reported no change in their number of employees, while 47% of wooden toys manufacturers indicated a decrease in their number of hired employees in 2020, compared to 2019.

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

Total turnover of the solid waste management and recycling sector in 2020 amounted to GEL 60 million, which is a decrease of 6.6.% compared to 2019, GEL 64 million. In the same period, turnover for the corresponding aggregate sector decreased more severely, by 13.2% (from GEL 298 million in 2019 to GEL 259 million in 2020). The sector presented a negative YoY change in turnover across all quarters of 2020 compared to 2019, with highest decline in Q3, -13.7%, YoY, followed by further decline in Q4, -10.7%, YoY. As for the aggregate sector, turnover increased slightly in Q1 2020, but decreased through Q2-Q4 2020 compared to the same periods of 2019. The highest decline in the aggregated sector was observed in Q4, -23.1%, YoY.

Hired employment in the VC has been very stable from 2018 to 2020, both for the sector and the aggregated sector. However, both, the sector and aggregated sector present a slightly positive YoY change in 2020, compared to 2019. Average salaries in the solid waste management and recycling sector are very similar to that of the corresponding aggregated sector in 2020. In Q1 2020, the average monthly salary for the sector increased significantly, 14.2% YoY; however, it decreased in Q2 2020, YoY. After improving in Q3 2020, average salaries for the sector decreased again in Q4 2020, YoY. While average salaries are very similar, productivity in the aggregated sector, measured as output per hired employee, is much higher.

Shared intellectual services (finance and accounting, architecture, design and engineering, customer relationship management, and human resource management): Currently, Majority of business activities under the Georgian BPO value chain are focused on domestic market and do not demonstrate significant growth potential globally, with the exception of CRM. Though it is still essentially in the process of undergoing its formation, CRM has shown signs of growth and job creation. Georgia-based CRM operators already serve many European and regional markets as the country has become a home to Majorel, CMX Solutions, Evolution Gaming, and other international CRM players. Majorel Georgia

alone managed to create 900 new jobs in 2020. Yet, compared to its potential size, the CRM market in Georgia is still meager.

The other business activities under the BPO value chain are only expanding at a domestic level. The reasons for this are several. In the cases of ADE and F&A, foreign markets are perceived as excessively regulated, making it almost worthless for Georgian firms to engage in exports. When it comes to HRM, internationalization requires advanced knowledge of foreign talent networks, which is challenging to obtain and maintain from afar. Moreover, for all of the businesses operating under these three business activities, domestic demand absorbs their entire service provision capacities.

Georgia clearly possesses a competitive advantage when it comes to expanding CRM business activity due to its favorable geographic location, its regulatory environment, the linguistic skills of the workforce, and relatively low labor costs. Moreover, currently, there are no major impediments to local growth in any of the analyzed business activities selected under the BPO value chain. Overall, the development of the BPO value chain has been perceived as tightly linked to the general health and openness of the economy as a whole. However, while overarching problems are almost absent, there are still certain obstacles that are specific to each of the given business activities.

Cross-cutting sectors (transport and logistics, ICT, and e-commerce): Contrary to expectations, all of the cross-cutting value chains experienced a significant fall in turnover in the first quarter of 2020. As value chains like ICT and e-commerce were less susceptible to the restrictions imposed during the pandemic, it was logical that the demand for the services of the abovementioned value chains would not be affected. However, data show that due to the decline in general consumption levels and online transactions, even the online-oriented value chains were not as resistant as previously thought. One exception here would be ICT hardware, the turnover of which demonstrated a constantly positive year-on-year growth trend. It cannot be said with high certainty that the pandemic was the root cause of the initial economic slowdown at the beginning of 2020, as the transport and logistics chain, the largest value chain in the cross-cutting sectors, is characterized by heavy seasonality, with turnover routinely low in the first quarter of every year. Another factor to consider is that the ICT value chain had already been undergoing a steep decline even before the pandemic hit: since the second quarter of 2019, turnover for ICT had been shrinking, making the actual effects of the pandemic on the cross-cutting sectors harder to evaluate.

In the second half of 2020, the value chains in the cross-cutting sectors experienced a swift, albeit limited, recovery: companies managed to contain and even revert their declining turnover, but it is uncertain when a pre-pandemic trajectory will be reached. This is particularly true for businesses labeled as transport and logistics companies, but for the ICT value chains, both for software and hardware, it is unclear whether or not the pandemic has had a negative impact on either of them. If workforce reduction is taken as a sign of a contraction, for software such a reduction came in the second quarter of 2020, while the number of persons employed in ICT hardware was constantly increasing (year-on-year) during the pandemic. The transport and logistics value chain also experienced its first reduction in number of persons employed during the second quarter of 2020. When it comes to the e-commerce value chain, the currently available relevant data pertaining to the dynamics of that value chain during the pandemic demonstrate the value of transactions with cards and through the internet. According to the abovementioned online transactions, the first significant year-on-year fall in the value of online purchases happened in April 2020, a trend which continued through the whole second quarter. This trend reversed in the third and fourth quarters with the value of online transactions increasing every single month. This difference between these two periods (second quarter of 2020 v. third and fourth quarters of 2020) could be explained by various factors, such as decreasing

consumption in the second quarter, increasing demand for online purchases in the second half of 2020, and the general economic recovery of the sector.

Observing the opinions expressed by the ICT value chain stakeholders, the so-called 'in-house' service development within the private sector's biggest prospective client, the Government, represents one of the core challenges of the value chain today. A lack of a qualified ICT labor force was also mentioned as a key challenge for the VC.

The Draft Law on E-commerce, which the GoG has not yet approved, is believed by most of the respondents to play a crucial role in establishing a better electronic commerce business environment, making the country's e-commerce platform more credible and encouraging exports of goods and services through this modern sales channel. Besides, providing stable and secure payment platforms, commercial banks have a vital role in the e-commerce value chain's functionality. However, the presence of strong financial institutions, as the parent companies of their biggest rivals on the local e-commerce market, is believed to be the most challenging when it comes to ensuring fair competition.

According to the stakeholders of the transport and logistics value chain, the sequence of planned projects and actions of the GoG to found a regional hub for logistics are in the wrong order. They highlighted that, before making large investments, there is a need to devise an inclusive and result-oriented strategic plan, incorporating important feasibility studies and preparatory projects. For instance, focusing initially on ensuring the receipt of ferry backhaul (reverse flow) from Europe was mentioned, which was also one of the main reasons why the railway connection project with China was halted (underdeveloped ferry backhaul from Bulgaria, Romania, etc.). The freight-forwarding companies expressed great concern about the ruthless competition on the local market, as seen in frequent price dumping, breach of confidentiality, and lack of adherence to business ethics. In addition, issues relating to compliance with the legislation were highlighted by the stakeholders representing air-freight-forwarding companies. The legislation defining a terminal's responsibility for illegal handling of the cargo, results in a number of complications, in addition to the existing bureaucracy at customs linked to transit cargo. The lack of quality professional education programs and the difficulty in recruiting skillful professionals in the transport and logistics field have been identified as significant obstacles as well.

METHODOLOGY

DATA AND METHODOLOGY

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

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

Table I. Main indicators and respective data sources.

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

The process of data collection and analysis is outlined below:

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

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

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

- II. The numbers of active enterprises operating in each value chain are taken from Geostat's Business Register. This allows us to observe the dynamics in the number of active enterprises located in or outside Tbilisi by main kind of economic activity (available at a narrower level of NACE codes).
- III. For trade data, the correspondence analysis was performed to link NACE sectors (through CPA product classification, which is also used by the EU) with foreign trade data (through Harmonized System (HS) classification at the six-digit level). Importantly, the applicable HS codes for the personal and protective equipment value chain were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization (WCO) and the World Health Organization(WHO)¹.

Note: 2020 quarterly data used in this report is preliminary and will be updated once 2020 annual data will be available (in October 2021).

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

Survey

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

Data analysis of the results of Geostat's business survey shows that a number of relatively small value-chains are not representative. These sectors include:

- 1) Artisan VC (Creative Industries Sector)
- 2) Personal and Protective Equipment (PPE) VC (Light Manufacturing Sector)
- 3) Wooden Toys VC (Light Manufacturing Sector)
- 4) Catering VC (Tourism)
- 5) Customer Relationship Management VC (Shared Intellectual Services Sector)
- 6) Human Resources VC (Shared Intellectual Services Sector)

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

Table 2: Value Chain Mapping

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

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

The survey was conducted by phone by PMCG and ISET staff. Despite a significant number of companies turning out to be unreachable, more than 100 companies were surveyed and the obtained data provided information on the situation and trends in the six value chains with regard to turnover, employment, wages, and respective year-on-year changes. In order to capture potential differences

between companies within each value chain, questions on the level of turnover³ and wages were also asked. Additional comments collected by the interviewers provided interesting insights into certain aspects of the value chains' activities (Appendix 2).

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

QUALITATIVE ANALYSIS

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

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

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

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

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

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

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

I. TOURISM

SECTOR SUMMARY

This chapter provides a quantitative and qualitative analysis and evaluation of the tourism sector in Georgia, the significance of which to the country's domestic economy has increased remarkably over the last decade. Pertinently, it is also one of the sectors most affected by the COVID-19 pandemic. The study on the tourism sector was categorized into the following four main value chains: accommodation; adventure tourism; gastronomic tourism; and cultural tourism².

The results of the quantitative analysis of the sector revealed remarkable growth in nearly every area of tourism over the last decade³. With the emergence of mass tourism, the role of HVMs in the development of the tourism sector is crucial⁴, with visitors from Saudi Arabia, the United States, Qatar, the United Arab Emirates (UAE), and the United Kingdom emerging as countries of origin of the visitors to Georgia with the highest average expenditure per visit. When ranked according to average daily expenditure per visitor, Turkey, Saudi Arabia, Qatar, the UAE, and Armenia are the top five countries of origin.

In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. Indeed, for the year, the number of international visitors declined by 1 billion, equal to a 74% decline compared to 2019. A full recovery is not expected until at least the end of 2022.

Georgia, being the most tourism-dependent country in the South Caucasus, and as one of the most tourism-dependent countries in the world, has been hit especially hard. The number of international visitors to the country decreased by more than 90% in each month in 2020 starting from April, compared to the 2019 figures. It was hoped that increased domestic tourism would compensate for the decline in international visitors, but it failed to do so as the number of domestic trips decreased by 12.5% in 2020 compared to the previous year. A similar pattern is expected in 2021, which is mainly due to the tendency of domestic visitors to stay in their own second home or the private home of a friend/relative, rather than staying in a hotel or other tourism-related accommodation.

As a result, turnover for the accommodation value chain declined by 54.6% in 2020 (compared to 2019), with other indicators also tumbling, while turnover for the food services value chain declined by 22.6% in 2020⁵.

To support burdened businesses in the tourism sector, the GoG rolled out various support mechanisms. Numerous accommodations were utilized as quarantine zones throughout 2020, with a total of GEL 66.6 mln spent under the corresponding program, serving a total of 148 904 people, and maintaining jobs for 3 644 people. Another program, implemented by Enterprise Georgia, involved a co-financing mechanism for the interest rate payments of the loans for accommodation, food, and

² The following methods of quantitative analysis were used: firstly, a study of the industry's general trends for two distinct periods 2015-2019 and 2020, with a focus on 2020, expressed in FDI flows, expenditure by visitors from target countries, loss of revenues in 2020 from the target countries, trends in domestic tourism in Georgia, regional and international comparison of Georgia, analysis of sales in top Georgian destination. Secondly, trends in priority value chains, incorporating dynamics in turnover, output, employment, and productivity are also analyzed. While qualitative analysis observes attitudes, perceptions, and expectations of respective stakeholders relating to the market competition and competitiveness potential, public-private partnership (PPP), the sector's potential for upgrading, and finally, the core challenges and impediments faced.

³ More detailed analysis of growth in visitors

⁴ This topic is also discussed in the first analytical report, page #15

⁵ Source: Geostat Survey of Enterprises

event-planning facilities. In total, 1544 hotels (receiving GEL 11.8 mln) and 462 restaurants (receiving GEL 2.0 mln) benefited from the program.

Several trends have emerged among travelers worldwide as the pandemic wears on, with an increased demand for short-distance travel, increased average length of stay, more last-minute bookings, increased demand for adventure tourism and wellness tourism, as well as an increased desire for safety, contactless solutions, hygiene, and flexibility.

In 2021, despite starting the year in strict lockdown, there have been several positive developments in Georgia's tourism sector such as the reopening of restaurants, mountain resorts, and, more importantly, the resumption of regular international flights, giving the sector a glimmer of hope for a partial recovery in 2021.

At least in the short term, targeting visitors from Turkey (highest spend per day per visitor, high demand for flights in Georgia), as well as from Israel and the UAE (these two countries are the highest ranked in terms of the percentage of the population to have been vaccinated) could prove to be an effective marketing strategy. Moreover, interviewed stakeholders identified the need to tailor marketing to each country of origin, with a clear differentiation of target countries for different types of tourism.

Various impediments to the rapid recovery of the sector were however identified by the interviewed stakeholders. Among the existing challenges and obstacles, several have been common for each of the covered value chains. Initially, an absolute majority of actors in the three priority value chain actors underlined the vital importance of re-opening land borders as this would significantly boost the sector's prospects of recovery (this view is backed up by the fact that up to 80% of total visitors entering the country in 2015-2019 did so via land borders). However, as the respondents marked, initially the country has to demonstrate its readiness to implement the necessary strict protocol and control mechanisms.

The need for improved communication with the GoG and the increased role of sector associations in public-private dialogue was highlighted by actors in the three priority value chains. According to them, insufficient cooperation between the public and the tourism sector reduced the chances of overcoming the crisis quickly. However, important to underline that the Georgian Tourism Industry Alliance, founded by 13 different tourism associations, has been officially registered as a non-commercial legal entity. Among different goals, the alliance revolves around the idea of addressing the challenges posed by the pandemic and solving them through mediating dialogue between the private and public sectors. The members agree that advocating a joint vision of various actors in the tourism sector, can improve constructive dialogue and coordinated work for overcoming the existing challenges. The initiative has been supported by the USAID Economic Governance program.

In line with the previous VCA report, a vast number of tourism sector representatives highlighted the significance and urgency of establishing an anti-crisis plan with concrete instructions and numbers. According to them, such a plan should give explicit definitions of what measures and actions are to be taken by respective units of the GoG for instance in the event that the daily growth rate of COVID-19 infections exceeds a certain threshold. Having such protocols in hand, the private sector would be able to act with more certainty, rather than having to react to abruptly announced decisions.

SECTOR TRENDS

Global Tourism Trends

Unsurprisingly, the tourism sector has been decimated by the COVID-19 pandemic due to the imposed travel restrictions all around the world, combined with shrinking demand from travelers due to fears of getting infected. In 2020, the number of international visitors declined by 1 billion, equaling a 74% decline compared to 2019⁶. This is an unprecedented fall for international tourism, with the number of visitors in 2020 plunging to the levels of the 1990s⁷. As a result, travel and tourism contributed just 5.5% of global GDP, compared to 10.4% in 2019. Moreover, approximately 62 million (18.5%) of tourism jobs were lost in 2020.⁸

In 2021, the tourism sector aims to partially recover from a devastating 2020. The United Nations World Tourism Organization's (UNWTO) experts do not forecast a full return to pre-pandemic levels until the end of 2022, and that is in their most optimistic scenario. Under their pessimistic scenario, they envisage that the sector will not return to 2019 levels until at least the end of 2024.

The UNWTO has identified several trends that it expects to emerge in tourism in the nearest future, mostly because of the impact of the COVID-19 pandemic⁹:

- Increased focus on domestic tourism, and an increase in short-distance destinations.
- Increased length of vacations (more specifically, the average expected duration of a trip was seven days pre-pandemic, while in January 2021 it was 11 days).
- Increased proportion of last-minute bookings.
- Increased demand for adventure tourism, and an increased desire among tourists to interact with nature.
- Increased demand for rejuvenation, thus posing an opportunity for wellness tourism.
- Increased demand for safety and hygiene, which will affect choice of accommodation.
- Increased demand for financial peace of mind, meaning a greater demand for adequate cancellation policies and travel insurance.
- Increased demand for contactless solutions.

Expedia, an American online travel shopping company, has underlined the backlog of demand for travel that exists in 2021¹⁰. Six out of 10 travelers have had to cancel trips because of COVID-19, and it is likely that these people will look to travel as soon as they can. In fact, the vast majority of travelers have not given up on future travel, as indicated by their activities on Expedia's website.

Tourism developments in Georgia¹¹

With strict lockdowns being applied in Georgia at the end of 2020 and continuing into the start of 2021, the resumption of regular international flights on February 1 was the first glimmer of hope for the country's tourism sector for some time. However, there are still a number of restrictions on countries and various safety requirements in place, including mandatory negative PCR test results.

⁶ 2020: WORST YEAR IN TOURISM HISTORY WITH 1 BILLION FEWER INTERNATIONAL ARRIVALS, UNWTO

⁷ COVID-19 AND TOURISM

⁸ World Travel & Tourism Council's (WTTC) "Travel & Tourism: Economic Impact 2021" report

⁹ UNWTO Insights Series: The impact of COVID-19 on tourism: what was and what will be?

¹⁰ UNWTO Insights series with Expedia - Restarting Tourism? What we need to know...

¹¹ Please see the detailed overview of the developments in the Georgian tourism sector in 2020 in the first analytical report, page #25

Over time, the list of eligible countries of origin for entry into Georgia has been expanding, with the current list covering nearly all of the main sources for tourists coming to Georgia”¹².

Moreover, from February 15, restaurants with outdoor spaces re-opened¹³. Later, mountain resorts re-opened on March 8, enabling mountainous tourism service providers to operate, even if the market was somewhat limited. These measures prompted a slight increase in the number of visitors in March, albeit not a significant one. Nevertheless, March 2021 was the first month since March 2020 when the YoY decline in the number of international visitors was not higher than 90% (it equaled 73.4% in March 2021).

The prospects of the tourism sector’s recovery in 2021 also received a boost from developments in the aviation industry. According to the Georgian Civil Aviation Agency, Air Astana will start to operate seasonal flights from Almaty to Batumi, while Wizz Air, one of the most prominent players on the Georgian market, resumed flights to and from Kutaisi on April 18¹⁴.

At the time of writing, land borders remain closed, and a nationwide curfew from 9pm to 5am is in place, as well as ban on the opening of restaurants and cafes/bars on Saturdays and Sundays.

Government support programs for tourism sector

In March 2020, to prevent the spread of COVID-19, Georgia closed its borders for international visitors. The combination of the pandemic and the imposed lockdown measures immersed businesses in hospitality industry into crisis. Since March 2020, several government support programs for the sector emerged.

The quarantine zones program had two key objectives:

- 1) providing quarantine spaces for Georgians returning to the country, as well as other people under risk of being COVID-infected and actual COVID-infected people later during the year; and
- 2) providing at least some support to the damaged accommodation industry.

Thus, the concept of quarantine hotels emerged, and under this government program, 220 different hotels (or 11 744 hotel rooms) were utilized as special quarantine zones during the period of March 2020 to February 2021. According to GNTA, the program ensured that 3 644 employees in the tourism sector kept their jobs, and 148 904 people were served in quarantine zones since March 2020 to February 2021.

From March 2020 including January 2021, total of 66.6 mln GEL was spent under the program. This is on average 6.1 mln GEL per month. The program spent the most in April 2020 (9.7 mln GEL) and the least in June 2020 (4.3 mln GEL). If the dynamics of monthly spending is analyzed, April and May, two months with the most stringent lockdown measures, stand out with the highest spending, along with August (coinciding with the lockdown imposed in Mestia, Svaneti) and November (coincides with the peak of the virus spread). On the contrary, June and July stand out with low amount spent, as well as December and January.

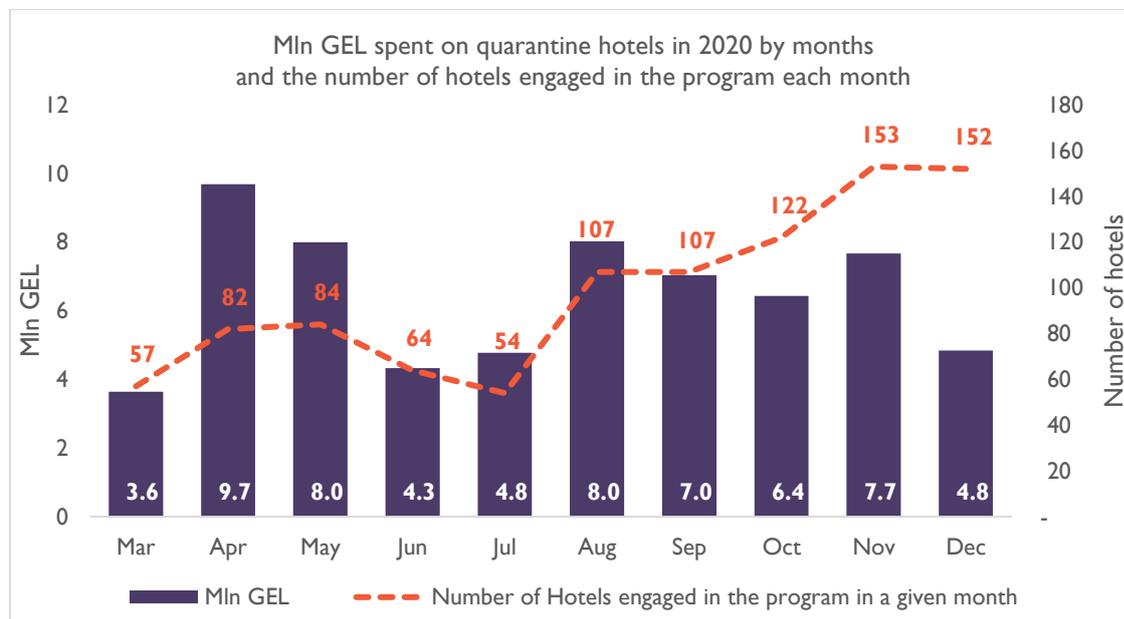
¹² [Regulations for Crossing the Georgian Border in connection with the COVID-19 pandemic](#)

¹³ <https://bm.ge/ka/article/restornebshi-gia-sivrcceebi-15-tebervlidan-gaixsneba-75015>

¹⁴ <https://bit.ly/3fmcwXf>

The average price of one hotel room per day over the analyzed period was 32 GEL. It is worth noting that this figure was the highest in April (50 GEL), and the lowest in December (17 GEL).

Chart I.1 Amount of money spent on quarantine hotels by months, and the number of hotels engaged in the program.



Source: Georgian National Tourism Administration

In sum, the program provided an alleviation for at least some actors of the accommodation sector, however, given the size of the accommodation sector and the magnitude of the shock, this support is still not sizable enough.

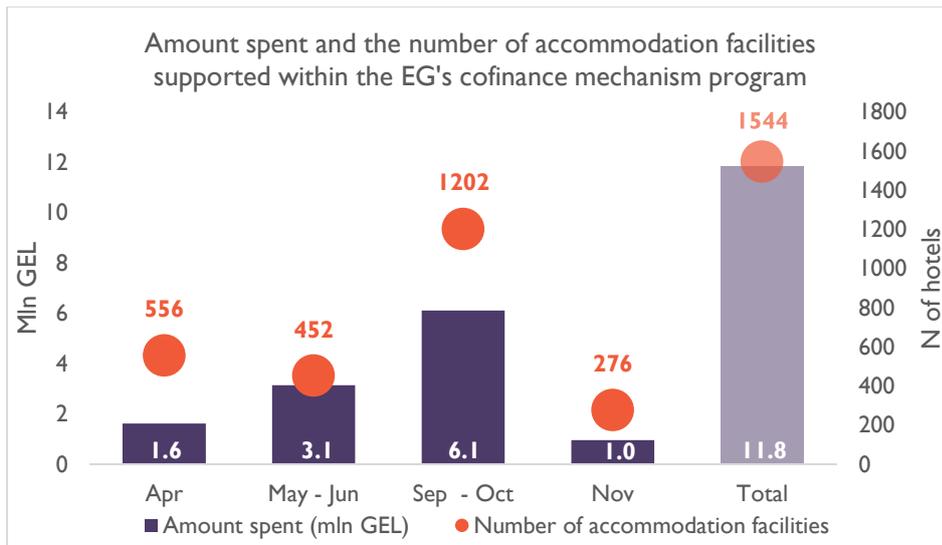
Interest co-financing mechanism for accommodation and food facilities

Another government program that emerged as a result of the pandemic involved co-financing mechanism for accommodation facilities, implemented by Enterprise Georgia. Later in the year, food facilities and event-planning companies were also added to the list of potential beneficiaries of the measure.

There were four different intakes of applications within the scope of the program¹⁵. In total, 1544 unique hotels benefited from the program, receiving GEL 11.8 million in the process.

Chart I.2 Amount spent, and the number of accommodation facilities supported within the EG's co-finance mechanism program.

¹⁵ The first intake started on April 1 and accepted applications till May 1. The second intake started on April May 1 and accepted applications till July 1. The third intake started on September 10 and accepted applications till October 10. The fourth intake started on November 13 and accepted applications till November 22.



Source: Enterprise Georgia

As for the program for food facilities, it had two intakes, the first of which accepted applications from 4 December to 14 December 2020, financing 462 restaurants by GEL 2.0 million. The second intake took place between 8 February to 5 March 2021, and the disbursement of its funds is not yet completed as of writing.

Potential markets for short-term marketing campaigns

Overview of key historic source markets of Georgia

With the rollout of vaccines in the first quarter of 2021, the first glimpses of an end to the pandemic are emerging. To plan ahead and ensure the recovery of the tourism industry, countries are carefully selecting which markets to direct their marketing campaigns toward.

With this in mind, an analysis of the key source markets for tourism in Georgian in the pre-COVID era might offer some insights about how the country as a whole and tourism industry stakeholders specifically should position their marketing campaigns in order to attract the highest-spending visitors. However, it has to be noted that the analysis below focuses on average expenditure over a five-year period, and as that the pandemic has caused massive shifts in consumer behavior, the recommendations stemming from pre-pandemic data should be addressed with caution. In addition, we think that from the current state of the economy, it is more important to focus our attention to all visitors¹⁶ rather than only tourists¹⁷, because foreign currency inflows are of high importance right now.

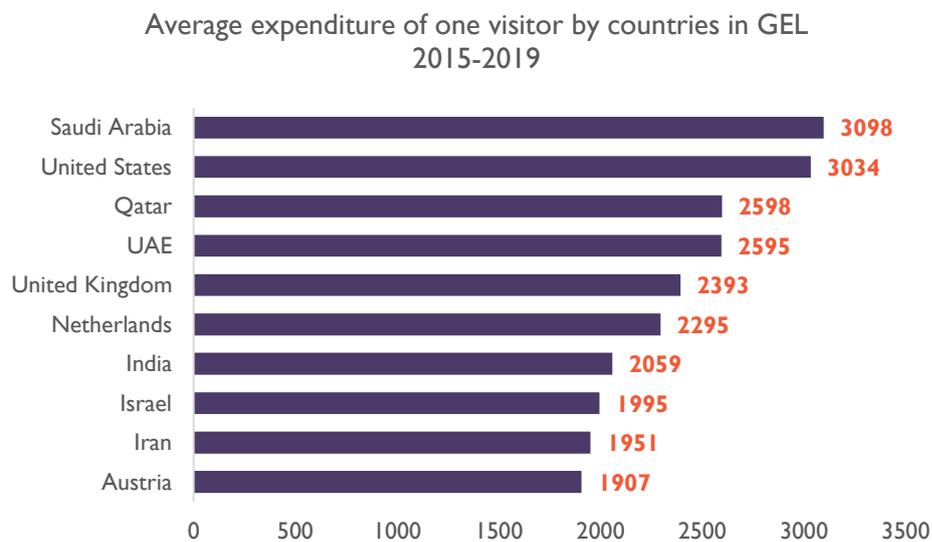
The graph below ranks the top 10 countries of origin when it comes to the highest average expenditure by one visitor per visit over the period of 2015-2019 in Georgia. Several Gulf states, namely Saudi

¹⁶ An international visitor is a traveler taking a trip to a main destination outside his/her usual environment, for less than a year, for any purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. The usual environment of an individual, a key concept in tourism, is defined as the geographical area within which an individual conducts his/her regular life routines. For the purposes of defining "usual environment" in Georgia, travelers conducting 8 or more trips are excluded from the data.

¹⁷ A visitor (domestic, inbound or outbound) is classified as a tourist (or overnight visitor) if his/her trip includes an overnight stay.

Arabia (ranked as #1), Qatar (#3), and United Arab Emirates (UAE) (#4) stand out, while the United States (#2) and the United Kingdom (#5) complete the top five.

Chart 1.3 Average expenditure of one visitor per visit by country of origin in GEL over the period of 2015-2019



Source: Georgian National Tourism Administration

However, when taking into account an average length of stay to Georgia, the picture changes notably. While there are various methods of identifying HVMs, we propose an alternative approach to the most commonly used indicator (average expenditure per visit)¹⁸ – the average expenditure per day¹⁹. When top ten countries of origin are ranked in terms of the highest average expenditure per day over the period of 2015-2019.

While all three Gulf states that were present in the abovementioned top five by average expenditure per visit still reside in this top five, visitors from Turkey emerged as the top per-day spenders in Georgia, with Armenia taking the place of the United States. The emergence of Turkey could be explained by the popularity of gambling venues in Batumi among Turkish visitors, while the emergence of Armenia could be explained by the fact that 44% of Armenian visitors engaged in shopping in 2019. This is the highest indicator among neighboring countries and the EU.

Contrary to popular belief, visitors from the European Union do not seem to have been spending significant amounts in Georgia, at least when daily expenditures are analyzed (just 186 GEL spent daily on average). In fact, EU visitors ranked among the lowest daily spenders, along with those from China and Russia (both 179 GEL)²⁰. On the other hand, as visitors from EU tend to stay longer than average, three countries are ranked in top 10 in terms of total expenditure per visit.

Please, see the detailed list of total and daily expenditures by target countries for the study purposes in Appendix 6.

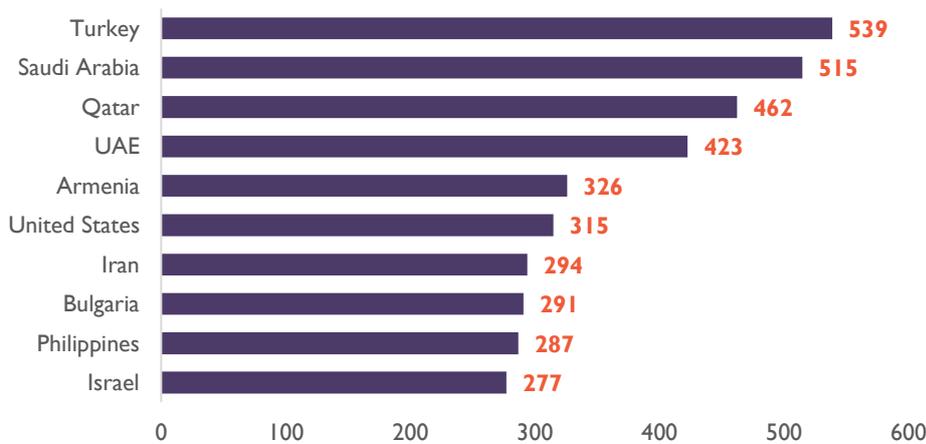
Chart 1.4 Average daily expenditure of one visitor by country of origin in GEL over the period of 2015-2019

¹⁸ This indicator, among with several others, were used by GNTA to identify HVMs in Georgia in 2019.

¹⁹ It could be argued that this indicator more accurately captures HVM visitors, as expenditures are analyzed on the same scale (daily expenditure) for each country.

²⁰ Source: Georgian National Tourism Administration, author's calculations

Average daily expenditures of one visitor by countries in GEL
2015-2019



Source: Georgian National Tourism Administration

To make the most financial gain in the short term, prompted by the need for foreign currency inflows arising from the current pandemic, the government and tourism enterprises may consider targeting visitors from Turkey, as well as the three aforementioned Gulf states, along with Armenia, the United States and Israel, by their tourism marketing campaigns. It must be noted that this observation is relevant only in short-term, as the analysis focuses on visitors rather than tourists, and the analysis of tourism expenditures would yield different results. In addition to the abovementioned observation, the evidence gleaned by MasterCard from data for flight searches for March-May 2021 identified Turkey as having among the highest level of interest in flights to Georgia²¹. To further increase demand from consumers in Turkey, and to stimulate tourism inflows in the short term, opening up land borders for entry would be advised, as in 2015-2019, 78% of all visitors entered the country by land. Moreover, as noted by the report's global trends section, travelers are increasingly looking for destinations "nearby", further boosting the prospects of tourism from neighboring countries. In addition, this opinion coincides with the opinions expressed by the private sector during the FG meetings.

Apart from Turkey, Israel and UAE, as two major countries with the highest percentage of vaccinated people, should also be targeted by marketing campaigns, at least in the short-term. Moreover, as indicated by the above analysis, visitors from Israel and UAE are not low-spending ones, making them even more desirable. In fact, as indicated by representatives of mountainous tourism, after the reopening mountain resorts and resumption of regular flights, among the limited number of international visitors, those from Israel and UAE were the most common, along with the Baltic countries.

Mapping the most prominent destinations by their average daily spending (Y-axis) and average stay (X-axis), as well as the average total expenditure per visit (Bubble size) in 2015-2019²², countries can be segregated in four different categories:

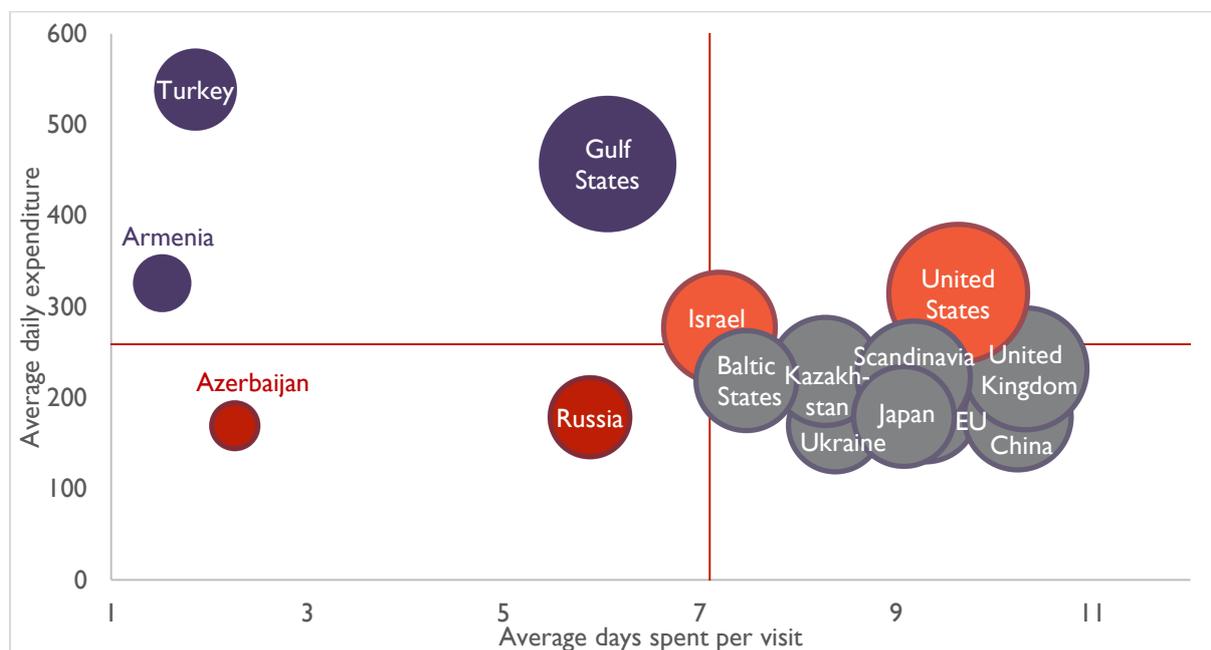
²¹ Georgian National Tourism Administration, in collaboration with MasterCard, launched a series of monthly webinars based on MasterCard's "Tourism Insights Platform," which makes use of data about card transactions and flight searches in order to identify travel trends and produce relevant insights for policymakers and tourism industry representatives alike.

²² This visualization technique has been pioneered and widely used by GNTA for the analysis of source markets.

- High spend, Long stay - United States²³ and Israel (denoted by orange bubble)
- High spend, Short stay – Turkey, Gulf States, Armenia (denoted by purple bubble)
- Low spend, Long stay – United Kingdom, China, EU, Scandinavia, Baltic States, Japan, Kazakhstan, Ukraine (denoted by gray bubble)
- Low spend, Short stay - Azerbaijan and Russia (denoted by a red bubble)

While this visualization has the advantage of showing all three characteristics of visits (daily expenditure, duration of stay, total expenditure), the categorization of the countries omits importance of total expenditures. However, this is still visible on the graph: for example, while we may find that Armenian visitors spend more in one day than European ones, we also see on the graph that European countries spend almost twice per one visit (indicated by the bubble size)²⁴.

Chart I.5 Average daily expenditure of one visitor in GEL (Y axis), average days spent per visit (X-axis), and the average total expenditure per visit (Bubble size) by country of origin in 2015-2019



Source: Georgian National Tourism Administration

As noted in the global trends section of the report, people are looking to extend their vacations (mostly explained by the increased regulations – if one is willing to fulfill all the procedures once, then they prefer to extend their stay). Thus, at least in the short-term, it is worthwhile to target short-stayers and high-spenders, along with long-stayers and high-spenders. These countries include visitors from Turkey, the Gulf States and Armenia, as they could stay longer and move slightly towards high-spend long-stay section of the graph. On the other hand, visitors from Turkey and Armenia are less likely to alter their previous patterns: visitors from Turkey mostly enter Georgia for short-term entertainment reasons (e.g. gambling), while worsened socio-economic situation in Armenia could

²³ The indicators for United States represent average of 2017-2019 instead of 2015-2019, as in 2016, average days spent by visitors from the United States was an outlier (30.9 days spent on average).

²⁴ In addition, it should be noted that horizontal red line is average daily expenditure of the countries included in the analysis, while the vertical red line corresponds to the average days spent per visit of the countries included in the analysis. This decision is explained by the purpose of the analysis, which was to map the target countries (and neighbouring countries) in relation to each other. If the purpose of the analysis was to look at the spending from a visitors' perspective, using a total average of visitors' expenditures and duration of stay would be more appropriate.

result in decreased spending from the visitors, taking into account the fact that major part of expenditures from Armenian visitors account to shopping.

Estimated loss of revenues from tourism from target countries in 2020

Based on expenditure data, we estimated revenue loss due to the COVID-19 pandemic in 2020²⁵ from the target countries by multiplying the expected number of visitors on average expenditure per visit. It seems that among the target countries, visitors from Israel and the Gulf states, followed by Ukraine, would contribute to most of the projected revenues from tourism in 2020.

Chart I.6 Estimated revenue loss from target countries in 2020 (mln GEL)



Source: Georgian National Tourism Administration; author's calculations

Domestic tourism

In 2019, domestic tourism accounted for 71.7% of travel spending globally. The COVID-19 pandemic prompted a further increase in this number in 2020, to 82%²⁶.

As noted by the UNWTO, domestic tourism will still be in focus for 2021, despite the substantial potential of the recovery of international tourism, and this is also likely that domestic tourism will have a vital role for the Georgian tourism sector. Thus, trends in domestic tourism before and during 2020 are worth analyzing.

Observing the number of domestic visitor trips in Georgia over the period of 2015-2020 reveals that domestic tourism has not grown significantly, as has international tourism, with the number of trips growing by an annual rate of just 2.4% on average from 2015 to 2019. The pandemic also had a sizable impact on the number of trips, having decreased by 12.5% in 2020. Even if the domestic tourism failed to compensate for lost international tourism, 2020 still produced impressive numbers, especially when considering major adverse factors such as fear of traveling due to the pandemic, and the outbreaks in 2 popular tourist destinations, Mestia and Batumi during the holiday season.

²⁵ Key assumptions include:

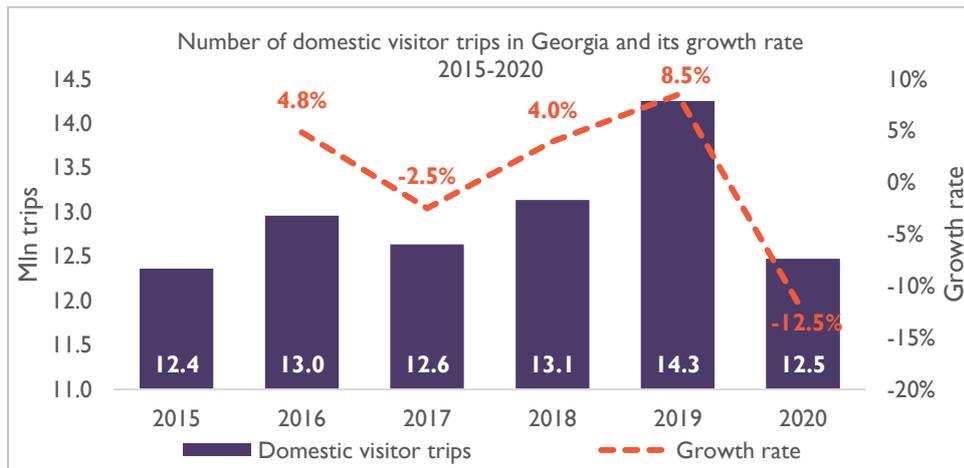
The average expenditure per visit in 2020 would be the same as over the period of 2015-2019.

In 2020 without the pandemic, it is assumed that number of visitors would be equal to that of 2019.

One visitor made one visit in Georgia.

²⁶ Source: World Travel & Tourism Council's (WTTC) "Travel & Tourism: Economic Impact 2021" report

Chart I.7 Number of domestic visitors' trips in Georgia and its growth rate



Source: Georgian National Tourism Administration; National Statistics Office of Georgia

There were no significant changes in the age and gender structure of domestic visitors in 2020; however, when the purpose of trips is analyzed some noteworthy observations emerge. Firstly, a category that increased the most as a result of the pandemic is “visiting other house”, having almost doubled as a share of total trips and reaching 15.8%, compared to the average of 2017-2019. The share of other categories consequently declined, albeit the most affected category was “visiting friend, relatives”, the largest category, declining by 5.2 percentage points in share of total visitors in 2020 compared to the average of 2017-2020. These changes could be attributed to travelers’ fears of spreading the pandemic, and imposed lockdown measures.

Chart I.8 Domestic trips by main purpose of visit



Source: Georgian National Tourism Administration; National Statistics Office of Georgia

In terms of visited region, Tbilisi, Imereti and Adjara dominated, as in previous years; however, their share in total has decreased by 1.4 percentage points, 0.4 percentage points, and 1.6 percentage points, respectively. The share of visits has increased the most in Shida Kartli and Kakheti, by 1.3 percentage

points and 1.1 percentage points, respectively. This slight shift is possibly resulted from the rising share of “visiting other house” category of visits.

Looking at the number of domestic trips by accommodation used, it can be seen that domestic tourism does not contribute as much to tourism as international tourism, even if its share in tourism is significantly higher. This is due to the fact that 88.1% utilized private home of a friend/relative or personal home/apartment as their mean of accommodation in 2020, and this is not too different from the corresponding numbers in previous years.

International Benchmarking

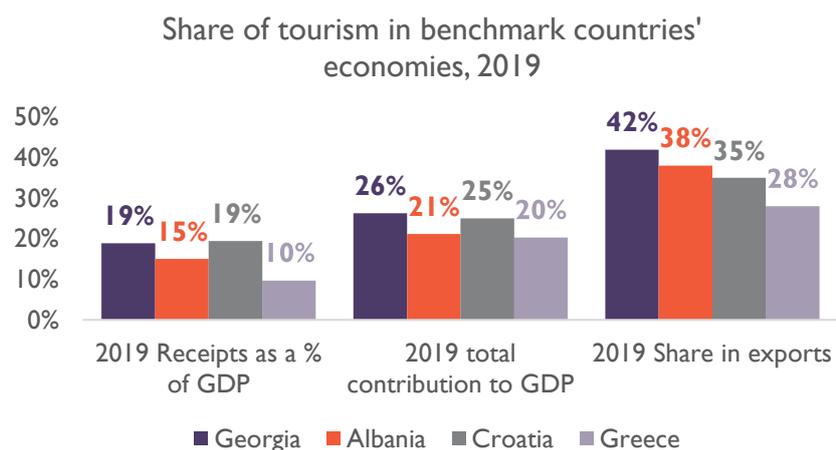
In this and following reports, we will track the performance of the Georgian tourism sector in comparison with three selected benchmark countries: Albania, Croatia, and Greece. The main factors influencing the selection of the three countries include *similar high dependence of the economy on tourism* and relatively *similar size and geography*.

The rationale behind tracking countries with the comparable tourism sectors in the economy is that the mutual and similar challenges with respect to tourism could prompt mutually applicable solutions and sharing these solutions in a timely manner could prove crucial for ensuring a strong recovery. The future reports will follow the developments related to tourism in the three countries.

Tourism sector’s role in benchmark countries’ economies

As already mentioned, one of the key criteria for the selection of countries was their high dependence on tourism. While overall Georgia has the highest dependence on tourism compared to the three, the role of the tourism sector is quite substantial in each of their economies, as measured by three different indicators: Tourism’s share in countries’ total exports, Tourism’s total contribution to GDP²⁷, and the share of total tourism receipts in the countries’ GDP.

Chart I.9 Share of tourism in benchmark countries' economies

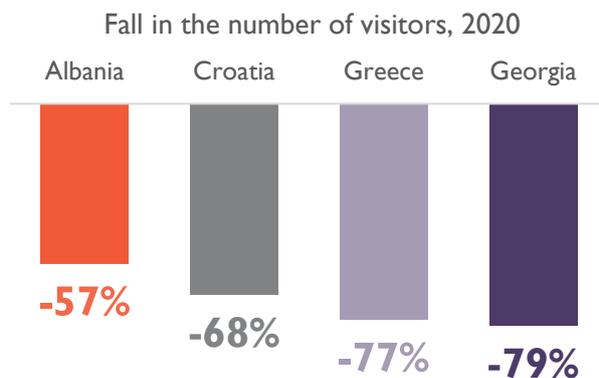


Source: UNWTO, WTTC, World Bank

²⁷ WTTC's Total contribution to GDP takes into account direct contribution of tourism, as well as its indirect and induced effects. For more details, please see the detailed methodology on the link: <https://wtcc.org/Portals/0/Documents/Reports/2020/WTTC%20Methodology%20Report%202020.pdf?ver=2021-02-25-183105-660>

In 2020, Georgia was the country that fared worst in terms of the number of visitors among the benchmark countries (-79% compared to 2019). On the other hand, Albania was the one that experienced the least decline (-57%). Croatia fell somewhere between (68%), while Greece's numbers (-77%) are comparable to those of Georgia.

Chart I.10 Fall in the number of visitors in benchmark countries in 2020

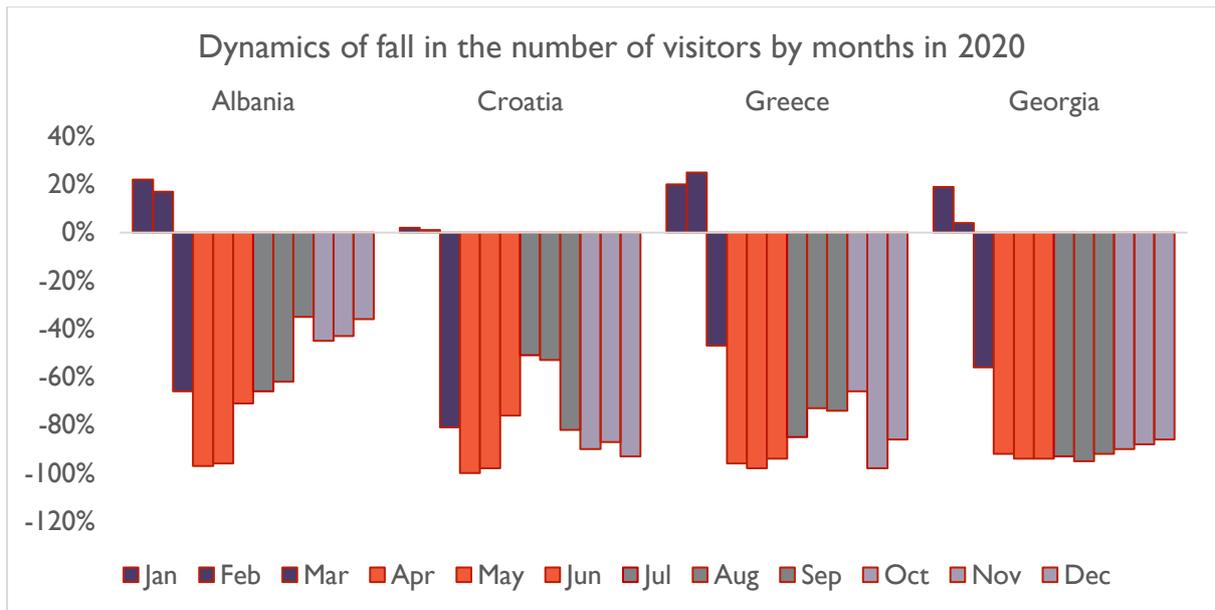


Source: UNWTO

If the monthly dynamics of falls in a number of visitors is analyzed, Albania seems to have experienced a sharp fall in April and May (more than 95%); however, it has managed to recover significantly in the coming months, with an average of 66% decline in the summer, just a 35% fall in September, and limited decline in Q4 of the year²⁸. Croatia, on the other hand, seems to have taken advantage of the summer season, which gave a relative boost to the number of visitors; however, starting from September, the number of visitors continued to decline by more than 80%. Greece also shared a similar pattern, albeit its correction in summer was not as strong as Croatia's.

Chart I.11 Dynamics of the fall in the number of visitors in benchmark countries by the months of 2020

²⁸ This could also be explained by a devastating earthquake on 26 November 2019, halting tourism in Albania in December 2019, causing a low base effect for 2020.



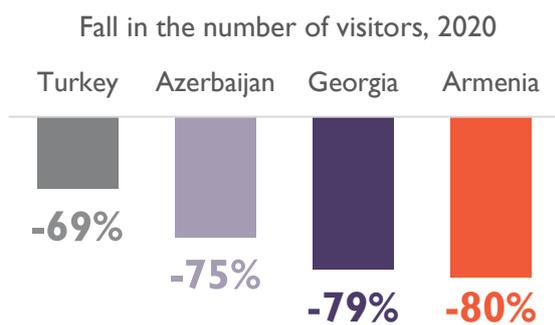
Source: UNWTO

Regional Benchmarking

Within the regional context, the estimation of lost revenues from tourism 2020 reveals that among the three countries, revenues lost were the most substantial from Turkey (1 158 mln GEL), followed by Armenia (676 mln GEL) and Azerbaijan (584 mln GEL). It is worth noting that these numbers are all higher than those of USAID’s target countries (the highest was Israel with 409 mln), and lower than revenues lost from Russia (1 546 mln).

In 2020, Armenia experienced the highest fall in terms of number of visitors (-80%), followed closely by Georgia (-79%). Turkey had the least decline, with -69%, while Azerbaijan had a fall of 75%.

Chart 1.12 Fall in the number of visitors in 2020 in the countries of the region.

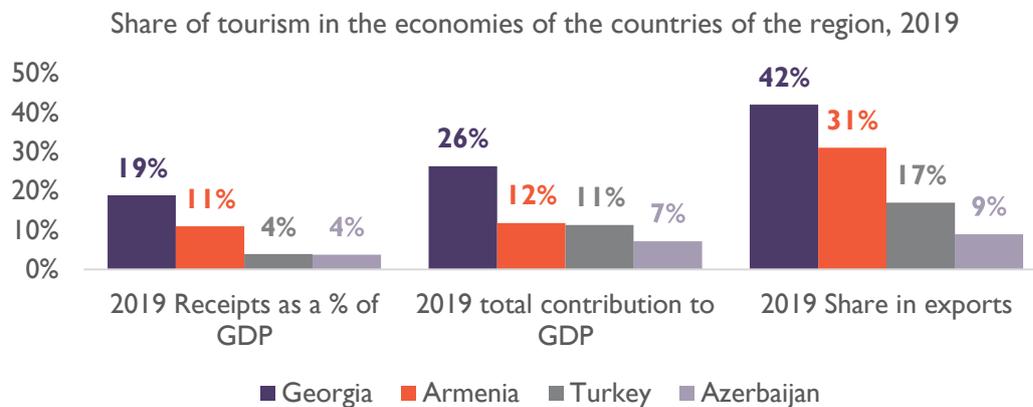


Source: UNWTO

Turkey’s relatively good response in terms of tourism was also noted by our respondents. In fact, while Turkey was also heavily impacted by the pandemic in the spring and summer of 2020, which was also manifested by a decline in visitors. However, in the last four months of the year, starting from September, the country managed to keep the decline at an average of -58%, which impacted the figure for the whole year.

Due to the structure of their economies, Georgian economy has suffered more than its peers in the region, due to relatively higher dependence on tourism as measured by each of the abovementioned indicators. Georgia is followed by Armenia and then Turkey, with Azerbaijan being the least dependent country on tourism within the region.

Chart I.13 Share of tourism in the economies of the countries of the region



Source: UNWTO, WTTC, World Bank

Foreign direct investment (FDI) trends in the HORECA sector

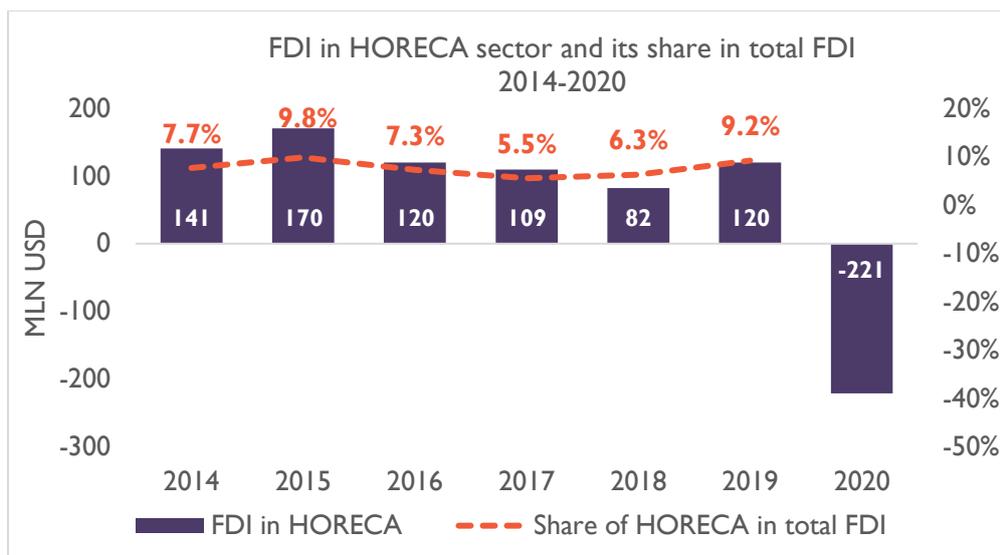
The prevalence of foreign direct investment (FDI) is a major factor in the development of every sector, especially in developing countries. The analysis of FDI patterns in the hotels, restaurants, and cafes (HORECA) sector reveals that it stood at USD 120 million in 2019, and at USD -221 million in 2020.

According to National Statistics Office of Georgia, “Transferring of ownership from non-resident to the resident units in several companies is considered to be the main reason for the decline of FDI which reduced the value of foreign direct investments by 340.5 million US dollars”²⁹. Indeed, in Q4 of 2020 Bidzina Ivanishvili transferred property, most of which was in the HORECA sector, from Panamanian offshore company to “Cartu Foundation”³⁰. This is the main factor behind the sector’s (and the country’s) FDI’s sharp fall in 2020, along with the impact of the pandemic.

Chart I.14 FDI in the HORECA sector and its share in total FDI

²⁹ <https://www.geostat.ge/media/37063/Foreign-Direct-Investments---2020-and-Q4-2020.pdf>

³⁰ <https://bm.ge/en/article/ivanishvili-transferred-quotparagraphquot-quotpanoramaquot-quotelita-burjiquot-and-other-assets-to-quotcartu-fundquot/73103/>



Source: National Statistics Office of Georgia

ACCOMMODATION

Value chain trends³¹

According to Geostat's Business Register, the number of accommodation facilities in Georgia as of 1 January 2021 was 2 758. Of these, 57.3% (or 1 581) are located outside of Tbilisi. The accommodation value chain mainly consists of small enterprises. In total, there were eight large (five in Tbilisi) and 65 medium-sized (41 in Tbilisi) accommodation facilities in Georgia as of 1 January 2021³².

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

The quarterly analysis of turnover of the accommodation value chain and comparing it to the corresponding aggregated sector (accommodation facilities and food service facilities) reveals that both the accommodation value chain and the tourism sector overall had been growing substantially. More specifically, the value chain's turnover grew at an average quarterly growth rate of 24.7% in the period of 2016-2019, growing faster than the aggregated sector (21%).

Significant seasonality is observable in the VC's turnover, with the peak coinciding with Q3 of each analyzed year. This observation is also true for other indicators, is caused by the seasonal structure of Georgian tourism, and further illustrates the value chain's role in the tourism sector.

³¹ In the first analytical report, we also analyzed Hotel Price Index for 3, 4 and 5-star hotels in Georgia over time. For details, please see page #34 in the first report

³² According to Geostat, Large-scale enterprises include all organizational-legal forms of enterprises, where the average annual number of employees exceeds 250 people or the average annual turnover is 60 million GEL. Medium-sized enterprises include all organizational-legal enterprises in which the average annual number of employees ranges from 50 to 249 people, and the average annual turnover is from 12 million GEL up to 60 million GEL. Small enterprises include all organizational-legal enterprises in which the average annual number of employees does not exceed 49 employees and the average annual turnover does not exceed 12 mln. GEL.

In 2020 however, the value chain faced a massive hit. While VC still managed to grow in Q1 by a modest 1.5% Year over Year (YoY), VC's turnover saw a sharp decline of 65.7% in Q2, 68.3% in Q3, and 76.7% in Q4. It is worth noting that aggregate sector fared slightly better, having declined by 49.6%, 49.8%, and 55.8% in Q2, Q3, and Q4 of 2020, respectively.

Chart I.15 Turnover of the accommodation value chain and the corresponding aggregated sector

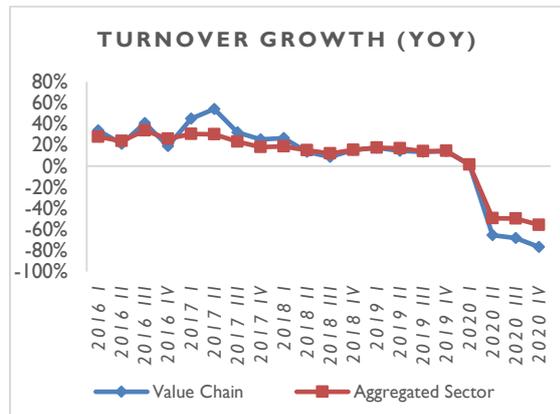
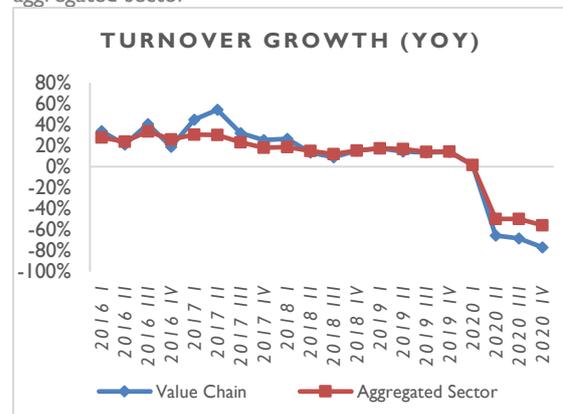


Chart I.16 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Output in the accommodation value chain has shared the dynamics of its turnover and has experienced strong growth over time, with an average quarterly growth rate of 24.4% for 2016-2019, growing faster than the aggregated sector (21.4%).

In 2020, output again shared the dynamics of the value chain's turnover, having grown by 3.1% in Q1, followed by a decline of 55.7%, 64.4% and 70.6% in Q2, Q3 and Q4 of 2020, respectively. As in the case of turnover, the aggregated sector registered declines of slightly less magnitude.

Chart I.17 Output of the accommodation value chain and the corresponding aggregated sector

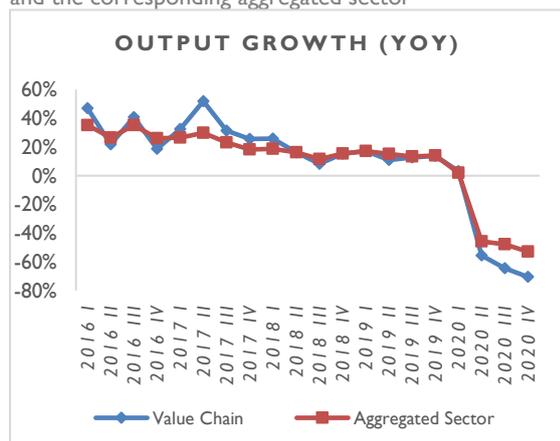
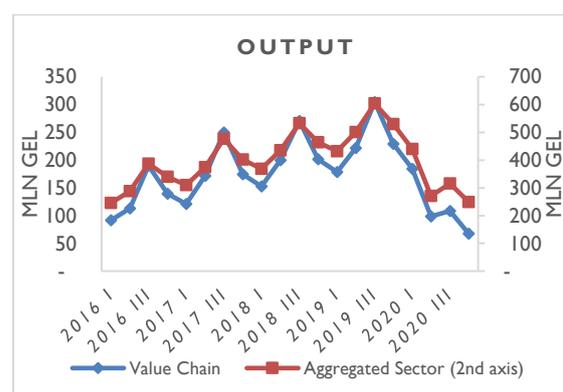


Chart I.18 Annual growth rate of output for the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Employment in the value chain does not share the pronounced pattern of seasonality, albeit some seasonality is still evident, with the VC's employment reaching its peak in Q3. Employment in the accommodation value chain grew by an average quarterly growth rate of 7.4% throughout 2016-2019, growing faster than the aggregated sector (6.7%).

In 2020, employment seemed to be more resilient to the shock at first sight, compared to other key indicators, having decreased by 15.6%, 26.2%, and 39.2% in Q2, Q3, and Q4 of 2020, respectively. The figures were slightly better, albeit quite close for the aggregated sector. This rising sharpness of decline over the course of the year could be explained by the following: In the second quarter, a substantial number of firms, still optimistic about the near future, decided not to let go of their employees. However, as the year progressed and situation got even worse, the firms could not afford to maintain majority of their employees. In 2021, if the recovery gains pace, a significant part of lost jobs is likely to recover, however, the recovery of jobs to its pre-pandemic levels would take more time. In addition, it has to be noted that a substantial amount of value chain employment is unobserved; thus, the impact of the pandemic on the VC's employment is not fully reflected by the official statistics presented above.

Chart 1.19 Employment in the accommodation value chain and the corresponding aggregated sector

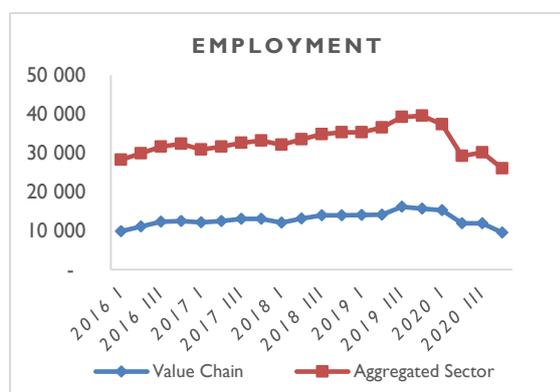
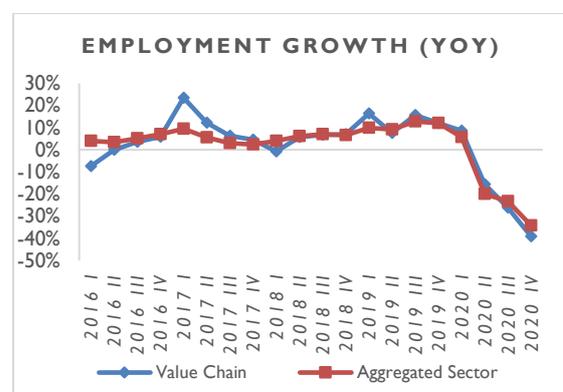


Chart 1.20 Annual growth rate of in employment in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the accommodation value chain experienced an average quarterly growth of 14.0% through 2016-2019, while the corresponding aggregated sector experienced slightly lower of 12.9% (average yearly inflation over this period was 4.16%).

In 2020, the decline of the average monthly salary in the value chain was less substantial than other key indicators, declining by 20.1%, 22.4%, and 17.1% in Q2, Q3, and Q4 of 2020. The decline in the aggregated sector was less significant. However, despite this relative resilience in average monthly salary, the total salary fund of the value chain declined by 49.6% in Q4 of 2020 YoY. In absolute terms, the average monthly salary in the accommodation value chain reached GEL 1 095 in Q4 2020, which is GEL 222 higher than in the aggregated sector.

Productivity, as measured by output divided by the number of employed people, was also on an upward trend in the period of 2016-2019 for the accommodation value chain. More specifically, it increased by a quarterly rate of 16.5% on average, compared to a slightly lower 14.0% for the aggregated sector. It is worth noting that productivity of the VC was also characterized by high seasonality, peaking in Q3.

In 2020, productivity of the VC suffered significantly, declining by 5.1%, 47.5%, 51.8%, and 51.5% in Q1, Q2, Q3, and Q4 of 2020. The decline in the aggregated sector was less significant.

Chart I.21 Average monthly salary in the accommodation value chain and the corresponding aggregated sector

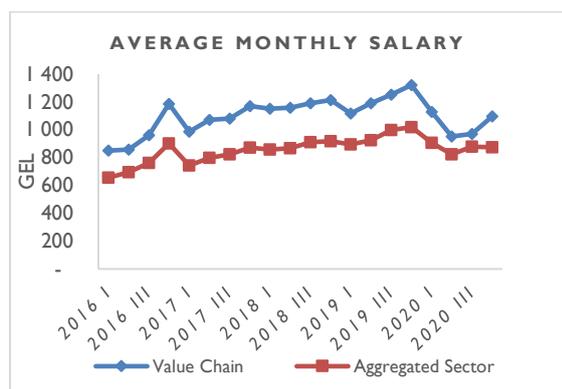
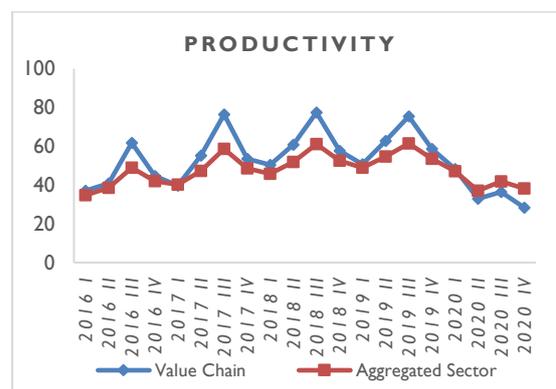


Chart I.22 Productivity in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

ADVENTURE TOURISM³³

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

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

Many visitors interested in adventure tourism also tend to visit national parks, natural monuments, and protected areas of the country. Therefore, it is worth observing the evolution of the number of visitors to selected national parks, natural monuments, and managed reserves³⁴.

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

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

Please, see the detailed information about the visitors in selected national parks, natural monuments and protected areas in Appendix 7.

Overview of the existing challenges and opportunities

This qualitative analysis of adventure tourism is based on contributions made by actors from the private sector and business associations, including the Georgian Tourism Association, the Georgian

³³ Please see the detailed analysis of activities related to program’s 3 priority VCs discussed below in the first analytical report, page #37

³⁴ In addition, adventure tourism included skiing and winter sports as well. Please, see the analysis of Georgia’s mountain resorts in the first analytical report, page #39.

Mountain Guides Association (GMGA), and the Adventure Tourism School³⁵, during focus group discussions and individual meetings.

According to the conducted analysis, the following key impediments and significant issues in the adventure tourism sector were raised:

Role of business associations and public-private dialogue during the pandemic: According to the majority of interviewed respondents, during the pandemic, business associations had been the sector's most important actors when it came to public-private dialogue. It was emphasized that, before the crisis, such associations had been the sector's most supportive organizations in terms of networking. During the crisis, the associations have managed to gather opinions from across the sector and have played a vital role as a mediator. Besides, they have also provided support for their members in their recovery process (e.g. through several capacity-building trainings).

However, a minority of interviewed respondents claimed that, in general, these associations needed to be stronger in public-private dialogue and to demand more from the Government to solve problems faced during the crisis and beyond, especially in the gastronomy and accommodation value chains.

Absence of a rigid anti-crisis plan for the tourism sector: The majority of tourism sector representatives highlighted the vital importance and urgency of establishing a comprehensive anti-crisis plan entailing clear-cut expectations for actors under each value chain (accommodation, adventure, culture, and gastronomy). According to them, such a plan should include a clear anti-crisis protocol, with explicit numbers and instructions. For instance, the plan should define what measures the GoG will take in the event that daily infection rates grow beyond certain thresholds. If this is done, the actors in the sector will be able to plan and act with greater certainty. It would also alleviate some anxieties about suddenly announced lockdowns. Finally, many of those interviewed suggested that business associations should serve as mediators between the GoG and the private sector in the process of creating a rigid anti-crisis plan.

Tourism sector being overlooked by the GoG: Some of the interviewed private sector actors asserted that the tourism sector has to some extent suffered from the neglect of the GoG. Some respondents partly attributed this to the fact that the position of the head of the GNTA is still vacant. However, most of the respondents stated that the acting head of the GNTA is a good professional, who performs her duties and responsibilities well and is responsive.

Positioning of the country and promotion strategy: One of the most significant subjects discussed during the focus groups was the country's positioning on international markets. Some respondents highlighted the urgency of promoting adventure and wellness tourism to the right markets (i.e. focusing on Central Asian countries, rather than Western European ones (for instance Germany), when it comes to promoting balneological resorts).

As noted earlier, adventure tourism is believed to have substantial potential if its quality can be improved to ensure a competitive advantage. Three main factors were identified by respondents as contributing to such an advantage being realized: security, quality of services, and authentic values. As highlighted by the respondents, if Georgia can bring itself up to international standards in all three of these aspects, establish a compatible promotion strategy, and communicate with international tourists (emphasis on HVMs) then people will feel more comfortable about visiting Georgia.

³⁵ Founded in 2016, ATS is aimed at providing professional educational and certificate programs mainly through mountain, alpine and trekking courses.

The decreased budget of the GNTA: Some of the interviewed respondents expressed concerns about the GNTA's latest annual budget being at a record low of GEL 7.7 mln (for purposes of comparison, the budgets for 2020 and 2019 were GEL 22.7 mln and GEL 50.5 mln, respectively). The same respondents noted that the reduced budget has created negative expectations among actors in the private sector as it demonstrated that the Government's plans and forecasts in the tourism sector are not optimistic. Furthermore, they opined that the GNTA should currently focus on proper planning and promoting for the country on international markets, to ensure as much of a recovery as possible in 2021.

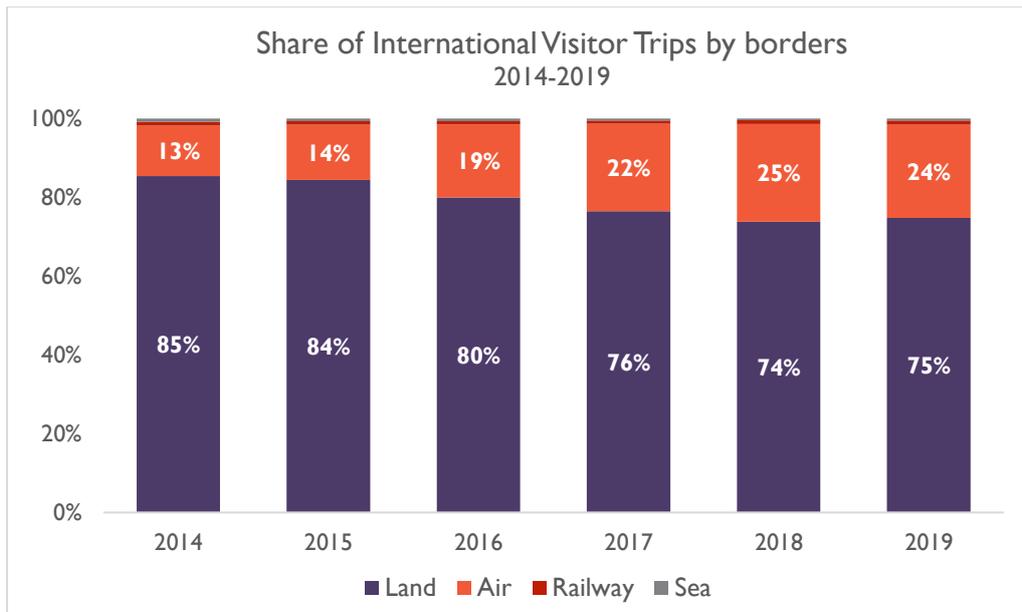
Conversely, other respondents thought that the reduced budget can be explained by the inability of people from neighboring countries to travel to Georgia by land (in 2019, 75% of total visitors entered Georgia via land borders). On the other hand, the GNTA's spending on promotion campaigns to attract visitors travelling by air during the pandemic will have only a limited effect, according to many respondents, as the global attitudes toward international travel are still hesitant.

Limited access to knowledge and a lack of qualification: The adventure tourism value chain representatives generally highlighted a lack of support to raise levels of knowledge and skills in the value chain. In particular, many felt there were shortcomings with regard to the country's cultural and authentic values. However, the Adventure Tourism School representatives confirmed they had been working on a 2-month professional guide program, with graduates receiving internationally recognized guide certificates.

Meanwhile, strong competitors reportedly entering the Georgian market from nearby countries (e.g. Russia and Ukraine) was highlighted by some respondents. Specifically, they were referring to professional guides who (through Georgia's liberal economic and labor policy) have no specific restrictions affecting their economic activities. Although this trend has had some undesirable influences, it could have a positive impact by improving the overall quality in the value chain. Respondents mentioned that the establishment and development of educational platforms in adventure tourism in Georgia would be an appropriate step in this respect.

The re-opening of land borders: The absolute majority of tourism sector respondents requested that the land borders be re-opened. They also claimed that such a re-opening would need to be accompanied by a very strict control mechanism and border-crossing protocol. Their main argument for re-opening the land borders is the fact that in 2019, 75% of total tourists entering the country did so via land borders. Thus, the re-opening will become a vital prerequisite for the rapid recovery of the sector in Georgia.

Chart I.23 Share of International Visitor Trips by borders



Source: Georgian National Tourism Administration

CULTURAL TOURISM

Despite being described as the lowest in value among the priority value chains by the program, the development of cultural tourism can contribute to both preserving Georgia's cultural and natural heritage and creating authentic and unique tourism experiences, allowing the country to compete globally in this regard.

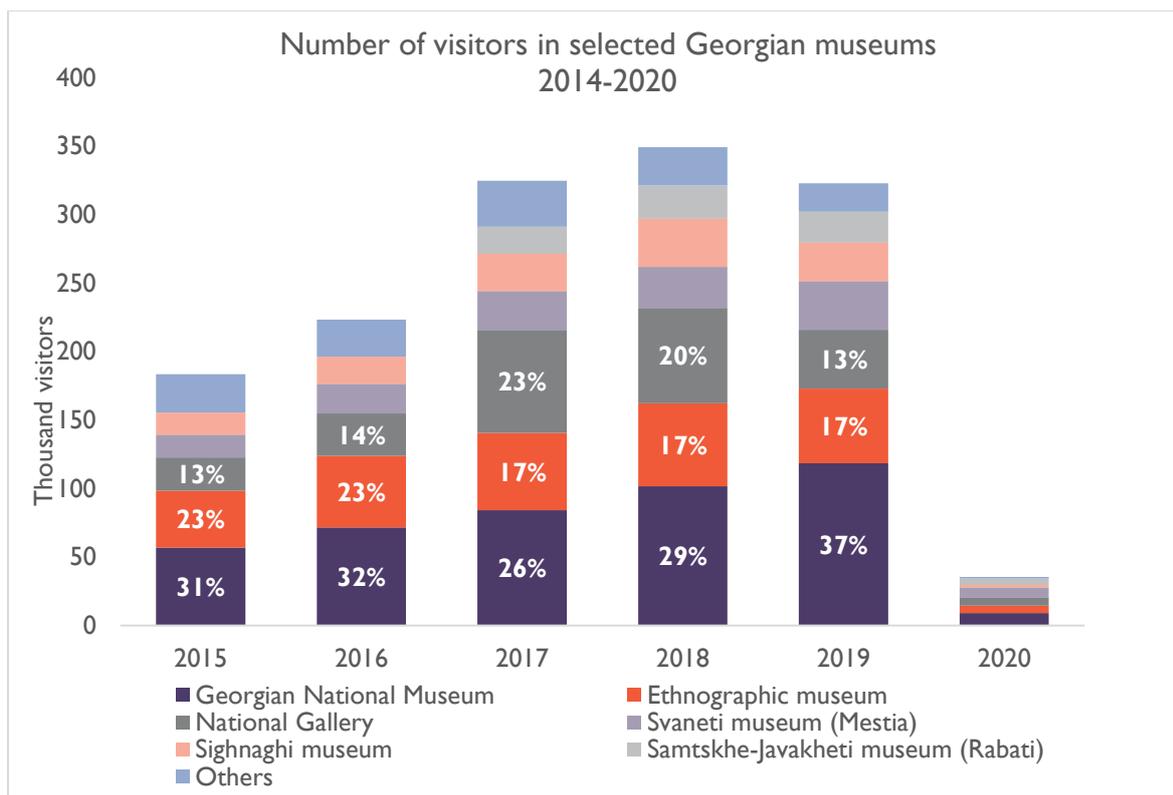
Visitors in national museums and historic site museum-reserves of Georgia

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

Visitors interested in cultural tourism, apart from visiting museum-reserves, also tend to visit museums. We analyze the number of visitors in Georgian museums which are operated by Georgian National Museum over the period of 2015-2020. In 2019, the highest number of visitors (118 506, or 37% of total) visited Simon Janashia Georgian National Museum in Tbilisi. Ethnographic museum and National Gallery attracting 17% and 13% of total visitors to the selected museums in 2019. In total, the number of visitors in these museums increased by 76.0% in 2019 from 2015.

In 2020, unsurprisingly, the number of visitors to Georgian museums declined by 89.0%. While Georgian National Museum remained as the top visited museum, Svaneti museum in Mestia emerged in second place, perhaps due to the rise of domestic visitors from the capital visiting Svaneti.

Chart I.24 Number of visitors in the selected Georgian museums



Source: Georgian National Museum

Revenues generated from selected sights in Georgia

By collecting the prices of selected sights in Georgia, we estimate³⁶ the expected revenues of these sights in the period of 2015-2019 and in 2020.

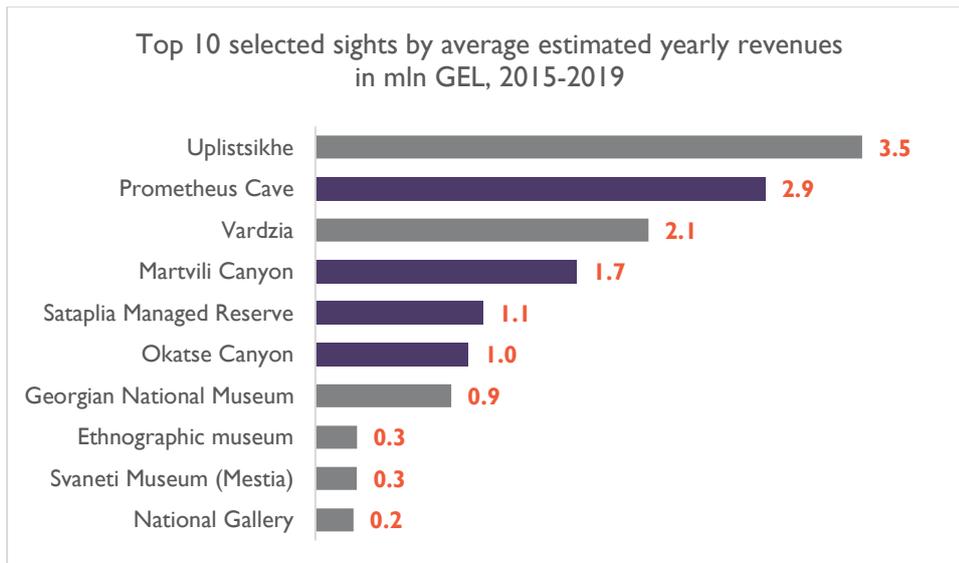
The list of top-visited sights also contains a number of sights related to adventure tourism; however, cultural tourism sights dominated, and we decided to include this analysis in the cultural tourism section of the report. Moreover, many adventure tourism sights, such as national parks, do not charge an entrance fee and thus were automatically excluded from the analysis.

The analysis of average estimated yearly revenues, calculated based on the data of visitors in the period of 2015-2019, reveals that Uplistsikhe generates the highest revenues among the selected sights in Georgia – approximately GEL 3.5 million per year. It is closely followed by Prometheus Cave (GEL 2.9 million) and Vardzia (GEL 2.1 million).

Chart I.25 Top 10 selected sights by average estimated yearly revenues over the period of 2015-2019.³⁷

³⁶ Estimation is made based on the assumption that all visitors bought tickets for adults. The estimation takes into account price discrimination for foreign visitors.

³⁷ The sights are differentiated by their respective value-chain. Purple stands for Adventure tourism sight, while gray stands for Cultural tourism sight.



Source: National Agency for Cultural Heritage Preservation Georgia; Agency of Protected Area; Georgian National Museum.

In 2020, the composition of the top 10 sights was slightly altered. Still, Uplistsikhe maintained its position, generating an estimated GEL 314 145 revenues, followed by Vardzia (GEL 234 195) and Prometheus Cave (123 758). Notably, the Svaneti Museum moved up in rank from 9th to 5th, and Nokalakevi Archeological Museum, as well as Khertvisi Fortress, emerged in the top 10, replacing the Ethnographic Museum and Okatse Canyon.

The sum of estimated revenues in 2020 for all selected museums were some 92.1% lower than the average yearly estimated revenues, reflecting a devastating impact of the COVID-19 pandemic.

Chart 1.26 Top 10 selected sights by estimated yearly revenues in 2020



Source: National Agency for Cultural Heritage Preservation Georgia; Agency of Protected Area; Georgian National Museum.

Overview of the existing challenges and opportunities

The study on cultural tourism was conducted to gather stakeholders' opinions which were gleaned from focus groups and individual meetings attended by the private sector and business associations.

The following represent the most crucial challenges and opportunities identified in the cultural tourism value chain:

The need to establish a promotion strategy for cultural tourism:

According to the majority of cultural tourism value chain representatives, Georgia's material and immaterial cultural heritage presents a unique opportunity that needs to be properly exploited. Therefore, a national promotion strategy with a clear vision for the positioning of the country on the international cultural tourism market has been highlighted as essential. Pertinently, as mass tourism has emerged in Georgia recently, cultural attractions and their authenticity has come under threat. Furthermore, international HVM tourists interested in visiting Georgia for its cultural values may be discouraged by the effects of mass tourism.

As highlighted by some respondents, during the reign of the former head of the GNNTA, efforts were made to position Georgia as a tourism destination on HVM markets, but a corresponding strategy has not yet been implemented.

Public-private dialogue (PPD):

The low level of communication between the respective public sector units and cultural tourism value chain actors was emphasized by some respondents. In our previous study, the Kakheti DMO mentioned significant tourist routes in the region comprising of unique historical, religious, and geographical features. However, local businesses involved in cultural tourism are usually not capable of exploiting this opportunity properly and require support. Therefore, the need to improve public-private dialogue through establishing a communication platform used for regular consultation with local communities about developing sites, based on their unique cultural tourism potential, was mentioned.

Moreover, several respondents from the cultural tourism value chain noted that the Georgian Tourism Industry Alliance had been officially registered as a non-commercial legal entity. The alliance was founded by 13 different tourism associations, which have gathered to address the challenges posed by the pandemic. One of the main goals here is for the alliance to become a strong voice representing the private sector, identifying core problems faced by actors involved in the sector and then solving them through mediating dialogue between representatives of the private and public sectors. Meetings with relevant public sector representatives have been held already where the legislative framework, the development of a joint information base, and related themes were all discussed.

Claims about value-chain-specific support: According to several representatives of travel agencies specializing in cultural tourism, during the pandemic a greater emphasis had been put on gastronomic tourism. In particular, as they highlighted the GoG's support programs had been mostly targeted toward supporting gastronomic tourism, while less attention had been paid to travel agencies focusing on cultural tourism. Specifically, this opinion was expressed by a representative from a travel agency specializing mostly in cultural tourism, however similar concerns were shared by adventure tourism value chain stakeholders.

Delays in disseminating information: During the quickly-changing pandemic, some respondents claimed that the information flow between private and public sector actors has not been sufficiently punctual. To improve this process, private sector representatives highlighted the importance of creating a specially-designed web- or mobile-based platform for information exchange. This would

allow all parties to stay regularly updated, allowing them to keep track of the latest information and to react more quickly.

Sluggish domestic demand: In addition to the paused demand from international visitors (associated with the COVID-19 pandemic), domestic demand has been sluggish. This was one of the main concerns discussed during the focus group meetings.

Underdeveloped intercity transport: As underlined by some respondents at one the focus group meetings, unorganized regular municipal and intercity transport to and from Kutaisi international airport is still an impediment. Specifically, visitors arriving at Kutaisi international airport struggle to access comfort municipal and intercity transport to Tskaltubo or Zugdidi, for instance. Indeed, it is costly and undesirable for tourists to hire private transport instead.

Re-opening land borders: As described in the other two value chains in this sector, the closure of land borders remains one of the biggest impediments to the tourism sector, including cultural tourism. According to many respondents, the eventual re-opening of borders should be accompanied by a very strict control mechanism and the border-crossing protocol. Their main argument for doing so is the fact that, in 2019, 75% of total tourists entering the country did so via land borders.

GASTRONOMIC TOURISM

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

Food facilities in Georgia

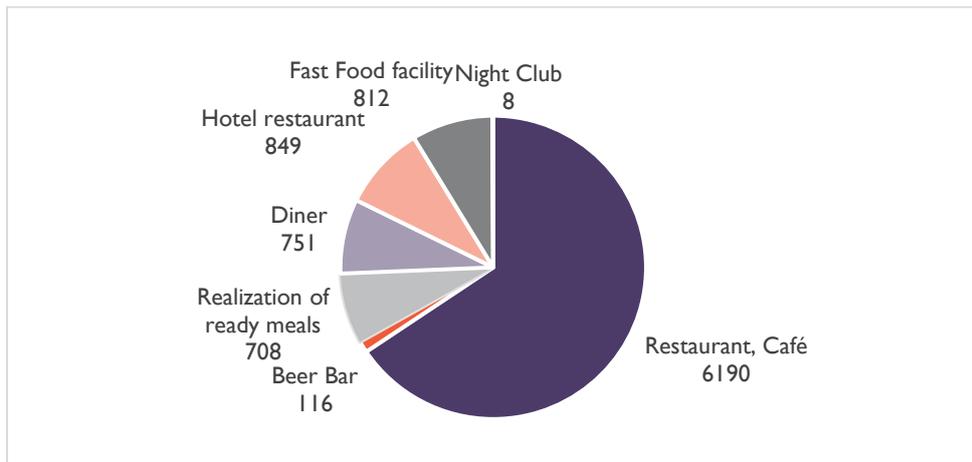
Out of 12 122 food facilities listed in National Food Agency's database for food facilities, 9 434 are relevant to the tourism industry³⁸.

It is worth noting that this number is significantly higher than the number of companies in Geostat's official database (5 025), mostly due to the fact that many companies operate more than one facility under one company.

When the data is analyzed with regard to the type of food facility, restaurants and cafes dominate with a share of 65.6% in total. Hotel restaurants are the second largest category (9.0%), followed by fast food facilities (8.6%), diners (8.0%), and facilities engaged in realization of ready meals (7.5%). The share of beer bars (1.2%) and night clubs (0.1%) are almost negligible.

³⁸ Other food facilities not relevant for our analysis are mainly school, kindergarden, and hospital buffets.

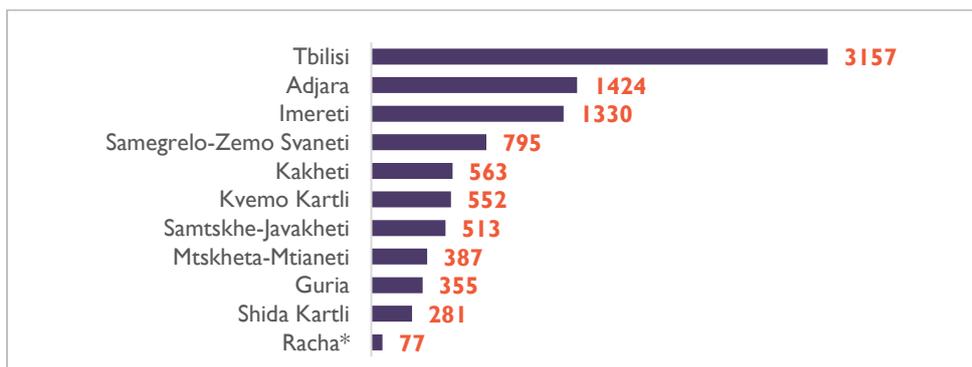
Chart I.27 Food facilities by type



Source: National Food Agency

When analyzed in regional context, Tbilisi and Adjara dominate, with a combined share of 48.6% in total, followed by Imereti. The least amount of food facilities is located in Racha (0.3%), Shida Kartli (1.0%), and Guria (1.2%).

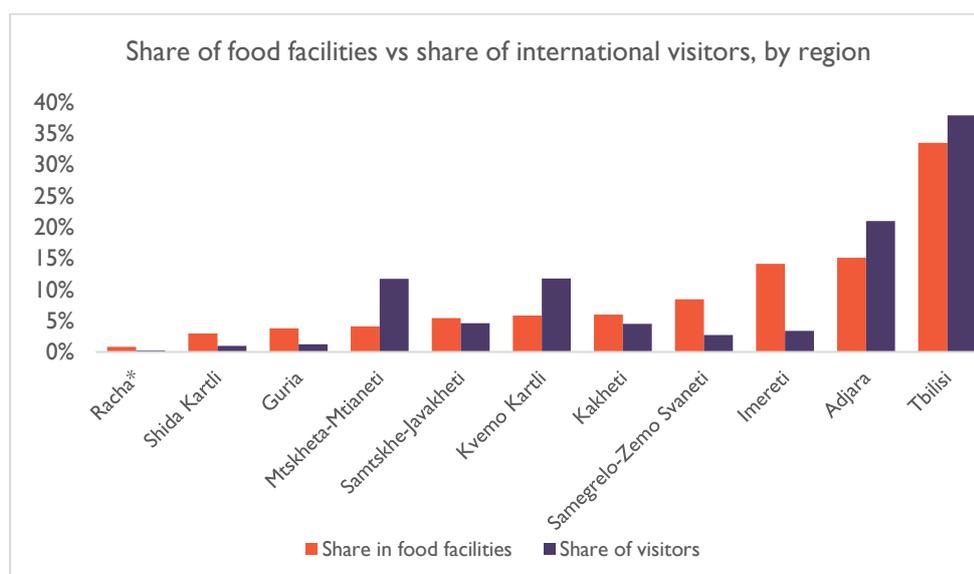
Chart I.28 Number of food facilities by region



Source: National Food Agency

By comparing the shares of a region in food facilities to its share in a number of international visitors, some insights can be drawn about the supply of food facilities in the regions. A significantly higher share of the region in number of visitors could indicate a possible undersupply of food facilities, while a lower share would indicate possible oversupply. It seems that Imereti and Samegrelo-Zemo Svaneti could be experiencing from oversupply of food facilities, while Mtskheta-Mtianeti, Adjara, Kvemo Kartli and Tbilisi could be experiencing from undersupply of food facilities relative to their share in a number of international visitors.

Chart I.29 Share of food facilities by region vs share of international visitors by region



Source: National Food Agency; National Statistics Office of Georgia.

Overview of the existing challenges and opportunities

A qualitative study on gastronomic tourism was conducted through in-depth interviews and focus group meetings with representatives from the private sector and business associations of the gastronomic tourism value chain, including the Georgian Restaurateurs Association and the Georgian Tourism Association.

The primary challenges and the most important subjects discussed in the gastronomic tourism value chain are summarized below:

Curfew: According to the Georgian Restaurateurs Association, there would be no sense in opening borders if there remains a nationwide curfew in place between 9pm and 5am. As interviews revealed in previous studies, the same argument in this regard was put forward: normally, around 65% to 70% of a restaurant’s total income is from dinner guests, which in Georgia tends to start at around 9pm. According to representative, relaxing the curfew to 11pm-5am would give gastronomic tourism value chain actors a greater chance of survival.

Besides, as highlighted by some restaurant representatives, normally a restaurant's daily revenues during weekend days are three times higher than on other days of the week. Thus, lockdowns being imposed during the weekends have seriously restricted monthly turnovers.

Underdeveloped food delivery services: Food delivery services were evaluated as basic in terms of both supply and demand. Even though during the pandemic the main on-demand courier service companies (Glovo, Wolt, and Bolt Food) have represented a lifeline for many restaurants, many restaurants have complained about unfavorable terms of cooperation with the courier companies (the courier companies taking up to 30-35% cashback). Some restaurant-owning respondents even confirmed that they eventually suspended food delivery services, as such cooperation was unprofitable for them. Meanwhile, according to the majority of interviewed stakeholders, the food delivery business culture is especially weak in the regions.

The interviewed stakeholders cited the following factors as important if the food delivery sector is to develop in Georgia: *Increased competition among on-demand courier service companies*: - this would result in an increase in service price competition and cooperation terms; *Improved food packaging materials* – resulting in an increased food delivery coverage and higher-quality food delivery; *Synchronized processes* – ideally, the courier should arrive at the restaurant to collect the food as soon as it has been prepared; *Implementation of a new ‘ghost kitchen’ concept* – this would entail the establishment of specially-designed food preparation facilities preparing exclusively meals to be delivered; *Creation of pick-up spaces or so-called ‘warm lockers’* - having such lockers, consumers would be able to take away the food they have ordered earlier, thus making it more convenient to collect, with no delivery costs.

High interest rates on working capital loans: One of the biggest challenges for gastronomic tourism value chain actors remains commercial banks’ high interest rates for working capital loans. Such loans are vitally important for businesses to cover short-term operational needs (on average, US\$10,000-US\$15,000 per month for medium-scale restaurants). According to the actors interviewed, interest rates have increased, and banks’ risk assessment criteria have tightened. As a result, restaurant owners are sometimes obliged to take loans from microfinance organizations at even higher interest rates.

Consequently, private sector representatives kindly requested the Government provide possible short-term subsidies on interest rates for working capital loans.

Increased variable costs: Since 3 January 2021, natural gas and electricity tariffs for commercial customers (except for the bread bakeries) has increased by 28% and 50-70%, respectively. In addition, other operational costs have increased by up to 10-12% (due to new pandemic-related regulations). According to respondents’ remarks, before these tariffs increased, on average around US\$10,000-US\$15,000 was required for the monthly operation of a medium-scale company, but the increased variable costs have heightened their financial pressure further still.

Re-opening land borders: As is the case in the other two value chains in this sector, representatives of the majority of gastronomic tourism value chain stakeholders underlined the need to re-open land borders as the most important current issue. According to them, the eventual re-opening of border would require a very strict control mechanism and border-crossing protocol. Their main argument behind the need to re-open is the fact that in 2019, 75% of total tourists entering the country did so via land borders. Therefore, once global tourism recovers, the re-opening of the land borders into Georgia will be a vital prerequisite for the rapid recovery of its tourism sector.

Georgia’s positioning internationally: One of the most keenly debated issues among respondents was how the country is being positioned in international markets. Despite the majority of respondents highlighting the need to promote adventure tourism, some of the gastronomic tourism value chain representatives underlined the importance of attracting HVM tourists through marketing the simple flavors and tastes of Georgian cuisine (taking into account the global trend in gastronomic tourism of people looking for simpler and more authentic tastes).

Trends in food services

According to Geostat’s Business Register, the number of food facilities in Georgia as of 1 January 2021 was 5025. Of these, 57.2% (or 2873) are located outside of Tbilisi. The sector mainly consists of small

enterprises. In total, there were 10 large (all in Tbilisi) and 55 medium-sized (41 in Tbilisi) enterprises in food services in Georgia as of 1 January 2021.

The turnover of enterprises in the food services value chain increased through 2016-2019, with an average quarterly growth rate of 20.6%. This increase was slightly lower when compared to the annual average growth of the aggregated sector (accommodation facilities and the food service facilities), which reached 21.0%.

Significant seasonality is observable in the VC's turnover, with the peak coinciding with Q3 of each analyzed year. This observation is also true for other indicators, is caused by the seasonal structure of Georgian tourism, and highlights the importance of the value chain for the tourism sector, and vice versa.

In 2020, the value chain faced a massive hit. While in Q1 it still managed to grow significantly by 22.4% Year over Year (YoY), VC's turnover saw a sharp decline of 36.1% in Q2, 29.6% in Q3, and 37.7% in Q4. It is worth noting that aggregate sector fared worse, having declined by 49.6%, 49.8%, and 55.8% in Q2, Q3, and Q4 of 2020, respectively.

Chart I.30 Turnover of the food services value chain and the corresponding aggregated sector

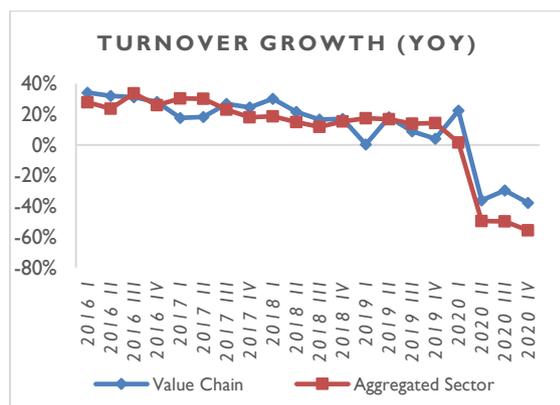
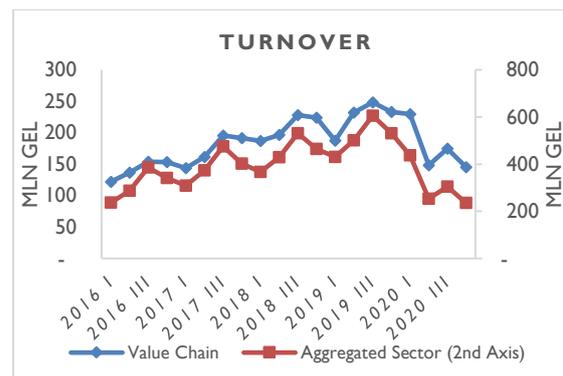


Chart I.31 Annual growth rate of turnover for the food services value chain and the corresponding aggregated sector.

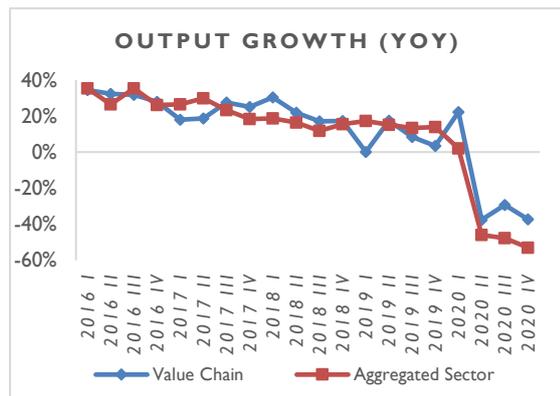


Source: National Statistics Office of Georgia

Output in the food services value chain has nearly identical dynamics of its turnover, and has experienced strong growth over time, with an average quarterly growth rate of 20.7% over the period of 2016-2019, growing slightly slower than the aggregated sector (21.4%).

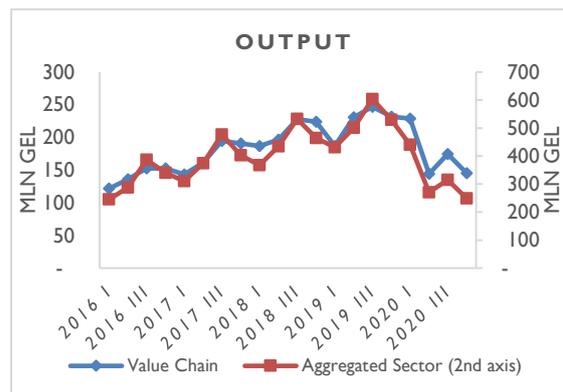
In 2020, output again mirrored the dynamics of the value chain's turnover, having grown by 22.3% in Q1, followed by a decline of 37.6%, 29.3%, and 37.4% in Q2, Q3, and Q4 of 2020, respectively. As in the case of turnover, the aggregated sector registered declines of higher magnitude.

Chart I.32 Output of the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

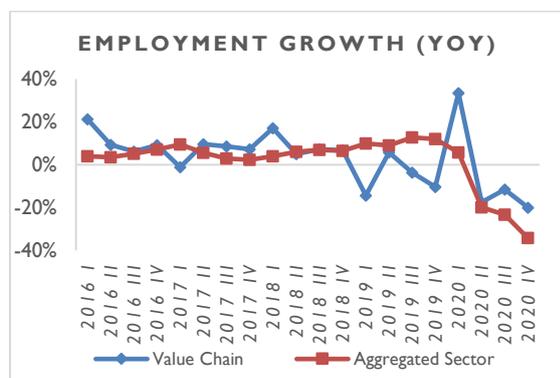
Chart I.33 Annual growth rate of output for the food services value chain and the corresponding aggregated sector



Employment in the value chain does not share the pronounced pattern of seasonality, albeit some seasonality is still evident, with the VC's employment reaching its peak in Q3. Employment in the food services value chain grew by an average quarterly growth rate of 5.2% over the period of 2016-2019, growing slower than the aggregated sector (6.7%).

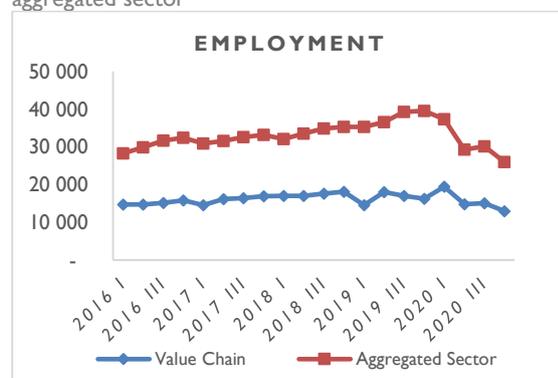
In 2020, employment in food services value chain declined by 17.6%, 11.5%, and 20% in Q2, Q3, and Q4 of 2020, respectively. The figures were worse for the aggregated sector. It is crucial to note that substantial amount of value chain's employment is unobserved, thus, the impact of the pandemic on VC's employment is not fully reflected by the official statistics presented in the analysis, and this impact is especially understated for employment numbers.

Chart I.35 Employment in the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart I.34 Annual growth rate of employment in the food services value chain and the corresponding aggregated sector



The average monthly salary in the food services value chain experienced an average quarterly growth of 12.0% through 2016-2019, while the corresponding aggregated sector experienced slightly lower of 12.9% (average yearly inflation over this period was 4.16%).

In 2020, the decline of the average monthly salary in the value chain was less substantial than other key indicators, declining by 8.4% in Q2, growing by 3.9% in Q3 and declining by 17.1% in Q4. The decline in the aggregated sector was less significant. A possible explanation for the unusual growth in Q3 of 2020 could be that most vulnerable and low-paying jobs were lost within the value chain, with the highest-paid workers staying employed. In addition, it is crucial that total salary fund of the value chain declined by 8.1% in Q3 (YoY) and by 26.1% in Q4 (YoY). In absolute terms, the average monthly

salary in the food services chain reached GEL 759 in Q4 2020, which is GEL 115 lower than in the aggregated sector.

Productivity, as measured by output divided by the number of employed people, was also on an upward trend in the period of 2016-2019 for the food services value chain. More specifically, it increased by a quarterly rate of 14.8% on average, compared to a slightly lower 14.0% for the aggregated sector. It is worth noting that productivity of the VC, compared to the aggregated sector, is less characterized by seasonality.

In 2020, productivity of the VC suffered significantly, declining by 8.4%, 24.3%, 20.1%, and 21.7% in Q1, Q2, Q3, and Q4 of 2020. The decline in the aggregated sector was more significant.

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

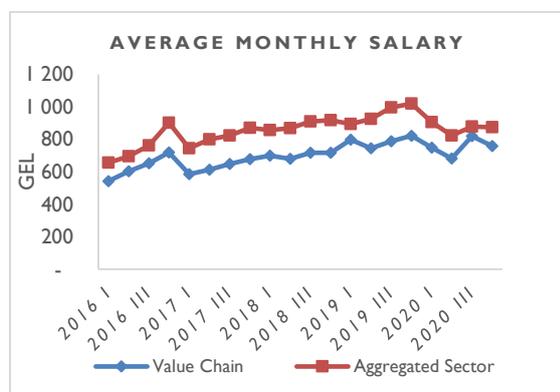
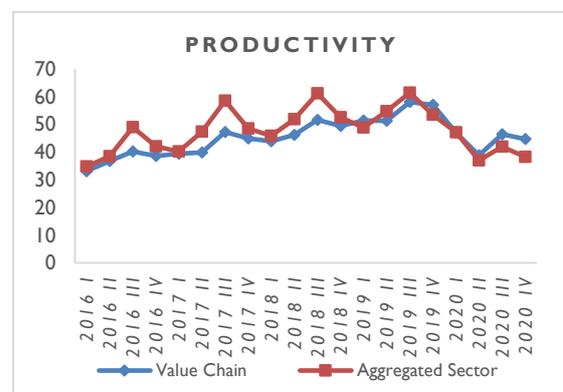


Chart I.37 Annual growth rate of employment in the food services and the corresponding aggregated sector



Source: National Statistics Office of Georgia

CATERING

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

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

In terms of key indicators, 25% of surveyed companies reported company's turnover in 2019 to be under GEL 100,000 with regard to catering services, while 58.3% reported turnover in this regard of GEL 100,000-500,000 and 8.3% reported turnover of GEL 500,000-1,500,000. As mentioned previously, in 2020, all surveyed catering service providers experienced turnover declines of more than 50%, and for some turnover declined by 100%.

The median number of employed personnel equaled six persons for surveyed catering service providers in 2020. Meanwhile, some of the companies reassigned their catering staff to deliver other services in 2020, and some companies stated that initially they cut their number of employees by half, before letting go of all employees by the end of the year. Moreover, substantial number of respondents noted having little to no permanent staff dedicated for catering.

The average gross monthly salary equaled GEL 721 in the catering value chain among the surveyed enterprises in 2020, which is slightly higher than that of the aggregated food services sector in 2019 (GEL 687.8).

The main challenge for the catering value chain in 2020 has been the COVID-19 pandemic and subsequent restrictions placed on their activity. Due to these restrictions, almost all surveyed companies completely halted their catering divisions in 2020 and focused their efforts instead on other services.

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

2. CREATIVE INDUSTRIES

SECTOR SUMMARY

The media content production and post-production and artisan value chains are among the most vulnerable value chains during times of recession due to their business models. The former value chain had shown impressive growth before the pandemic, with surging turnover, employment, and investments. Unlike other value chains, the turnover of media content production and post-production started to significantly reduce at the beginning of 2020: compared to the fourth quarter of 2019, turnover in the first quarter of 2020 dropped from GEL 38.8 million to GEL 14.4 million (a 62.8% contraction).

Both value chains have a relatively stable workforces: only 30.7% of artisan value chain stakeholders said that they had cut their number of employees during the pandemic, while in the media content production and post-production total workforce had reduced by 39% in fourth quarter of 2020, compared to the corresponding period of 2019. The artisan value chain is dominated by women, with more than 95% of its employees being female, while the average artisan value chain business employs 2-4 workers.

Artisan value chain businesses have suffered greatly during the pandemic, with the weighted average turnover decreasing by 34.2%. This decline was more significant for small-scale businesses with less than GEL 0.1 million turnover – 37.6% - whereas for businesses with turnover ranging from GEL 0.1-0.5 million the fall was slightly less severe at 31.7%. It is important here to highlight that artisan value chain businesses reported significantly worse contractions in the first three quarters of 2020, whereas 7.7% of surveyed businesses in the value chain said that their turnover had actually increased by 20-50% in the course of 2020. However, even if a few companies have managed to turn the tide in their favor, the overall picture is somewhat bleak: around 38.5% of artisan value chain stakeholders said that their turnover had decreased by more than 50% during 2020, with some businesses completely halting their operations. In total, more than two-thirds of artisan value chain businesses saw their turnover decrease by more than 20%.

When it comes to average monthly salary, the media content production and post-production value chain had the highest of these two value chains in 2020, contrary to expectations and falling turnover. In the artisan value chain, there were generally three types of scenario reported regarding salary: first, some companies reported being unable to pay salaries but had still maintained their operations; second, some companies employed staff on a part-time basis as and when orders came in; and, third, some businesses in this value chain reported a decrease in salaries for the first three quarters in 2020 before a significant increase in the final quarter of the year.

MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

Media content production and post-production value chain has experienced a rough transition from a high growth pre-pandemic period to a sharp contraction in 2020. Other value chains, even some from creative industries, managed to relatively recover in the later part of the pandemic and adjust their business models to the harsh conditions. Unfortunately, it seems that the decline of turnover, output and other similar indicators has accelerated during the pandemic. The scale of the damage done by the pandemic and other issues in 2020 is even more apparent when the high growth numbers of 2019 are taken into account.

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

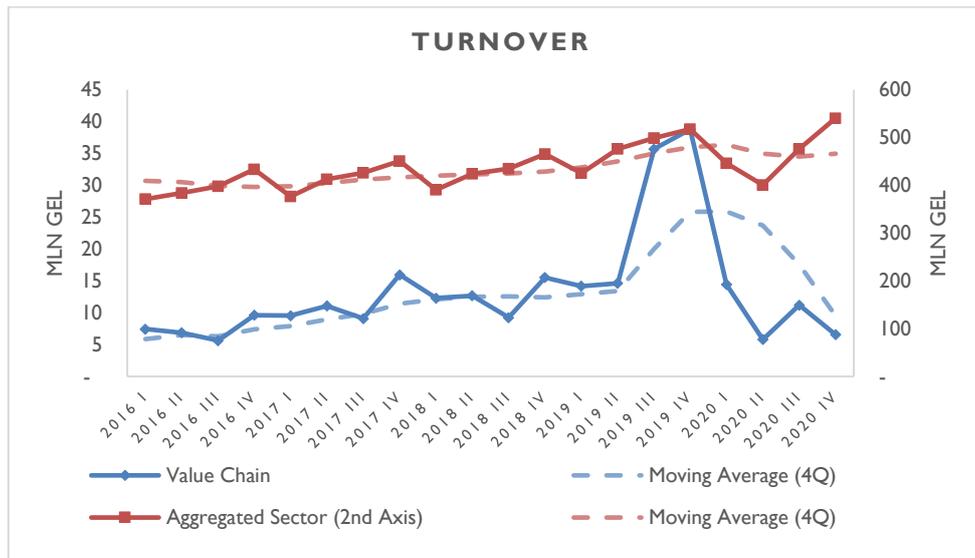
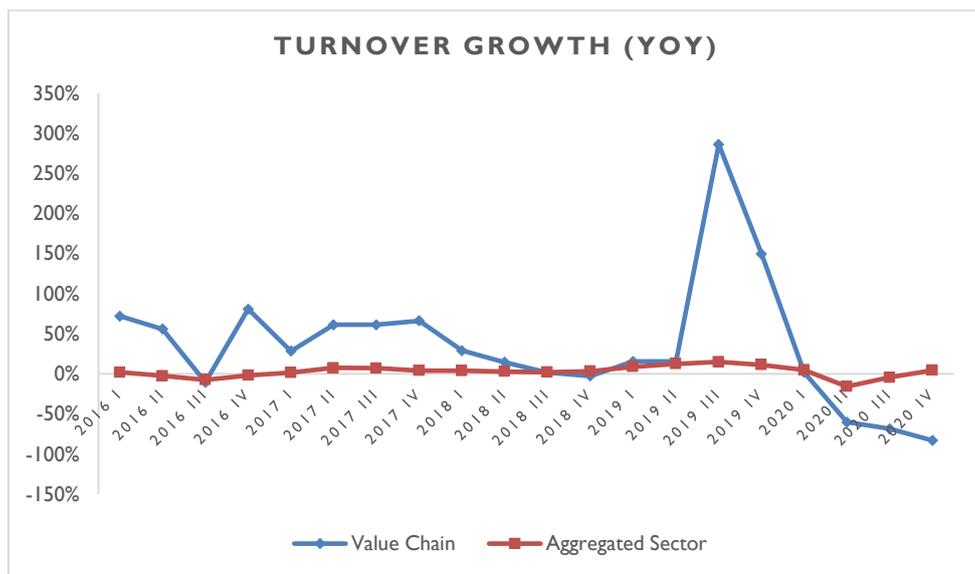


Chart 2.2 Changes in turnover for the media content production and post-production and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Media content production and post-production have been one of the fastest-growing value chains in Georgia: from 2016 until 2020, the value chain managed to hold the high average quarterly growth of 57.7%, amounting to the cumulative growth of 421.1% in turnover. In the same timeframe, turnover of the aggregated sector (information and communications) grew by 4.3% on average. Both the value chain and the aggregated sector lost most of the gained turnover growth in the subsequent year. In the first quarter of 2020, growth halted at 1.8%, dropping to 60.2% contraction in the following quarter. The diminution accelerated as decline in turnover reached 68.6% and 83.1% in the second half of 2020. Unlike the VC, the drop in the aggregated sector's turnover was less significant: 15.8% and 4.6% reduction in the second and third quarters, managing to rebound the decline in the final quarter of 2020 with 4.5% year-to-year growth. The moving average of the VC's turnover fell from

GEL 26 million at the end of 2019 to GEL 10 million at the end of 2020, whereas the same number for the aggregated sector decreased from GEL 480 million to GEL 466 million.

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

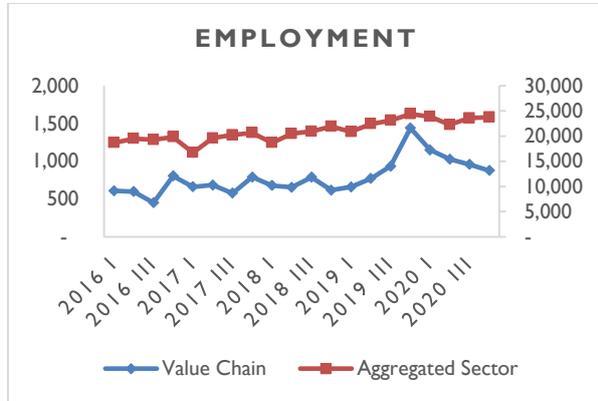
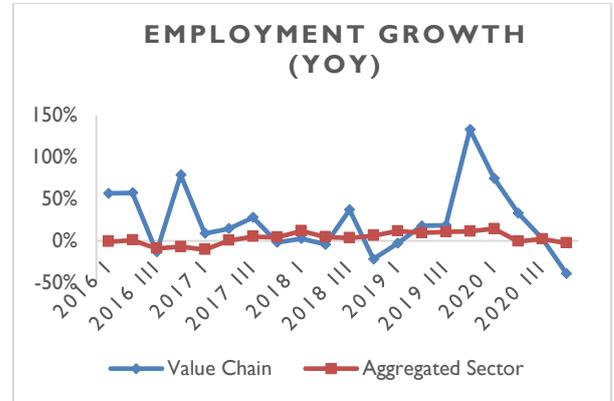


Chart 2.4 Growth rate of employment in the media content production and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The employment numbers tend to correlate with the total turnover volume: both VC and aggregated sector reached peaks at the end of 2019 and fell sharply in 2020. However, unlike the turnover, the employment numbers tend to be more volatile. The number of people employed in the post-media production VC reached an all-time high in the fourth quarter of 2019: 1440 people, whereas for the aggregated sector it was 24375 employees. As the labor market is somewhat rigid, a number of employees saw a less drastic reduction than the turnover. In fact, year-over-year change of employment for the VC became negative only in the fourth quarter, whereas the workforce reduction in the aggregated sector was significantly smoother. In total, post-production and media VC reduced the number of employees by more than third year-over-year (39.0%), compared to 2.6% reduction in the aggregated sector during the 2020 pandemic. Interestingly, the aggregated sector has managed to curb the increasing employment redundancy and saw a slight quarter-over-quarter workforce increase in the third quarter, compared to the media and post-production VC, which had succumbed to the lower demand, restrictions, and the cash rebate uncertainty.

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

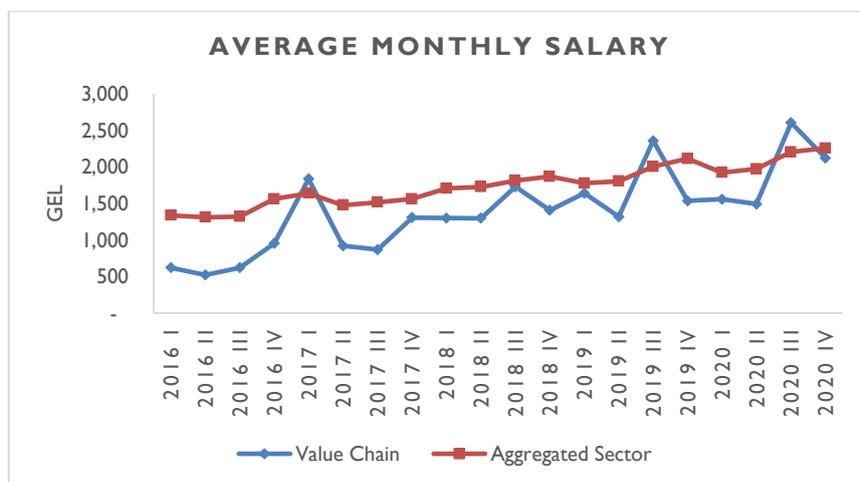
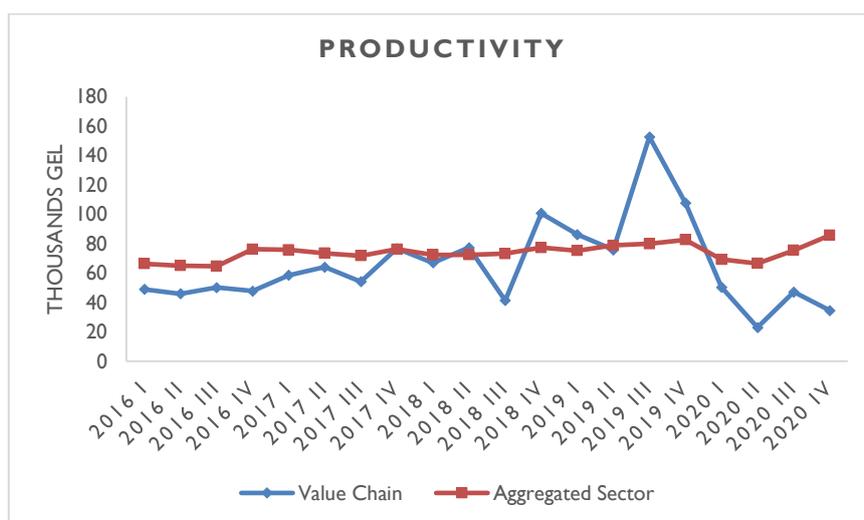


Chart 2.6 Productivity in the media content and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

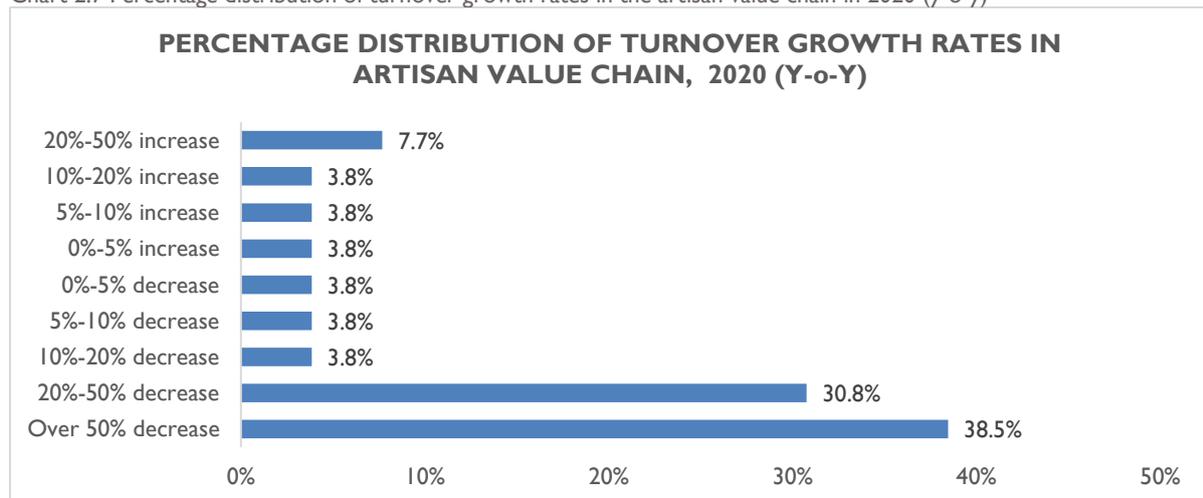
The average salary in the post-production and media VC has been on the upward trend since 2016, although with high volatility. Salary has reached local maximum levels in 2016, 2017, 2019 and 2020, with the third quarter of 2020 amounting to the highest number – GEL 2605. Interestingly, salaries were significantly higher in the third quarters of 2018, 2019, and 2020. Overall, the average salary has increased by 242.3% in 7 years for the VC and 68.8% for the aggregated sector. As chart 2.5 shows the pandemic has not reflected on the salaries in the VC as there haven't been any significant average salary cuts in 2020. In fact, it increased by GEL 584 (38.0%) throughout the pandemic. The same cannot be said about the aggregated sector of information and communications, where year-over-year growth in the last quarter reached 6.9%. Unlike the average salaries, productivity was significantly affected by the pandemic. The VC had experienced a steady growth in productivity for 4 years: from GEL 48.9 thousand in 2016 to GEL 152.7 thousand at its height in the third quarter of 2019. Due to falling output and insufficiently low number of redundant employees, which seem to be quite rigid, productivity of the VC shrank by 68% in a matter of a year and despite a positive incremental change in the third quarter the productivity per worker is still below 2016 levels. The value chain managed to outperform the aggregated sector only in 2018 and 2019, when the output per worker, i.e. productivity, was 14.7% higher on average. Without the worker reduction or improved economic conditions, post-production and media VC will not be able to outperform the aggregated sector, as the information and communications sector has already recovered from the production slump.

ARTISAN

The artisan value chain is probably the most niche and diverse VC among Georgian sectors. It integrates multiple activities and various skillsets, held by a minute part of the Georgian labor market. The majority of the surveyed companies, drawn from the stakeholder's list, are solo entrepreneurs operating in Tbilisi.

Although the artisan VC has been hit the hardest in the first three quarters of 2020, it seems that part of the businesses has been able to overcome some of the issues. It is important to note that none of the important problems have been resolved: material and transportation prices are still too high, advertisement is still out of reach and there is virtually no demand for expensive products. Rather, the artisan value chain has adapted to the new environment, and some have even stated that their total turnover had increased significantly at the end of 2020 compared to last year.

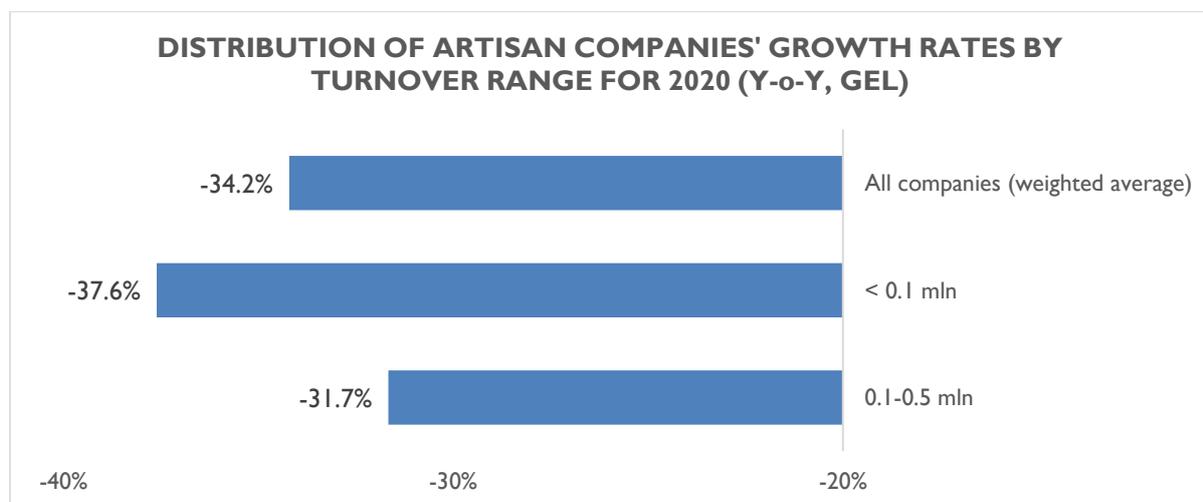
Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain in 2020 (y-o-y)



Source: Author's Calculations

Compared to the first three quarters, some of the businesses have reported that their turnover had grown by 20%-50% through 2020. Unfortunately, majority of the companies still saw their turnovers decrease by more than half, and 30.8% reported that their turnover decreased by 20%-50%. Others reported that their turnover varied from 10-20% increase to 10-20% decrease.

Chart 2.8 Distribution of artisan companies' growth rates by turnover range for 2020 (y-o-y, GEL)



Source: Author's calculations

On average the artisan companies with turnover less than GEL 100,000 contracted by 37.6% in 2020, which is 8.1 percentage points lower compared to the first three quarters, showing a slight improvement for small scale companies. However, when it comes to relatively larger companies, their turnover decreased by 31.7%, 1.7% percentage points higher. As 90% of the companies report their turnover to be under GEL 100,000, the weighted average growth has actually increased from -36.8% to -34.2%.

Most of the companies have reported that the number of employees has not changed during the pandemic, while some reported that their work had been completely halted in 2020. The artisan value chain is also unique with their distribution of employees: more than 95% of the workers are women. With an average number of workers equaling 3.5, majority of the artisan businesses employ from 2 to 4 people with 2 workers as a mode.

3. LIGHT MANUFACTURING

SUMMARY

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

The following section provides a detailed economic analysis of the furniture, packaging, and construction materials value chains based on quarterly enterprise survey data from Geostat, while for the wooden toys business activity and the PPE value chain, phone surveys were conducted, the result of which are also presented.

According to the quarterly data, turnover in the observed value chains had been exhibiting an overall upward trend since 2016. However, it should be mentioned that the COVID-19 pandemic has had a visible impact on turnover across all value chains, as has been reflected by the decreasing YoY revenues during both lockdown periods, especially during the first lockdown in Q2 2020.

Of the three value chains discussed below, according to available Geostat data, as of Q4 2020 the lowest number of hired employees was observed in the packaging value chain (3,011 hired employees), while the construction materials value chain recorded the highest employment in the same period (7,058 hired employees).

The average monthly salary for Q4 2020 ranged between GEL 865 and GEL 1,533, with the construction materials value chain having the highest and the furniture value chain having the lowest. Meanwhile, the lowest productivity, measured as quarterly output per hired employee, was observed for the furniture value chain (GEL 77,000), however the highest productivity was identified in the packaging value chain (GEL 161,000).

Survey results for the PPE value chain and the wooden toys business activity showed that more than 50% of companies from both of these two groups experienced a decrease in turnover during 2020, compared to 2019. This decrease for most PPE producers was around 20%-50%, while for wooden toys business activity, the majority of companies reported a more than 50% decrease in turnover. As for employment, 55% of PPE value chain representatives reported no change in their number of employees, while 47% of wooden toys manufacturers indicated a decrease in their number of hired employees in 2020, compared to 2019.

FURNITURE

In the following section we provide quantitative economic indicators for the furniture VC and for its corresponding aggregate sector (manufacturing).

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

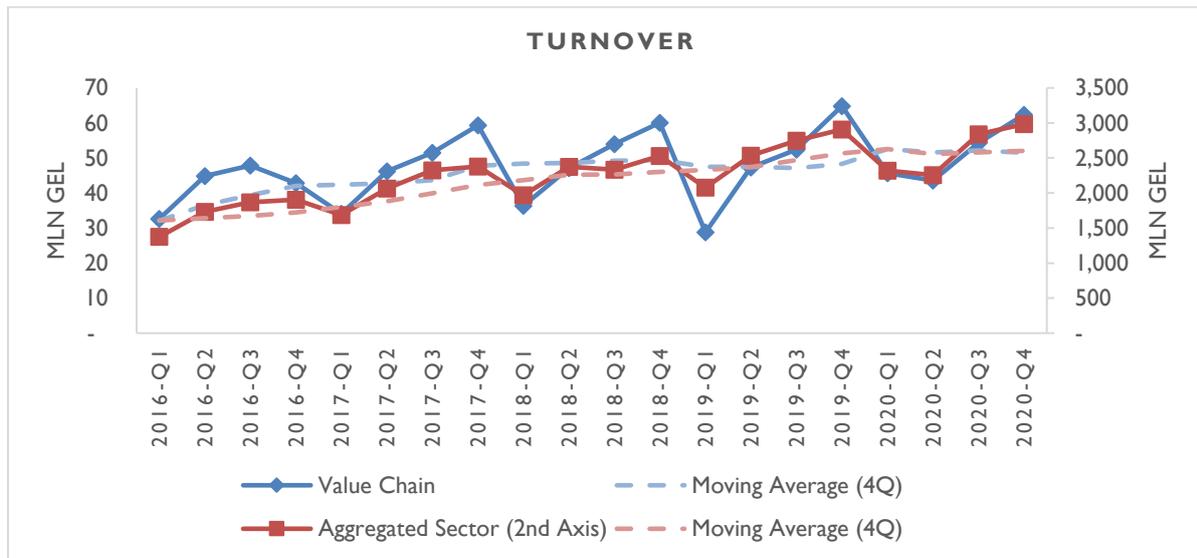
Table 3.1 Economic activities included in furniture value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code for quarterly analysis	Description of Economic Activity	Additional Classification
31	Manufacture of furniture	31	Manufacture of furniture	Furniture Output
16.1	Sawmilling and planing of wood	16.1	Sawmilling and planing of wood	Inputs of Furniture
16.21	Manufacture of veneer sheets and wood-based panels	16.2 ³⁹	Manufacture of products of wood, cork, straw and plaiting materials	
16.22	Manufacture of assembled parquet floors			
16.29	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials			

Turnover for the furniture VC presents an overall upward trend from 2016, amounting to GEL 46 million in Q1 2020, compared to GEL 29 million in Q1 2019. In Q2 2020 turnover for this VC decreased to GEL 44 million, however, afterward it started to increase and reached GEL 62 million in Q4 2020. Similar tendencies are observed for the corresponding aggregated sector with turnover amounting GEL 2,984 million in Q4 2020 (Chart 3.1).

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

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

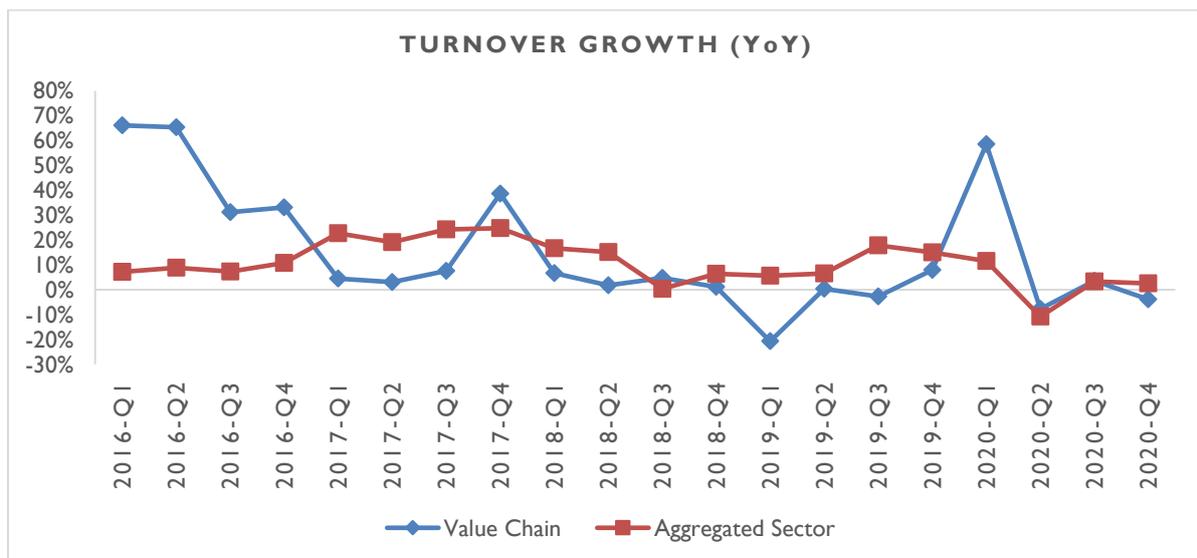


Source: National Statistics Office of Georgia

Year-on-year changes in the value chain turnover demonstrate a significant increase in Q1 2020 (58.5% YoY) followed by negative change of 7.7%, YoY, in Q2 2020. Turnovers for Q3 and Q4 show an increase of 3.6% (YoY) and decrease of 3.8% (YoY), respectively, compared to 2019 (Chart 3.2). It should be noted that negative annual growth numbers for furniture manufacturing turnover coincide with two phases of the COVID-19 lockdowns in 2020.

Total turnover for 2020 in the furniture VC amounted to GEL 206 million, which is 6.5% increase compared to 2019 (GEL 193 million). Corresponding indicator for aggregated sector amounted to GEL 10,401 million in 2020 (increase of 1.3% compared to 2019, GEL 10,266 million).

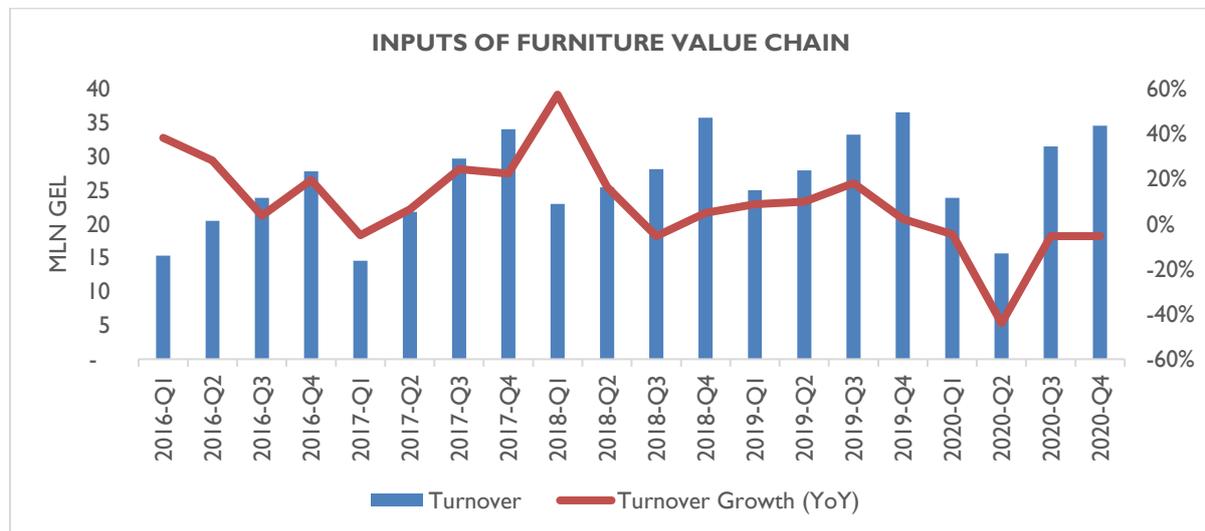
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Turnover of the furniture VC inputs declined year-on-year in all quarters of 2020. In Q1 2020, turnover amounted to GEL 24 million, which is 4.4% lower compared to Q1 2019. The highest drop is observed in Q2 (-44.0%, YoY), during the first phase of COVID-19 lockdown. Turnover decreased (YoY) in Q3 and Q4 as well and amounted to GEL 35 million in Q4 2020 (Chart 3.3). Total turnover for inputs in 2020 was GEL 106 million, which is 14.0% lower, compared to 2019 (GEL 123 million).

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

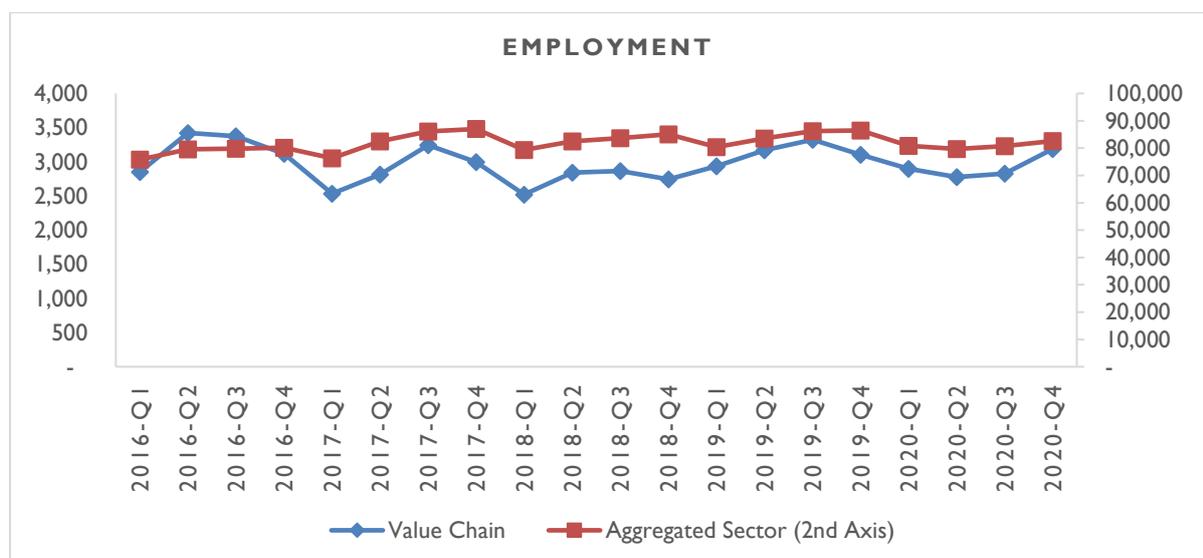


Source: National Statistics Office of Georgia

Number of employees in the furniture VC decreased slightly (-1.3%, YoY) in Q1 2020, compared to Q1 2019, but declined further in Q2 (-12.4%) and Q3 (-14.9%). In the last quarter hired employment in the furniture VC increased by 2.7%, YoY, and amounted to 3,186 (Chart 3.4 and Chart 3.5).

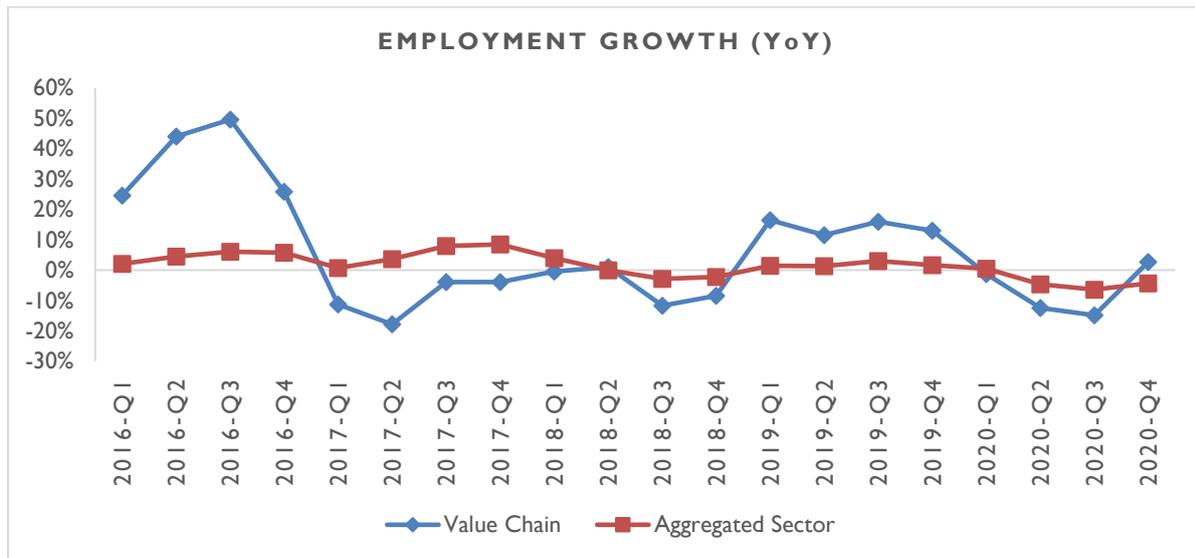
YoY reduction is also observed in the aggregated sector, starting from Q2 2020, with highest YoY decline in Q3 (-6.4%) (Chart 3.5).

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



Source: National Statistics Office of Georgia

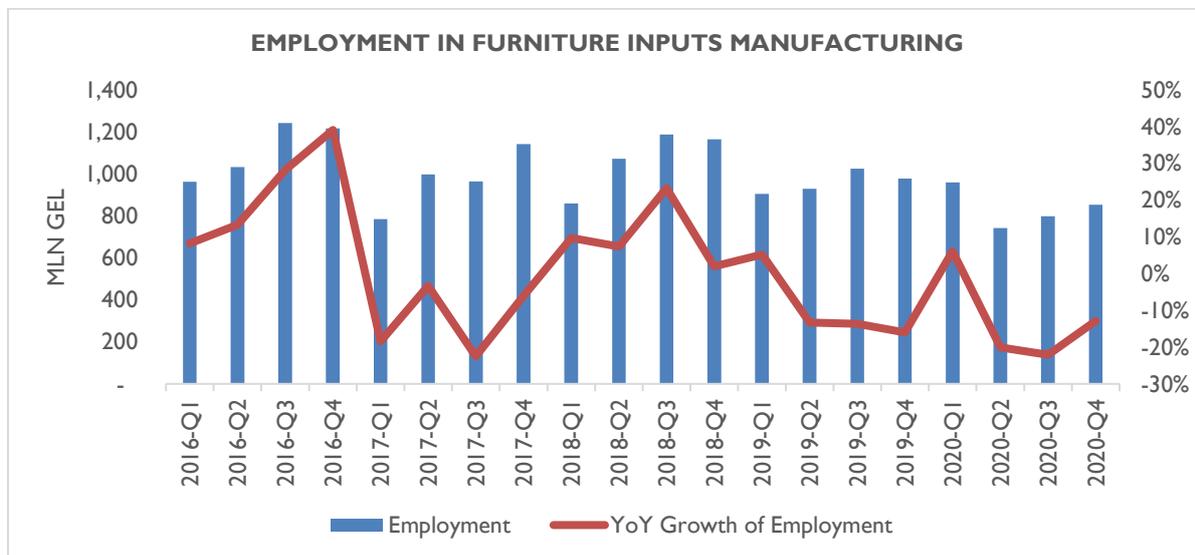
Chart 3.5 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

The number of hired employees engaged in furniture input production has been mostly decreasing in 2020 compared to 2019. Even though employment increased by 6.0% (YoY) in Q1 2020, it declined significantly in the following quarters, with the highest decline in Q3 2020 (-22.1%, YoY) (Chart 3.6).

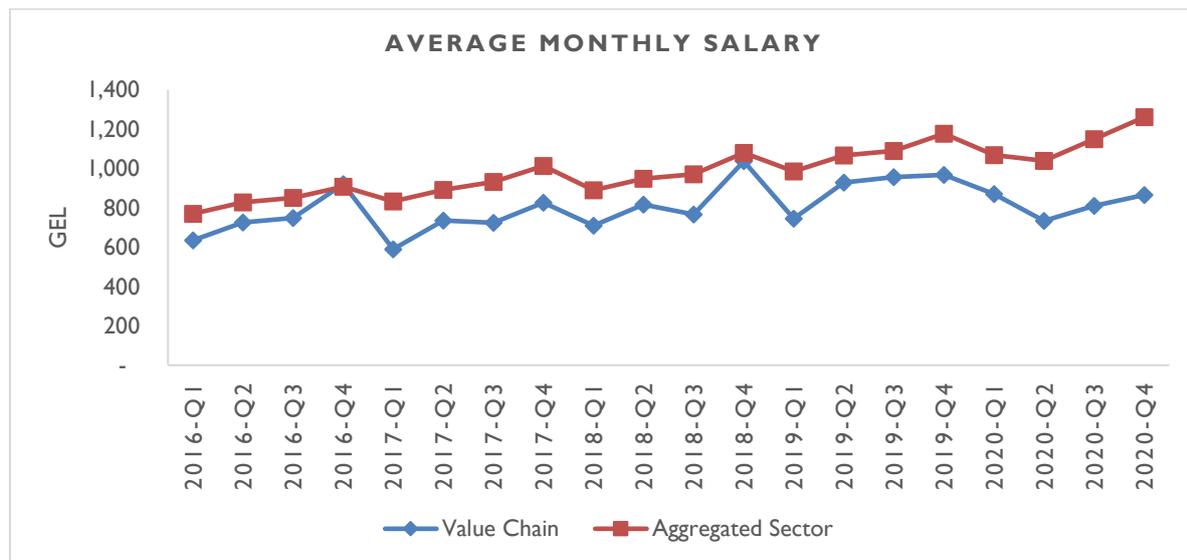
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing



Source: National Statistics Office of Georgia

In Q1 2020, average monthly salary for the furniture VC was recorded at a higher level compared to Q1 2019, however, it turned out to be lower throughout Q2-Q4 2020, compared to the same periods of 2019. As for the corresponding aggregated sector, after a slight YoY decrease in Q2 2020, it increased in Q3 and Q4 of 2020. In Q4 2020, monthly salary for the furniture VC amounted to GEL 865, while average monthly salary for the same period in the aggregated sector was GEL 1,261 (Chart 3.7).

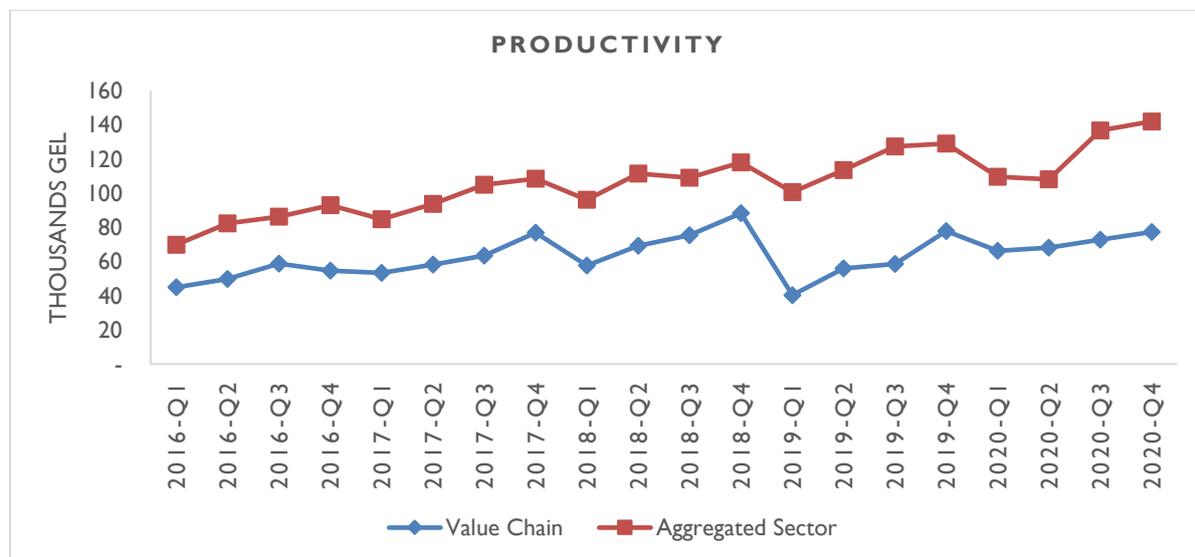
Chart 3.7 Average monthly salary in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Like average salary, productivity, measured as quarterly output per hired employee, is higher in the aggregated sector compared to the VC. It should be noted that, while average monthly salaries decreased YoY through Q2-Q4 2020 in the furniture VC, productivity was increasing throughout 2020, except for a slight decrease in Q4 (-0.6%, YoY). As for the aggregated sector, productivity increased (YoY) in Q1 2020, decreased slightly (YoY) in Q2 2020, and then jumped up again (YoY) for subsequent quarters of 2020. Notably, In Q4 2020, productivity for the aggregated sector was almost twice as high as in furniture VC (GEL 142 thousand compared to GEL 77 thousand).

Chart 3.8 Productivity in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

CONSTRUCTION MATERIALS

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

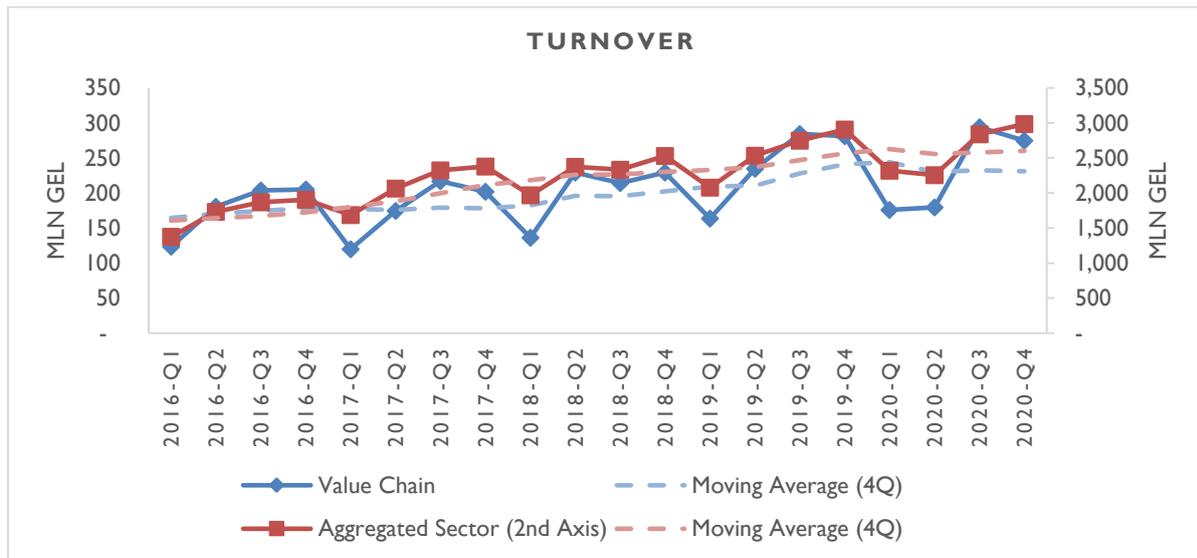
Table 3.2 summarizes the economic activities within construction materials manufacturing. In addition, the table demonstrates the limitation of our study by comparing preferred/inquired data with the available/gathered information.

Table 3.2 Economic activities included in the construction materials value chain

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

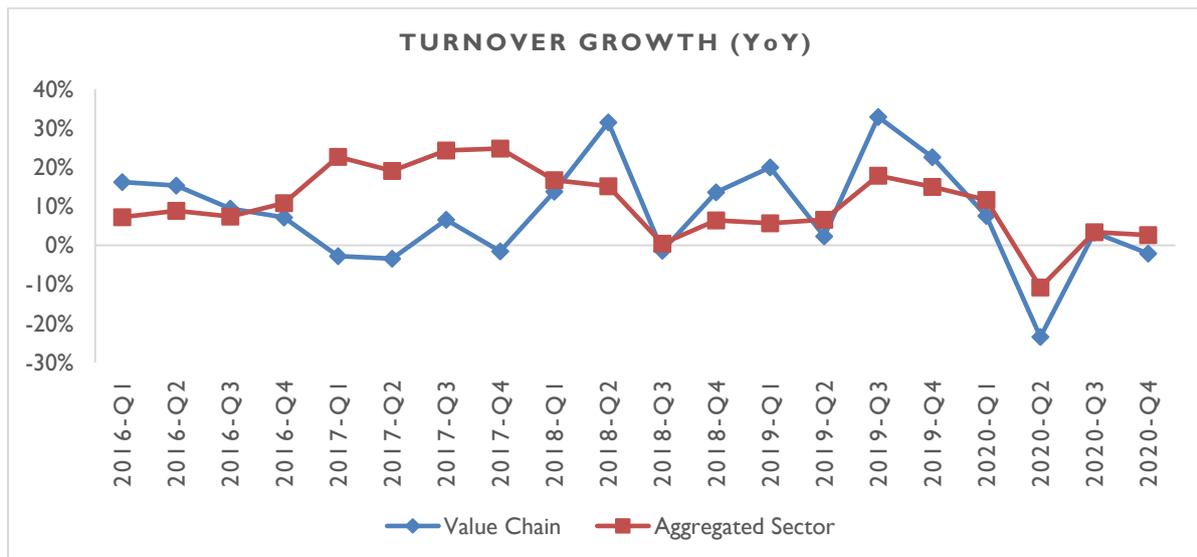
Observing Charts 3.9 and 3.10 below, it is evident that while total turnover for the aggregated sector increased by 1.3% in 2020, compared to 2019, total turnover for construction materials VC decreased by 4.1%, and amounted to GEL 924 million in 2020, down from GEL 964 million in 2019. The main reason for this reduction was significant YoY decrease in turnover in Q2 2020 (-23.5%), coinciding with the first phase of COVID-19 lockdown. Turnover for construction materials VC also presented a decline in Q4 2020 (-2.1%, YoY) during the second phase of lockdown and amounted to GEL 275 million at the end of 2020. On the contrary, YoY changes were positive in Q1 and Q3 of 2020. Turnover for the aggregated sector shows a significant YoY decrease in Q2 (-10.8%), however, growth is observed for Q3 and Q4.

Chart 3.9 Turnover of the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

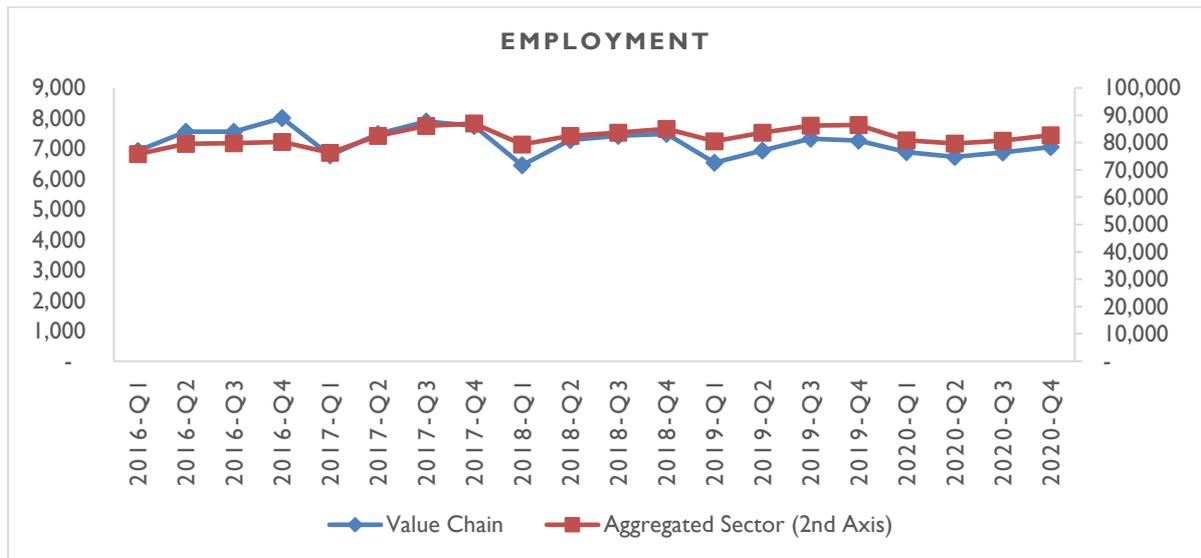
Chart 3.10 YoY Growth rate of turnover for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

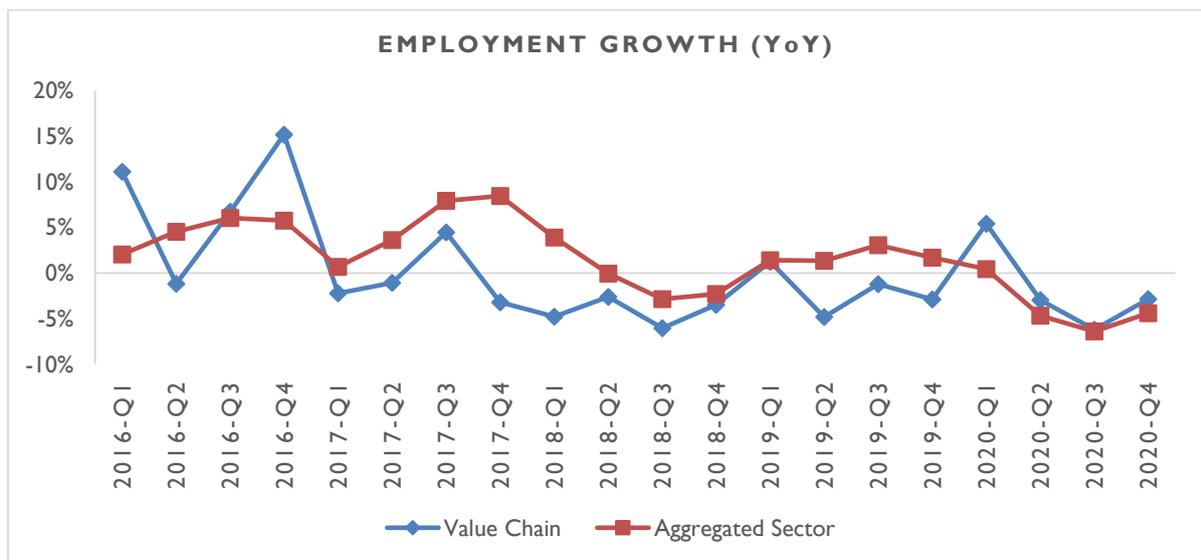
Below, on Charts 3.11 and 3.12, we observe hired employment in the VC and corresponding aggregated sector. Similar to the aggregated sector, number of employees in the VC was decreasing through Q2-Q4, 2020 (YoY), after an increase observed in Q1 2020 (5.4%, YoY). Number of hired employees decreased by -2.9% in Q4 2020 compared to Q4 2019 and amounted to 7,058.

Chart 3.11 Employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

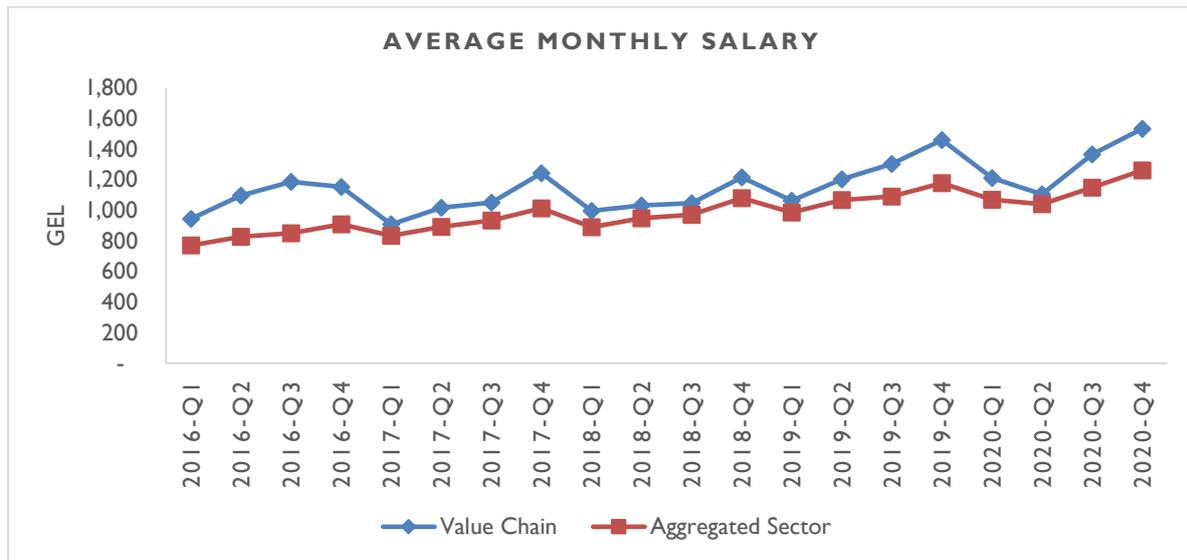
Chart 3.12 YoY Growth rate of employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Unlike the furniture VC summarized in previous section, the construction materials VC presents higher average monthly salaries than that of the aggregated sector throughout the observed period (Chart 3.13). In Q1 2020, average monthly salary for the construction materials VC depicted a significant increase of 14.0% compared to Q1 2019 and amounted to GEL 1,211. However, it decreased in Q2 2020 (-8.2% YoY), followed by increases in Q3 and Q4, similar to the aggregate sector. In Q4 2020, monthly salary for the construction materials VC amounted to GEL 1,533, while the same indicator for the aggregated sector was GEL 1,261. (Chart 3.13).

Chart 3.13 Average monthly salary in the construction materials value chain and the corresponding aggregated sector

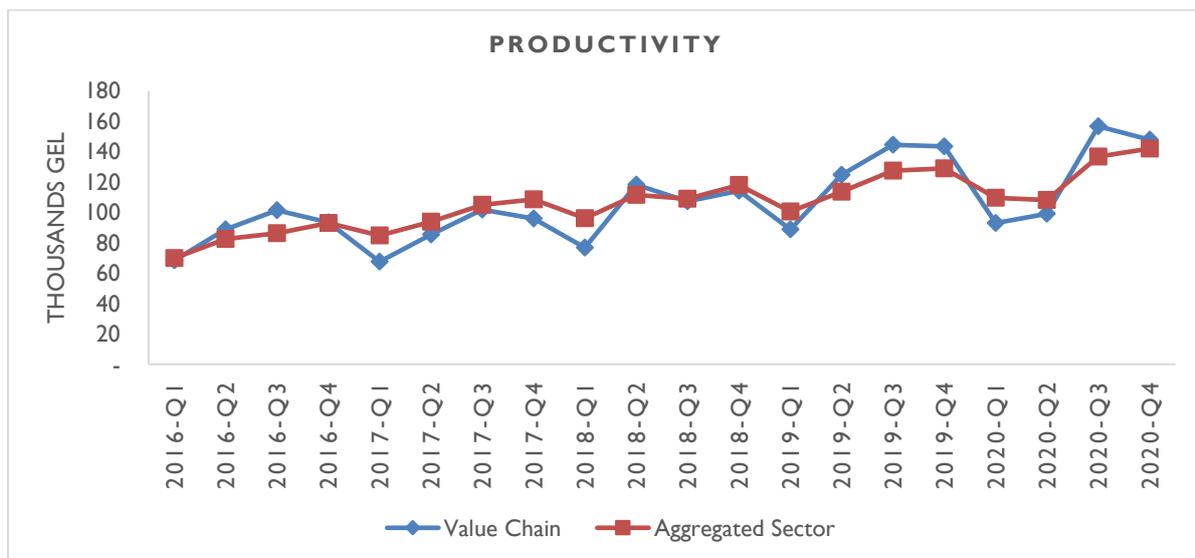


Source: National Statistics Office of Georgia

According to Chart 3.14, year-on-year productivity changes for the construction materials VC coincides with that of average salaries discussed above, meaning that productivity for the VC was increasing in Q1, Q3 and Q4, and decreasing in Q2. However, productivity drop in Q2 2020 (-20.5%, YoY) was more severe compared to the decline in average salary (-8.2%, YoY). Notably, the pattern of YoY changes is similar for the aggregated sector.

Productivity for the aggregated sector and the value chain are very close in most quarters (Chart 3.14). In Q4 2020 specifically, productivity for aggregated sector amounts to GEL 142 thousand, while productivity in the value chain is GEL 148 thousand.

Chart 3.14 Productivity in the construction material value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Overview of Existing Challenges and Opportunities

The construction materials value chain consists of several distinctive business activities. Even though similarities between these may exist, the challenges and prospects in the value chain are mostly specific to the given business activity. Core insights for this qualitative analysis were taken from the newly-established platform, the Georgian Construction Materials Cluster, as well as the Georgian Cement Association (GCA), and the following three representatives of the value chain: LTD Kamara, JSC Panex, and LTD Basalt Fibers. LTD Kamara is engaged in the mining, processing, importing, and realization of natural stones (tuff, dacite, basalt, granite, marble, onyx, and travertine) used for cladding. Meanwhile, JSC Panex is the only producer of polyurethane sandwich panels in Georgia, and LTD Basalt Fibers produces different materials for concrete and asphalt reinforcement, composite products, as well as insulation mats and mattresses.

Private sector leadership in this value chain is moderate. Each of the business activities that make up the value chain has its own frontrunner(s). Indeed, there are several platforms that, to some extent, bring together industry representatives. However, not all of them target the needs of the value chain as a whole. Primarily, there is the Georgian Construction Materials Cluster, which was established in December 2020, with the support of the European Union and the German Agency for International Cooperation (GIZ). The cluster had 15 member firms by the time this qualitative review was conducted. It addresses the core challenges of the value chain through offering networking, advocacy, communication, and educational services to its members. Besides this cluster, the Georgian Cement Association (GCA) is also an active player in this value chain. The association was founded in 2017 by HeidelbergCement Caucasus (GCC) and the Georgian Building Group (GBG), and it targets specific challenges related to the production and realization of cement in Georgia. The GCC unites its two founding members and organizes impartial quality testing of domestically-produced cement products. The results of the quality testing are communicated to Georgian cement producers and the wider public. Moreover, the Infrastructure Construction Companies' Association (ICCA) also operates in the value chain. However, while it does unite some construction materials' manufacturers, the ICCA is more focused on the construction sector as a whole.

The value chain faces the following noticeable obstacles:

- **Restricted availability of product certification** represents one of the most significant and persistent impediments in this value chain. The necessary certification, which is often a precondition for exporting construction materials, is not accessible in Georgia and can only be obtained from abroad. Even while obtaining certification, Georgian producers are vulnerable to misinformation about the authenticity of the issued certificates and the credibility of the issuing organization. Such barriers increase product costs and diminish the competitive advantage of exported Georgian construction materials. Hence, the research has revealed the need to inform business activity representatives under this value chain about specific details of the certification process. Some business representatives in this value chain also emphasized the need for co-financing of the certification process for producers with high growth potential.
- **Lack of access to finances** represents another obstacle that limits further growth in this sphere. According to some interviewees, long-term investment projects are typical for this value chain and the sphere relies on financial assistance (through loans, subsidies, or investments) that is not conditional on quick gains. Even though the value chain falls under the priority sectors listed by Enterprise Georgia, its offered subsidy schemes are relatively short-term and do not exceed a duration of 36 months. Private sector representatives claimed that even though some business activities have high investment attraction potential, both domestic

and foreign investors are reluctant to engage in long-term projects while seeking relatively quick gains.

- **Lack of a qualified workforce** was named as an additional hindrance. Georgia does not have any functional training programs in place targeting the needs of the various business activities in this value chain. For example, in order to train local miners, one of the interviewed firms, LTD Kamara, hired Ukrainian consultants to elevate the qualifications of its employees to a sufficient level. In this direction, to address the shortage of labor, the Georgian Construction Materials Cluster and GIZ plan to collaborate and deliver professional training to future employees in this value chain.
- **High dependency on imported inputs** is yet another important barrier that hinders the upgrading of the value chain. Apart from some exceptions (e.g. concrete blocks manufacturing or reinforcement materials production), most of the business activities are largely dependent on imported inputs and at present do not have access to locally-produced raw materials. Nevertheless, the availability of local inputs is perceived as a fundamental prerequisite for the future advancement of this value chain.

Final goods produced in the value chain face stiff competition from imported products. In the case of construction materials, Georgian customers tend to opt for cheaper products from foreign manufacturers. Moreover, importing companies are often better known on the local market than Georgian producers, who in an attempt to compete, lower the market price of their final goods. In terms of non-price-related competition, some of the interviewed companies highlighted the fact they positioned themselves as providers of high-quality products, affordable payment schedules, flexible supply, and full-service offerings that cover everything from the realization to installation of the product. Private sector representatives believe that, in the longer term, local production has import replacement potential, but at this stage the greater affordability of imported products remains a core hindrance in this value chain in Georgia.

Demand for products created in the value chain mostly comes from the Georgian construction sector. Thus, the economic performance of the value chain is tightly linked to the dynamics of this industry as a whole. Indeed, the construction sector orders around 60% of final goods manufactured by LTD Kamara. Similarly, a considerable share of local sales for LTD Basalt Fibers and JSC Panex goes to Georgian industrial construction sites. Some of the interviewed business representatives reported having had successful experiences in participating in public procurements. However, the procurement process was generally evaluated as unhealthy to a certain extent, with cheaper bids of lower quality being favored.

Representatives of the value chain have some exporting experience. Regional and post-Soviet markets represent the main exporting destinations, where Georgian construction materials have a competitive advantage in terms of both price and quality. Meanwhile, some of the interviewed businesses have established trade ties with partners in Europe and beyond. For instance, LTD Kamara has entered foreign markets such as those of the US and Italy. The company also plans to penetrate the Czech and Canadian markets soon and to further develop its export potential to the US. Germany is also considered another favorable market for Georgian-produced cladding materials. Meanwhile, LTD Basalt Fibers has penetrated the South African market, where it has successfully competed with Chinese products. Furthermore, the company has stably exported to Germany, the United Kingdom, Austria, Netherlands, Turkey, and the UAE.

Nevertheless, due to their different weights, sizes, and shapes, most types of construction materials are challenging to transport and any competitive advantage can be lost in locations requiring long-distance shipping, which increases the price of the product. Therefore, the majority of interviewed

companies reported having limited experience of exporting beyond markets in the nearby region and the post-Soviet space. At the same time, according to some producers, the majority of regional markets are not sustainable exporting destinations given their unstable import policies.

Pertinently, the COVID-19 pandemic has taken a drastic toll on Georgian construction materials manufacturing, as demand for it has dropped sharply since stringent lockdown measures were applied nationwide. If regulations are loosened in the coming months, most of the value chain representatives anticipate growth in all economic parameters. For instance, LTD Basalt Fibers is aiming to double its production volume, to reach economies of scale, and to increase its value-added. However, the unstable epidemiological situation in the country renders the interviewed construction materials producers unable to make accurate projections for the future.

PACKAGING

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

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

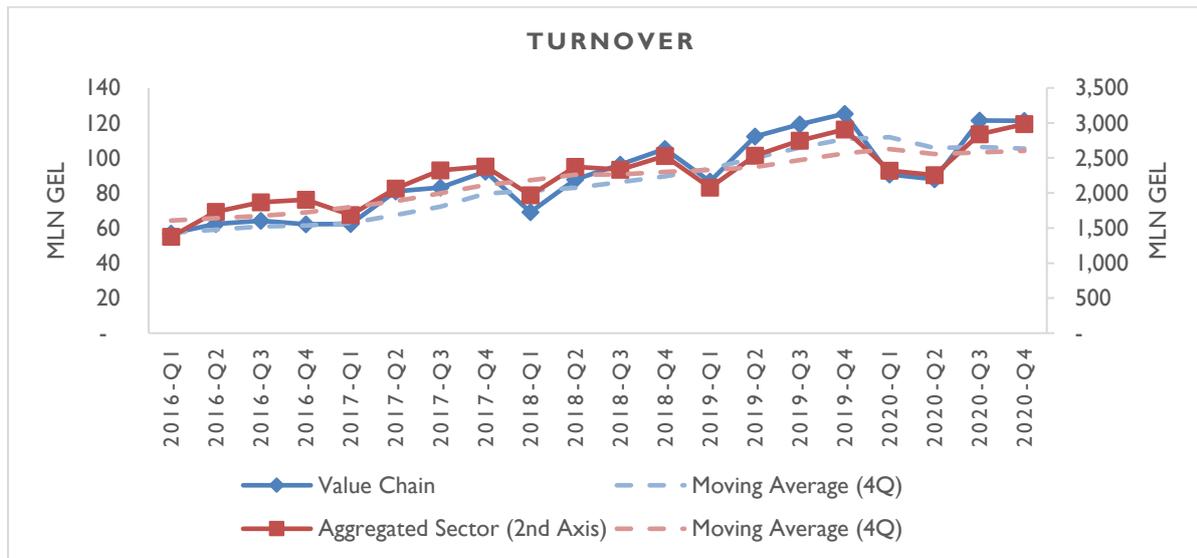
Table 3.3 Economic activities included in the packaging value chain

NACE	Description	NACE	Description	NACE	Description
Preferred		Available at annual frequency		Available at quarterly frequency	
16.24	Manufacture of wooden containers	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.2 ⁴⁰	Manufacture of articles of paper and paperboard
17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard		
22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods
23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
25.92	Manufacture of light metal packaging	<i>Not used in the analysis due to data availability only at a very high-level aggregation</i>			

Similar to other value chains within the light manufacturing sector, decrease of turnover in Q2 2020 is noteworthy. This significant drop of 21.7%, YoY, is the main contributor to the overall turnover decrease in 2020 for the packaging VC. Compared to 2019, total turnover for the packaging value chain decreased by 5.0% in 2020 (from GEL 444 million to GEL 421 million). Apart from significant YoY decrease in Q2 2020, turnover for packaging VC also decreased in Q4 2020 by 3.3%, YoY (Charts 3.15-3.16). Q1 and Q3, on the contrary, present positive change, YoY. In Q4 2020, turnover for the aggregated sector and the packaging value chain amounted to GEL 2,984 million and GEL 121 million, respectively (Chart 3.15).

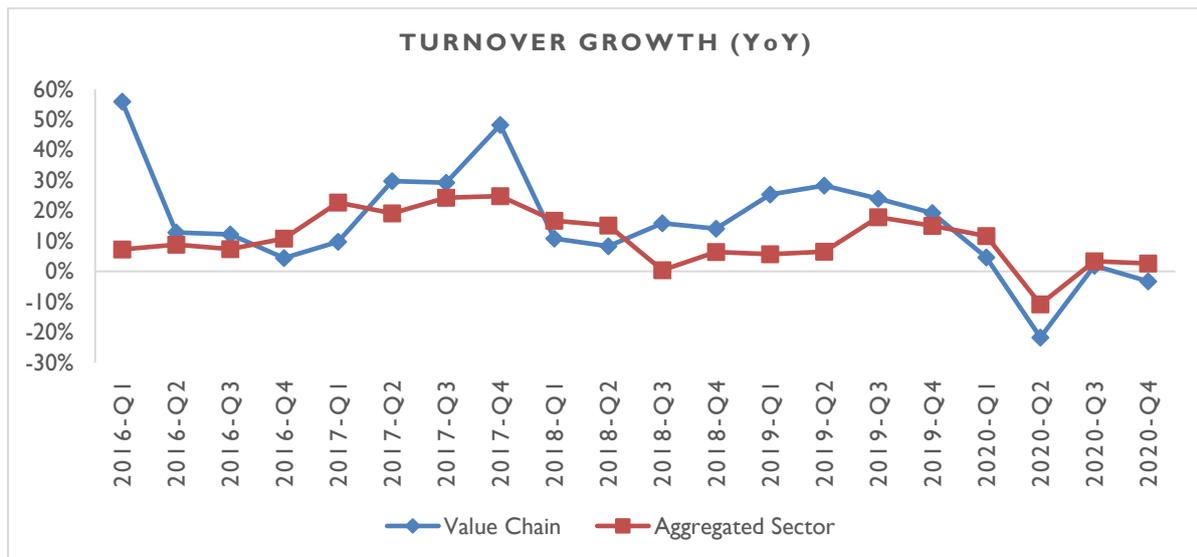
⁴⁰ This group also includes: 17.22 Manufacture of household and sanitary goods and of toilet requisites; 17.23 Manufacture of paper stationery; and 17.24 Manufacture of wallpaper.

Chart 3.15 Turnover of the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.16 YoY Growth rate of turnover for the packaging value chain and the corresponding aggregated sector

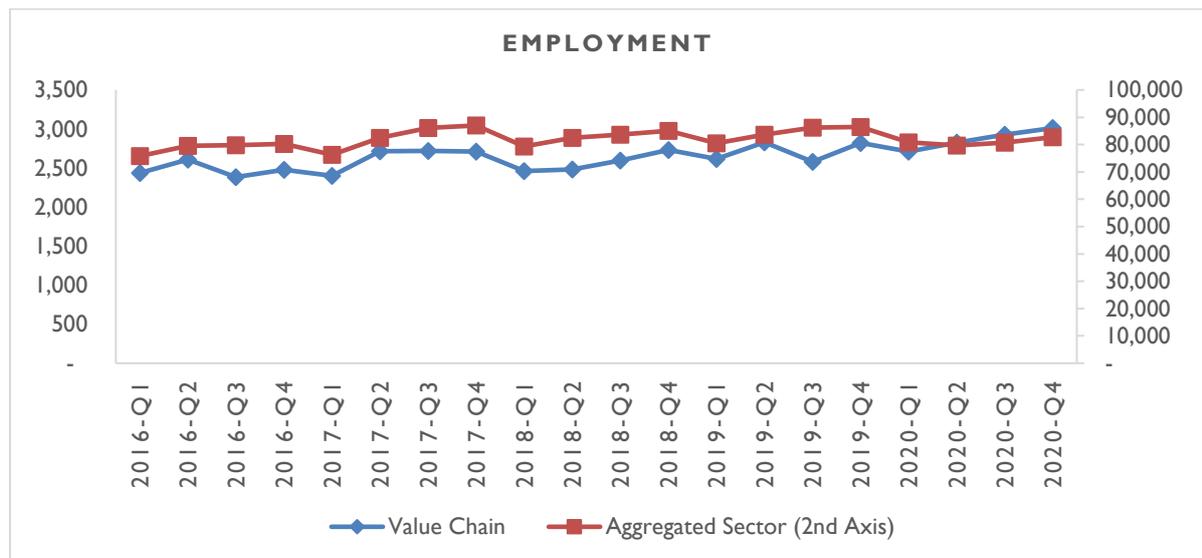


Source: National Statistics Office of Georgia

According to chart 3.17, number of hired individuals in the packaging VC decreased in Q1 2020, compared to Q4 2019, however, maintained an increasing trend throughout 2020 and amounted to 3,011 in Q4. As for the aggregated sector, after a decline in Q1 2020, compared to Q4 2019, it decreases further in Q2 2020, however, improves in the last two quarters of 2020.

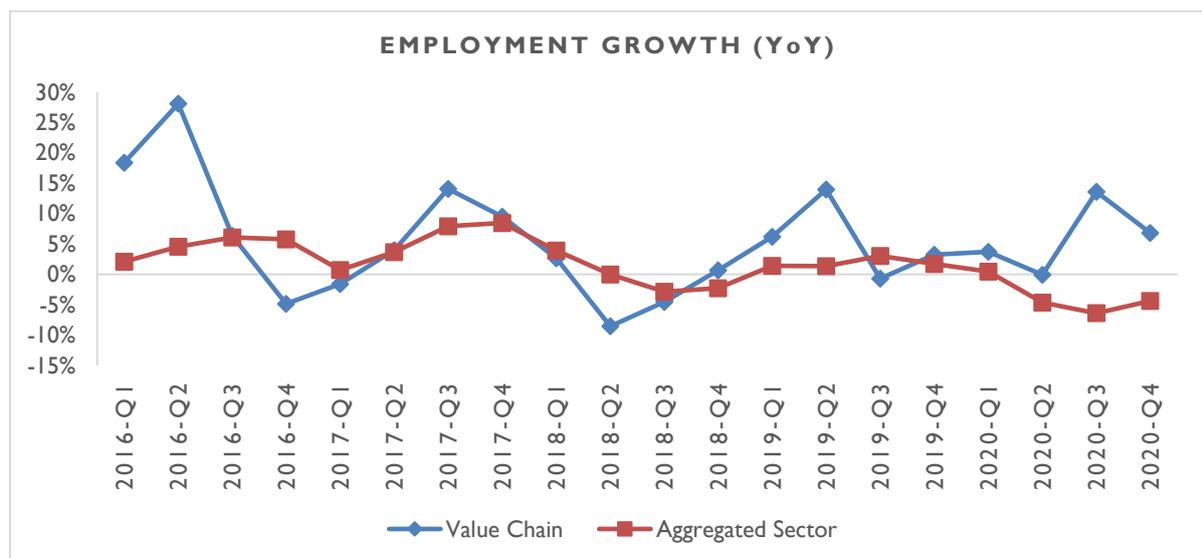
Chart 3.18 shows the decrease in year-on-year growth of hired employment in the packaging VC, in the periods of the COVID-19 lockdowns (Q2 and Q4 of 2020). Employment growth even became negative in Q2 2020, -0.1%, YoY.

Chart 3.17 Employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

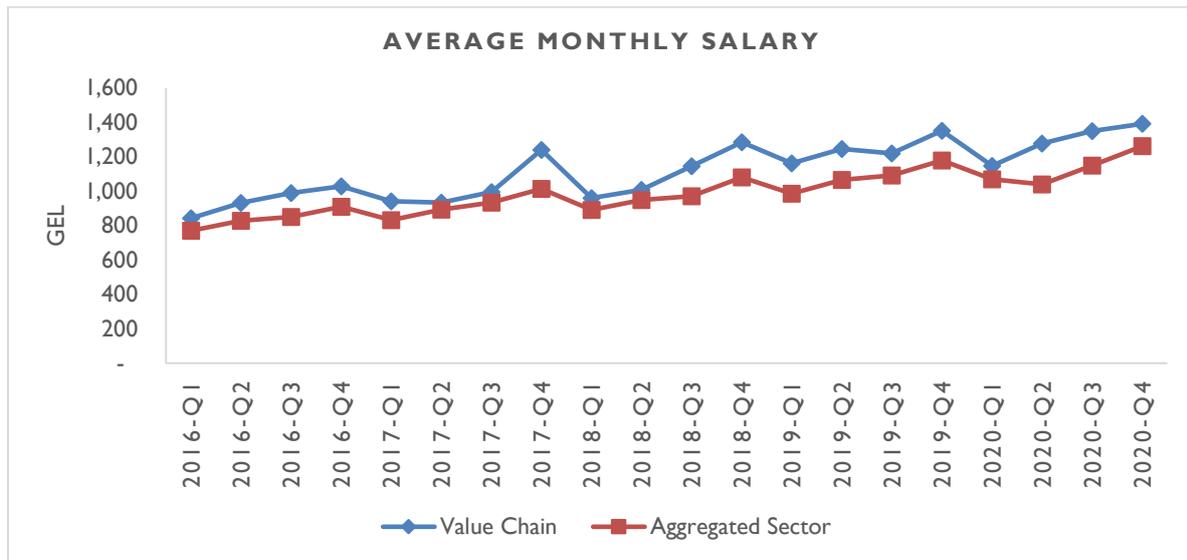
Chart 3.18 YoY Growth rate of employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Similar to the construction VC, the packaging VC presents higher average monthly salaries compared to aggregated sector throughout 2016-2020 (Chart 3.19). In Q1 2020, average monthly salary for the packaging value chain presented a slight decrease of 1.3% compared to Q1 2019, amounting to GEL 1,147. However, average salaries increased YoY, throughout Q2-Q4 2020. The most significant increase was observed in Q3 2020, 10.7% increase YoY. Average monthly salary for the packaging value chain in Q4 2020 amounted to GEL 1,391 (Chart 3.19).

Chart 3.19 Average monthly salary in the packaging value chain and the corresponding aggregated sector

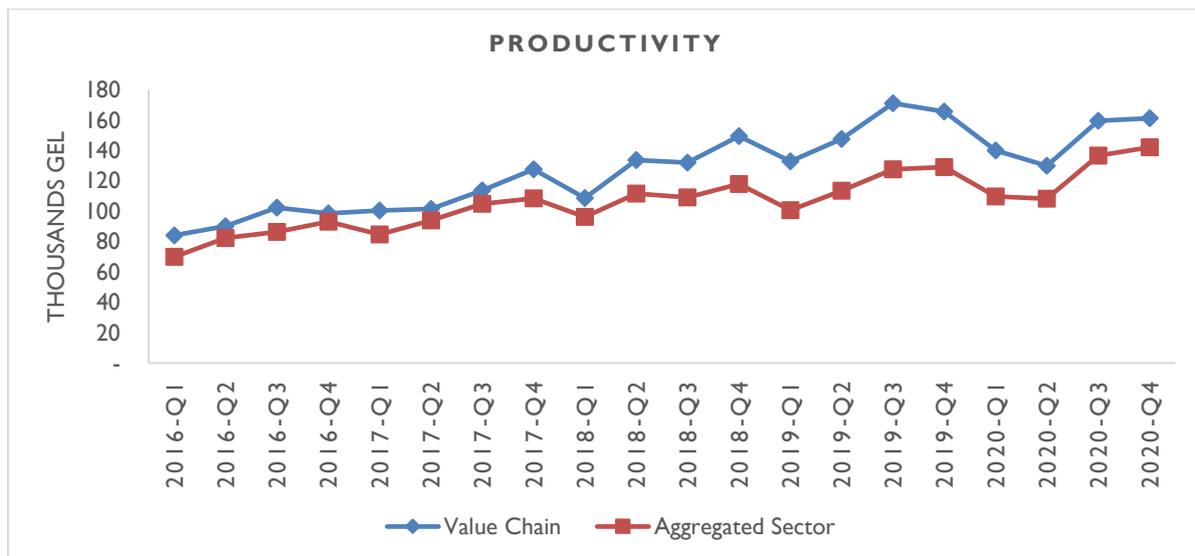


Source: National Statistics Office of Georgia

Chart 3.20 demonstrates that like the average salary, productivity in the packaging VC has also stayed above the similar indicator for the aggregated sector throughout 2016-2020. At the same time, while average monthly salaries presented YoY increase through Q2-Q4 2020, productivity in the packaging VC was decreasing in the same period of 2020. The most significant YoY decrease was depicted in Q2, -12% YoY.

In Q4 2020, productivity for the value chain amounted to GEL 161 thousand, compared to GEL 142 thousand in the aggregated sector.

Chart 3.20 Productivity in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

Overview of existing challenges and opportunities

The focus group discussion with private sector representatives and in-depth individual interviews with two leading companies in this field (one with a new player on the market - Doctor Goods, and the other with a relatively well-established representative of the value chain – LTD Elselema) revealed both long-lasting challenges that constrain the value chain's future development and some potential prospects for PPE manufacturers presented to them by the pandemic. The following are among the value chain's most restricting factors:

- **Shortage of skilled labor and a lack of core competences in the field.** The competence level of vocational school graduates is said to be insufficient, and manufacturers usually have to train their employees at their own expense. Some interviewees also claimed that obsolete technologies were being used in the teaching process at VET schools, and that there was a shortage of qualified teachers as well. Meanwhile, some of the stakeholder companies seem to be reluctant to cooperate with vocational schools and plan to introduce their own training courses or educational programs instead and offer paid training for interested individuals. In addition, it was mentioned by some respondents that employees often find it difficult to adapt to the required quality standards, particularly in the manufacture of protective medical clothing and equipment.
- **Lack of locally-produced raw materials.** Around 95% of inputs used in production are imported (mainly from China and Turkey), resulting in two potential problems. First, the imported inputs from Turkey increase the products' sales prices and therefore make them less competitive. Second, in the case of input materials, delivery takes longer and thus delays the domestic production process, resulting in a failure to meet clients' urgent needs. The latter hindrance has become more prevalent during the pandemic as flight restrictions and lockdown measures have increased the frequency of delays in input deliveries. Producing raw materials locally (for example, non-woven fabric, the sanitary textile used by Doctor Goods as one of its key inputs, or three-layer membrane fabric utilized by LTD Elselema) is not considered profitable in Georgia yet due to the high production costs and the relatively small domestic market size.
- **Limited access to modern technology.** This is a problem that mainly concerns manufacturers of workwear and service apparel (e.g. military and police uniforms) working on government tenders, and relates to the need for expensive machinery for eco-friendly production (the latter is a government requirement, according to respondents). As was mentioned by some respondents during the focus group discussion, the market is relatively small and considering the currently low demand, it would be difficult for the sector to invest in modern technology and scale-up without substantial support.
- **Low access to finance.** Even though certain representatives of this value chain have benefitted from Enterprise Georgia's support mechanisms, a lack of financing is still perceived as one of the major hindrances in the PPE value chain. For example, LTD Elselema outlined that it possesses the necessary knowledge and professional base to produce one of its inputs - three-layer membrane fabric. However, lack of finances restricts the company to launch the project.
- **Lack of cooperation among industry representatives.** One of the interviewed companies expressed a need to strengthen cluster approaches in the value chain to ensure better knowledge-sharing and advocacy efforts at the state level.

In relation to the last point, the Sustainable Apparel Cluster ("Made in Georgia") was established as part of the EU and GIZ-supported Clusters4Development project, providing technical advisory

services to member companies and supporting them to strengthen market linkages and their export potential. Within the same project, partner apparel producers formed a business association named the Georgian Apparel and Fashion Association (GAFA), uniting around 20 members, composed of apparel companies, fashion designers, and ateliers. Despite a recent increase in demand for COVID-related PPE products, apparel cluster membership does not seem to place a special focus on medical textile and apparel manufacturers. Based on our interviews, such companies would expect to benefit more from the creation of an association that would explicitly focus on medical clothing manufacturing.

Despite these existing challenges, there are also some prospects in this value chain, arising from the COVID-19 pandemic. In response to the sudden and severe demand for PPE, many apparel manufacturers have also switched to making face masks, for example. Georgia is now producing these products locally, replacing imports to a certain extent. Several companies have adjusted their production lines to meet the high demand for other varieties of PPE. One distinguishable case of such a development is that of Caucas Pack LTD, a local packaging manufacturer, which temporarily expanded its production to the manufacturing of protective face shields from recycled plastic bottles during the first phase of the pandemic. In addition, the value chain representatives (LTD Elselema, JSC Sewing Company Imeri, Materia Fashion House, LTD Nitex, etc.) participated in a government-subsidized program to supply the local market with domestically-produced face masks.

Of the several established companies in the value chain, LTD Elselema is one of the most distinguished players and thus deserves particular attention. The company has been operating for more than 28 years, producing military and police uniforms (e.g. bulletproof and protective vests), working uniforms, waterproof garments, as well as casual clothing and knitwear. It is one of the largest players on the market and regularly succeeds in public procurements. Besides its operations in Tbilisi, with the financial support of Enterprise Georgia, LTD Elselema expanded its production capacities in Lanchkhuti in western Georgia and employed an additional 120 personnel to reach a total of 270 employees at both of its production sites. Elselema has prominent international connections: in Georgia it has been an official representative of many international companies, producing sewing machines and sewing threads. In 2019, Elselema also supplied its Swiss partner with Georgian-produced police uniforms. In the medium term, the manufacturer is considering entering the British market, as the supply of Chinese PPE products to the United Kingdom was recently partially interrupted. However, due to its high dependency on imported inputs, Elselema cannot produce on a large scale.

The industry also has a newly-emerged leader on the local market. Doctor Goods, which has been operating in Georgia since September 2019, is the only enterprise that produces sterile medical textiles, while it also produces medical coveralls and gowns for surgery and post-operative care. The company was established through Startup Georgia and with the Partnership Fund's support and has further benefited from EU support under the Clusters4Development project. Since its establishment in Georgia, Doctor Goods has expanded its production, including with the help of Enterprise Georgia and TBC Bank. The organization currently employs 70 individuals and is almost meeting the entire demand for surgical kits from local hospitals⁴¹. The enterprise has also been granted permission to import ethylene oxide to Georgia, and uses it in its production process, which is claimed to be the most effective means of sterilizing medical textiles. The founder of Doctor Goods is planning to launch a new ISO-certified company soon that would be mostly focused on exporting products to Europe.

Quantitative Survey Results

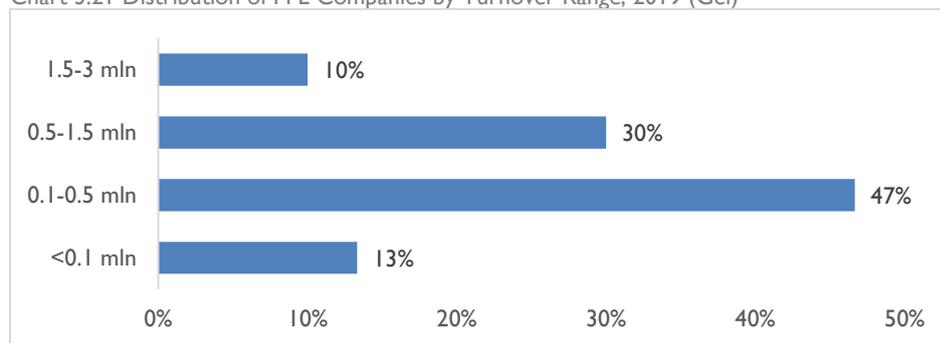
⁴¹ <http://www.economy.ge/?page=news&nw=1465&lang=en>

Due to data limitations, the key business indicators describing the development in this business activity were obtained through a quantitative survey. The sample of respondents constituted 31 businesses involved in the production of PPE, registered with the NACE 14.12 (manufacture of workwear) and NACE 32.99 (other manufacturing) codes.

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

The declared turnover of surveyed PPE companies in 2019 ranged from less than GEL 100,000 to GEL 3 million (Chart 3.21).

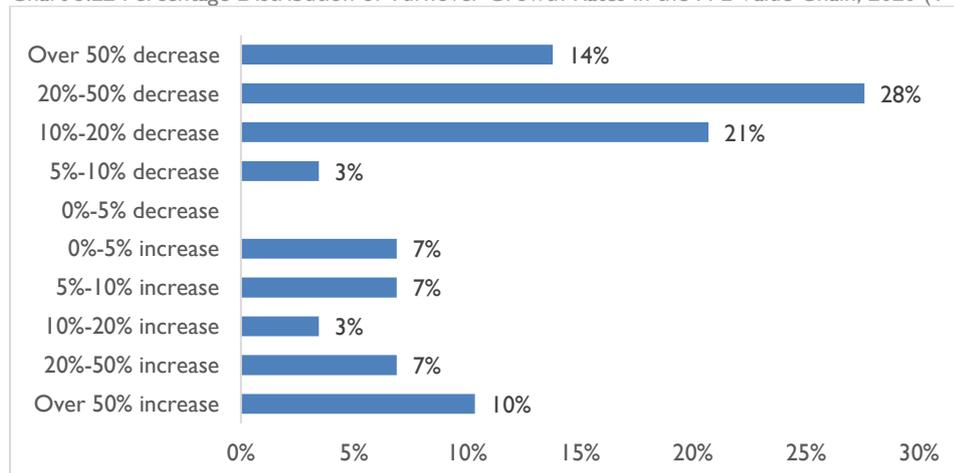
Chart 3.21 Distribution of PPE Companies by Turnover Range, 2019 (Gel)



Source: Authors' calculations

The majority of the companies (28%) reported that their turnover decreased by 20%-50% in 2020 (Chart 3.22). For 14% of surveyed businesses the decrease was over 50%. There were companies with increasing turnover as well. In 10% of the cases, the increase was significant (over 50%).

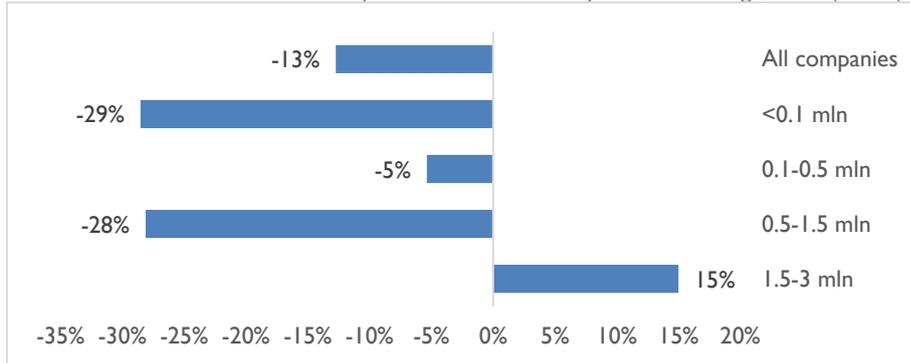
Chart 3.22 Percentage Distribution of Turnover Growth Rates in the PPE Value Chain, 2020 (Y-o-Y)



Source: Authors' calculations

In annual terms the turnover is estimated to have fallen by 13%, largely due to the losses of companies with a turnover of GEL 500,000-1,500,000 and less than GEL 100,000, while the largest companies (GEL 1.5-3 million turnover) depicted 15% growth on average (Chart 3.23).

Chart 3.23 Distribution of PPE Companies Growth Rates by Turnover Range, 2020 (Y-o-Y)

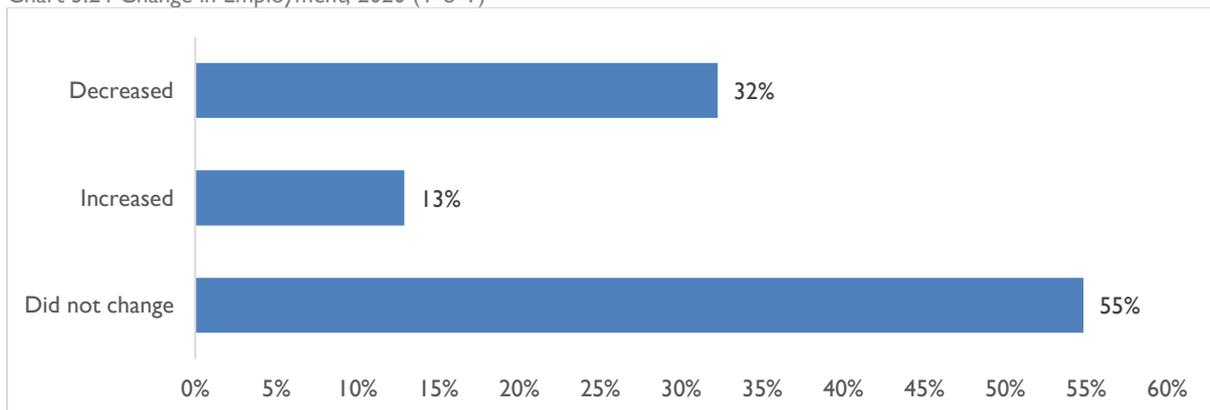


Source: Authors' calculations

The number of employed persons in surveyed PPE companies varied from 2 to 100, with the median number equaling 20 employed persons. Women accounted for 85% of employed individuals, while the share of young people (under 29 years old) made up less than 15% of the total PPE value chain employees.

The average salary of the PPE value chain employees equaled GEL 665. Meanwhile, the majority of companies (55%) indicated no change in the number of employees in annual terms (Chart 3.24).

Chart 3.24 Change in Employment, 2020 (Y-o-Y)



Source: Authors' calculations

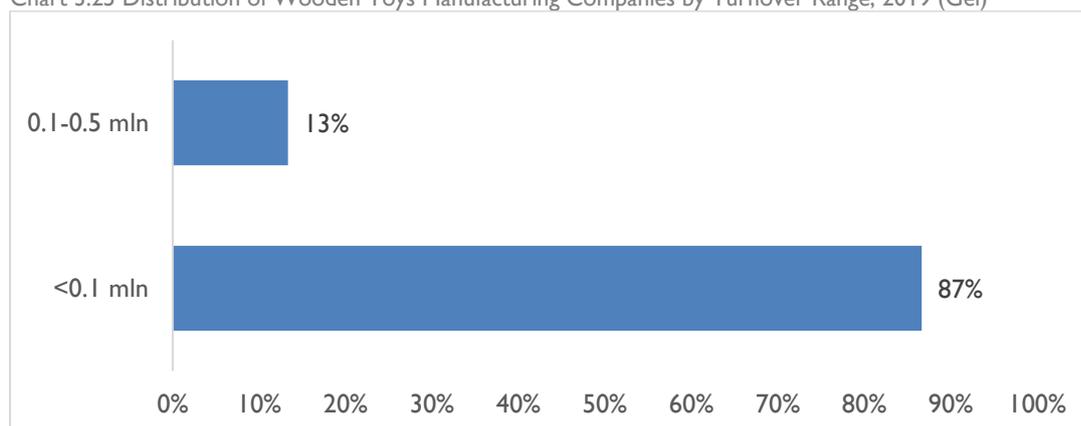
WOODEN TOYS

Quantitative Survey Results

This section of the report is devoted to the analysis of wooden toys manufacturing business activity based on a quantitative survey conducted with 15 companies.

Their declared turnover in 2019 for this business activity was under GEL 500,000. The majority (87%) of wooden toy producers reported turnover under GEL 100,000 (Chart 3.25).

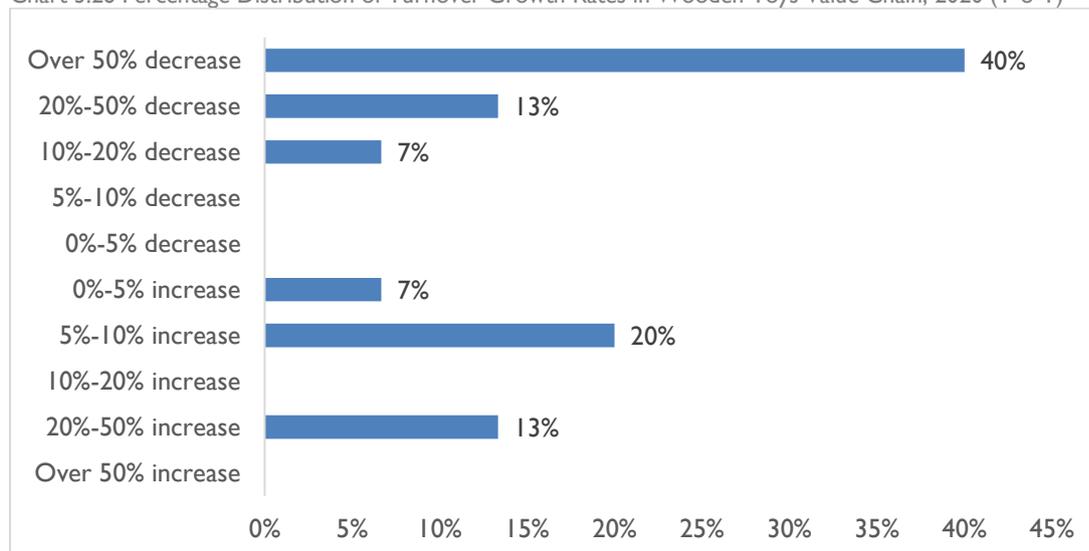
Chart 3.25 Distribution of Wooden Toys Manufacturing Companies by Turnover Range, 2019 (Gel)



Source: Authors' calculations

In 2020, 40% of surveyed wooden toy producers experienced turnover declines with over 50% decrease (Chart 3.26). Another 20% of companies also reported fall in turnover but of lesser magnitude. Finally, 6 out of 15 companies (all of them with a turnover less than GEL 100,00) recorded positive turnover growth rates.

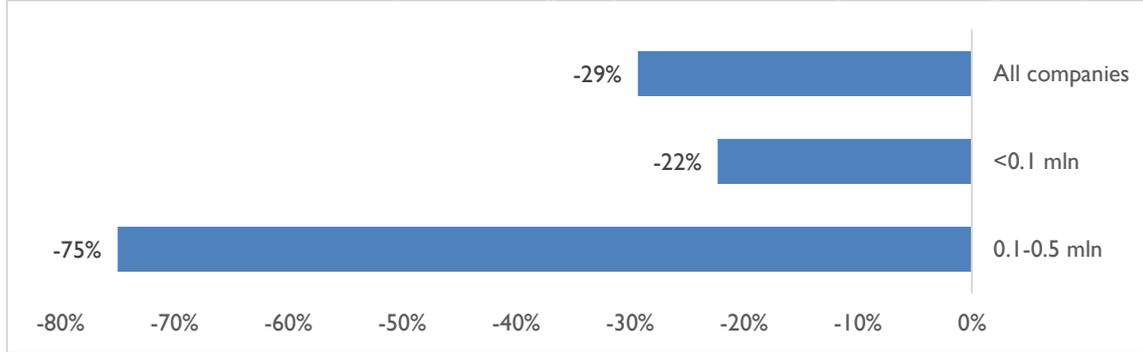
Chart 3.26 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, 2020 (Y-o-Y)



Source: Authors' calculations

The average decline of turnover equaled 29% (Chart 3.27). Large turnover declines (-75% on average) were more pronounced for wooden toy producers with relatively high turnover (GEL 100,000-500,000).

Chart 3.27 Distribution of Wooden Toys Manufacturing Companies Growth Rates by Turnover Range, 2020 (Y-o-Y)

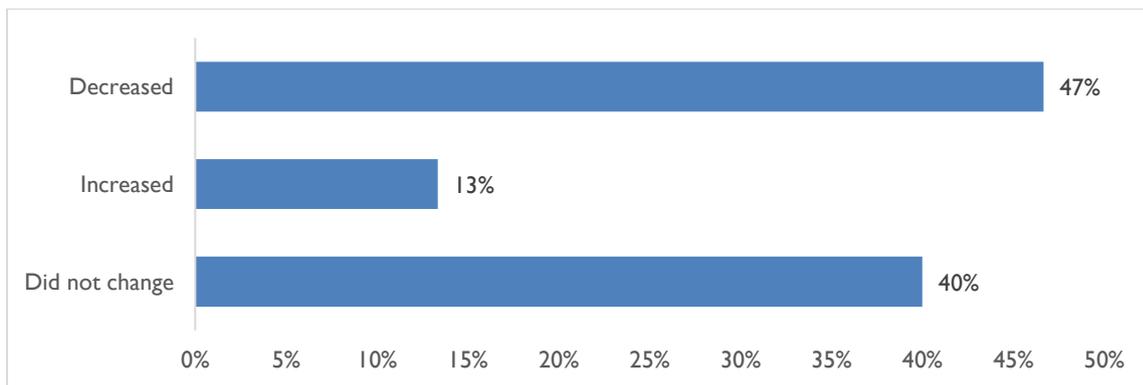


Source: Authors' calculations

The median number of employed persons equaled five persons and the average gross salary amounted to GEL 795 in the wooden toys business activity.

Most wooden toy producers (47%) had to reduce the number of employees in 2020, while 40% of respondents indicated no change in employment (Chart 3.28). Finally, 13% of the companies mentioned that they actually created new jobs in 2020.

Chart 3.28 Change in Employment, 2020 (Y-o-Y)



Source: Authors' calculations

4. SOLID WASTE MANAGEMENT AND RECYCLING

The following section provides an overview of quantitative indicators for solid waste management and recycling sector along with the corresponding aggregate sector (water supply, sewerage, waste management and remediation activities)⁴².

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

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

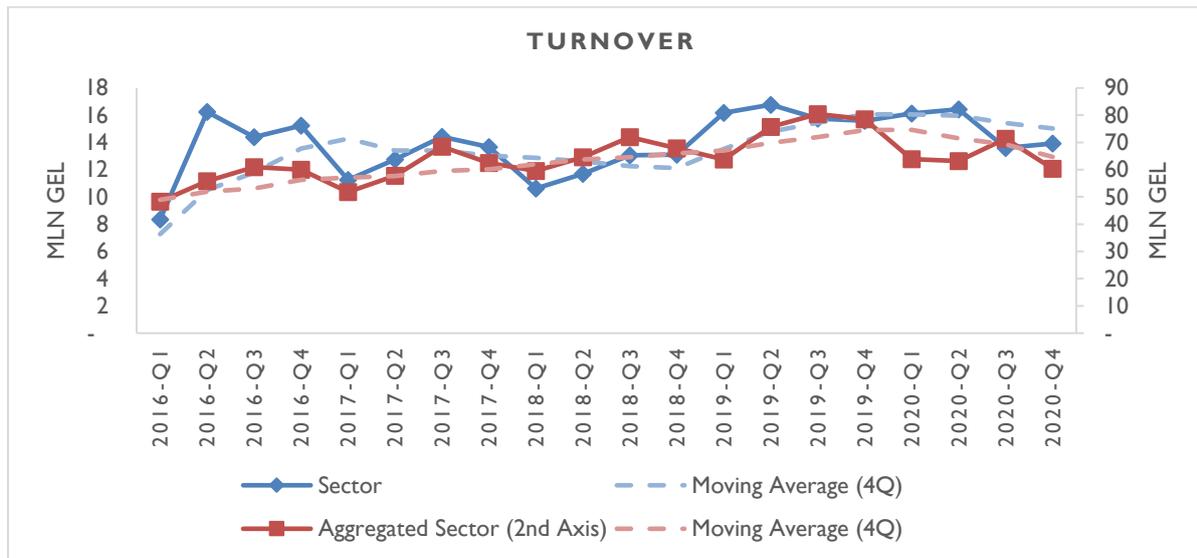
NACE	Description
38	Waste collection, treatment and disposal activities; materials recovery
39	Remediation activities and other waste management services

Total turnover of the solid waste management and recycling sector in 2020 amounted to GEL 60 million, which is a decrease of 6.6.% compared to 2019, GEL 64 million. In the same period, turnover for the corresponding aggregate sector decreased more severely, by 13.2% (from GEL 298 million in 2019 to GEL 259 million in 2020). The sector presented a negative YoY change in turnover across all quarters of 2020 compared to 2019, with highest decline in Q3, -13.7%, YoY, followed by further decline in Q4, -10.7%, YoY. As for the aggregate sector, turnover increased slightly in Q1 2020, but decreased through Q2-Q4 2020 compared to the same periods of 2019. The highest decline in the aggregated sector was observed in Q4, -23.1%, YoY (Chart 4.1 and Chart 4.2).

In Q4 turnover for the sector and the aggregated sector amounted to GEL 14 million and GEL 60 million, respectively.

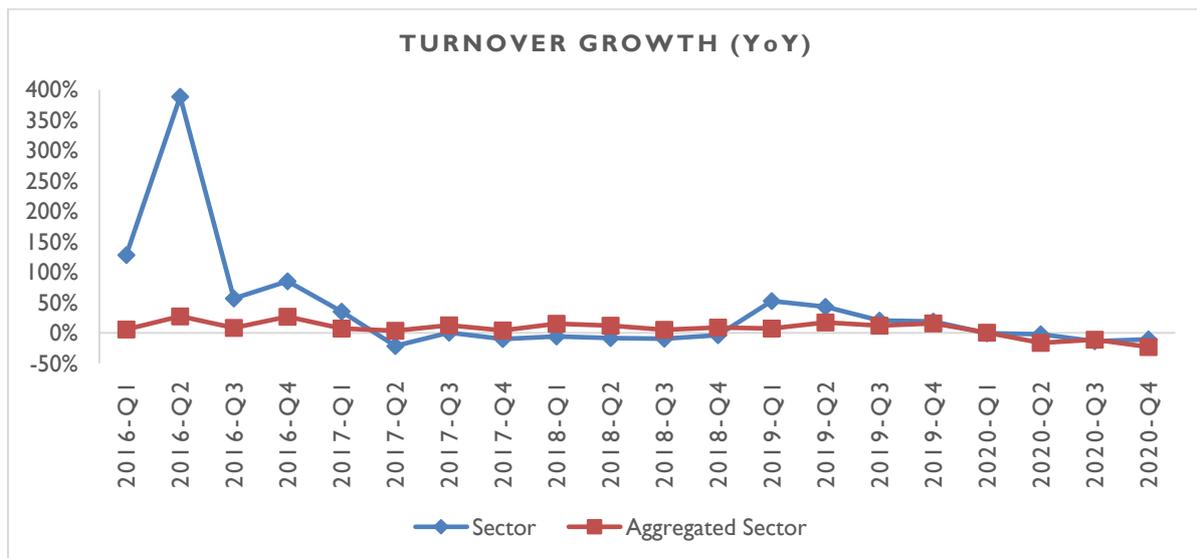
⁴² Throughout this section, “sector” will refer to solid waste management and recycling, while “aggregated sector” will refer to water supply, sewerage, waste management and remediation activities.

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



Source: National Statistics Office of Georgia

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



Source: National Statistics Office of Georgia

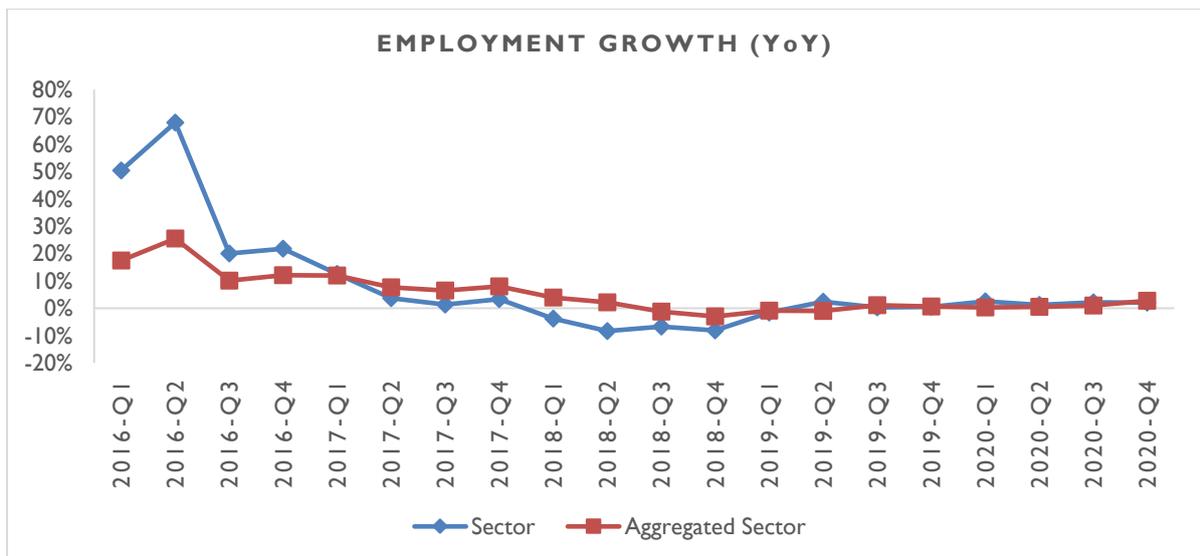
Below, on Charts 4.3 and 4.4, we observe hired employment in the solid waste management and recycling sector and the corresponding aggregated sector. As demonstrated on both charts, hired employment has been very stable from 2018 to 2020, both for the sector and the aggregated sector. However, both, the sector and the aggregated sector present slightly positive YoY change in 2020, compared to 2019 (Chart 4.4). In the last quarter of 2020, 7,417 individuals were hired in the sector and 14,590 in the aggregated sector (Chart 4.3).

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



Source: National Statistics Office of Georgia

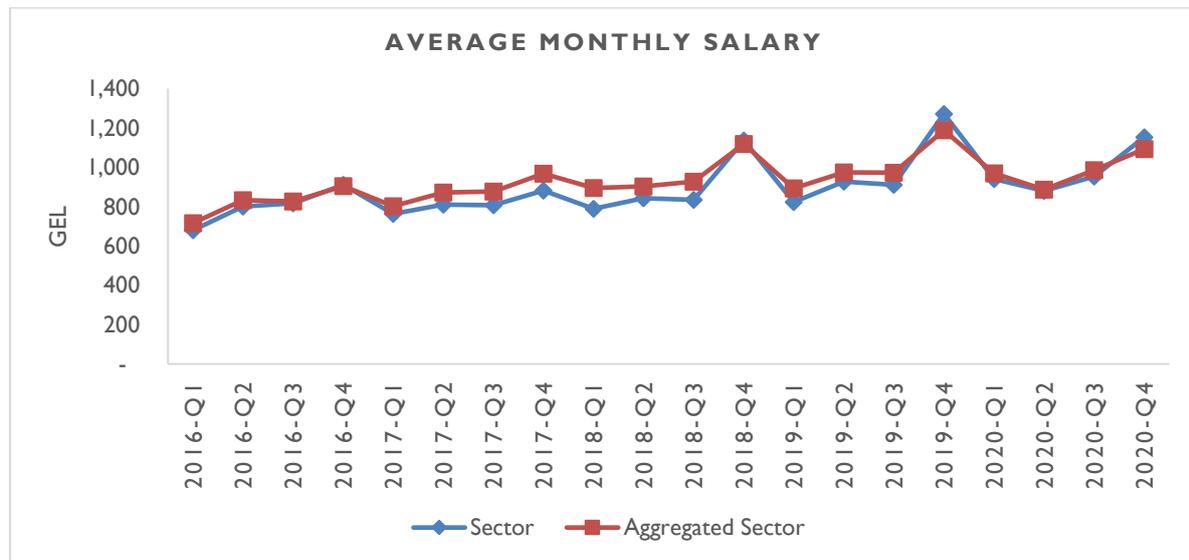
Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

According to Chart 4.5, average salaries in the solid waste management and recycling sector is very similar to that of corresponding aggregated sector in 2020. In Q1 2020, average monthly salary for the sector increased significantly, 14.2% YoY, however, decreased in Q2 2020, YoY. After improving in Q3 2020, average salaries for the sector decreased again in Q4 2020, YoY. Similarly, salaries in the aggregated sector decrease YoY in Q2 and Q4 of 2020, coinciding with two phases of COVID-19 lockdowns. Average monthly salary for the sector in Q4 2020 amounted to GEL 1,153, while for aggregated sector it amounted to GEL 1,092 (Chart 4.5).

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



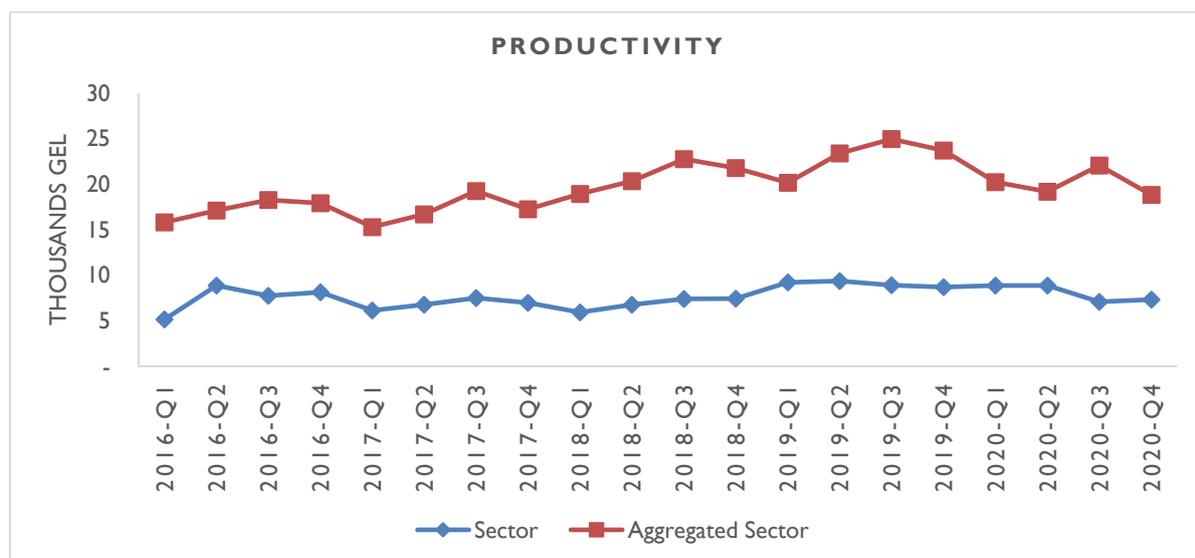
Source: National Statistics Office of Georgia

Observing productivity of the sector and aggregated sector (Chart 4.6) presents that while average salaries are very similar, productivity in the aggregated sector, measured as output per hired employee, is much higher.

It is noteworthy that, productivity for the sector showed YoY decrease in all quarters of 2020, with the highest YoY decline of 20.4% in Q3. As for the aggregated sector, after a slight positive change in Q1 2020, compared to Q1 2019, productivity declined year-on-year through Q2-Q4 2020 here as well.

In Q4 2020, productivity for the solid waste management and recycling sector amounted to GEL 7 thousand, compared to GEL 19 thousand in the aggregated sector.

Chart 4.6 Productivity in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

5. SHARED INTELLECTUAL SERVICES

SUMMARY

Under Shared Intellectual Services sector, this report observes economic trends in Business Processes Outsourcing (BPO) Value Chain. Four business activities of the BPO value chain are covered in the given quarterly analysis: finance and accounting (F&A); architecture, design and engineering (ADE); human resource management (HRM); and customer relations management (CRM). Overall, BPO is an emerging sphere on the global level. Hence, the business activity characteristics that were identified throughout this qualitative review are not particularly Georgia-specific.

Currently, majority of business activities under the Georgian BPO value chain are currently focused on domestic market and do not demonstrate significant growth potential globally, with the exception of CRM. Though it is still essentially in the process of undergoing its formation, CRM has shown signs of growth and job creation. Georgia-based CRM operators already serve many European and regional markets as the country has become a home to Majorel, CMX Solutions, Evolution Gaming, and other international CRM players. Majorel Georgia alone managed to create 900 new jobs in 2020. Yet, compared to its potential size, the CRM market in Georgia is still meager.

The other business activities under the BPO value chain are only expanding at a domestic level. The reasons for this are several. In the cases of ADE and F&A, foreign markets are perceived as excessively regulated, making it almost worthless for Georgian firms to engage in exports. When it comes to HRM, internationalization requires advanced knowledge of foreign talent networks, which is challenging to obtain and maintain from afar. Moreover, for all of the businesses operating under these three business activities, domestic demand absorbs their entire service provision capacities.

Competition in the BPO value chain is moderate and arises at different levels. There are some frontrunners that have their own target customers. However, the business activities largely comprise emerging, relatively small-sized players that might be considered as rivals to each other. Cooperation culture among private sector representatives is low in the case of almost all business activities in this value chain. Nevertheless, in F&A and HRM, individual and corporate players are united under several professional platforms.

Public-private partnership (PPP) experience is non-existent in the BPO value chain. Nevertheless, Enterprise Georgia has been actively supporting the CRM business activity and its expansion. There is also some room for further cooperation between Georgian public tertiary institutions as sources of labor supply for Georgia-based CRM operators. Furthermore, some CRM firms have declared a willingness to employ persons with disabilities (PwDs) to conduct their routine operations.

Georgia clearly possesses a competitive advantage when it comes to expanding CRM business activity due to its favorable geographic location, its regulatory environment, the linguistic skills of the workforce, and relatively low labor costs. Moreover, currently, there are no major impediments to local growth in any of the analyzed business activities selected under the BPO value chain. Overall, the development of the BPO value chain has been perceived as tightly linked to the general health and openness of the economy as a whole. However, while overarching problems are almost absent, there are still certain obstacles that are specific to each of the given business activities.

ARCHITECTURE, DESIGN AND ENGINEERING (ADE)

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

Overall, at present, this business activity is developing at a moderate pace, with some of the following significant obstacles to overcome, as explained by the focus group participants.

- **The absence of a mandatory certification requirement for architects** is a key persistent challenge. Even though none of the respondents claimed that certification would solve all of the problems currently being faced in ADE, they seemed to agree that it was a necessary tool in the course of determining a fairer market price for architectural services in Georgia. Moreover, if administered appropriately, mandatory certification has the potential to increase the credibility of service providers through the introduction of additional objective criteria. Notably, some significant steps have already been taken in this direction. The Code of Georgia on Spatial Planning, Architecture and Construction (hereinafter, the Construction Code), adopted in 2018, introduced a mandatory requirement for certifying architectural activity in Georgia⁴³. According to the current version of the Georgian Law on Architectural Activities, this requirement will come into force only in October 2022, which is two years later than initially planned⁴⁴.
- **A challenging system of public procurement** is another barrier identified as hampering growth in this business activity. In certain cases, the public procurement system does not ensure a fully transparent process and leaves room for some distrust towards the establishment of criteria and the selection procedures. For instance, some participants of the focus groups outlined that, frequently, the company eligibility criteria in public procurements requests an unreasonably high annual turnover from applicants, while it does not determine the applicant's capacity to actually execute the proposed project in a timely and satisfactory manner. Thus, from the perspective of many focus group participants, it would be beneficial if the current public procurement system was to be based on stronger principles of transparency and competition.

There are various types of company operating in this business activity. Companies taking part in public procurements are usually the biggest players in ADE. Meanwhile, there are some firms oriented towards large procurement calls issued in the private sector (e.g. by Adjara Group or TBC Group). Finally, there are numerous small-sized, relatively unknown companies operating on the Georgian market in this business activity. These firms try to take advantage of architectural competitions and events to enhance their visibility and establish themselves on the market.

Interestingly, most of the companies or individual contractors in ADE operate domestically and, generally, do not export their services abroad. As explained by some focus group participants, domestic demand absorbs the entire capacities of local players. Another driver behind the lack of export orientation is the largely conservative nature of this industry globally. The strong presence of trade unions and the heavy regulatory burdens that this business activity faces on the foreign markets, especially in western Europe, makes it hard to export architectural services. However, some Georgian

⁴³ Article 140 of the "Code of Georgia on Spatial Planning, Architecture and Construction." Available at: <https://matsne.gov.ge/ka/document/view/4276845?publication=8>

⁴⁴ Article 3, paragraph 4 of the "Law of Georgia on Architectural Activities." Available at: <https://matsne.gov.ge/ka/document/view/32506?publication=5>

firms have found a niche in specializing in the export of visual and technical components of the architectural process, such as sketching and rendering.

There are several representatives of this business activity that stand out with their strong creative identity. One such example is Khmaladze Architects and its recent successful construction, Coffee Production Plant – Meama, that has received international acclaim.

According to the focus group discussions, any further internationalization of Georgian ADE activities will significantly depend on the existence of networking platforms that can inspire potential collaboration, including idea- and portfolio-sharing between Georgian and foreign ADE market representatives. Importantly, the Tbilisi Architecture Biennial⁴⁵, founded and organized by four Georgian architects, is a promising initiative in this direction. If suitably strengthened, the biennial could assist Georgian architects to establish contacts with professionals in the sphere from different parts of the world.

Some of the challenges mentioned above could be better addressed by the organized efforts of the private sector. In terms of design activities, Association Design Georgia has been active in the country since May 2019. However, private sector leadership is vividly low when it comes to the architecture business activity. Pertinently, there is no specific active business association in the industry. The professional platform entitled the Georgian Union of Architects is present in the sphere and would benefit from some modifications to its current structure to secure a more positive impact on the future growth of this business activity. For instance, as some of the interviewed architects outlined, the union has the potential to voice concerns at state level and could serve as a safe space for professional dialogue within this business activity.

⁴⁵ <https://biennial.ge/>

HUMAN RESOURCE MANAGEMENT (HRM)

HRM is an emerging industry in Georgia, with potential for further growth and job creation. However, the business activity is developing only at the domestic level and has limited prospects for global expansion.

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

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

There are no active business associations specializing in HRM. However, the industry players frequently organize information-sharing and networking events under different active platforms, such as, for instance, HR Hub and the HR Professionals' Guild, both of which aim to spread industry-specific knowledge and encourage Georgian HR specialists to grow. Yet another interesting initiative in this business activity is the HR Professionals Association (HRPA), which is a membership-based organization for professionals in the sphere. The organization provides the following services for its members: professional development; advocacy; and professional networking. The HRPA also supports the employability of future talents of the sphere. The association has 80 members, with plans to increase this considerably in the coming months.

At present, this business activity has low potential for global expansion. The industry players lack incentives for export orientation, considering the fast-growing demand for HRM services domestically. Moreover, Georgian HRM specialists are largely unaware of foreign talent networks and are unable to add value to foreign HRM markets. Some of the interviewed respondents highlighted that the production, implementation, and management of digital tools for HRM (such as HRM software) might be more susceptible to global market penetration. There are some examples of such digital tools being created in Georgia (e.g. self.ge or HR Point), however, this direction needs considerable advancement to ensure that significant economic benefits are gleaned.

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

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

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

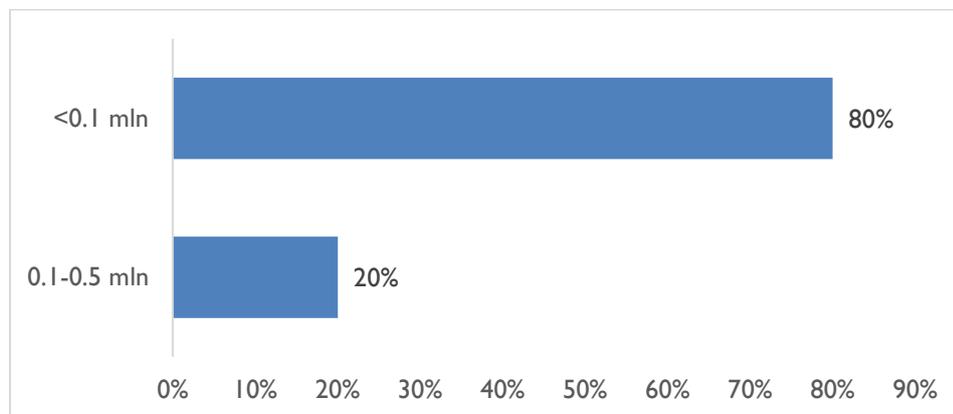
To address the above-mentioned challenges, the HRPA plans to communicate with a large pool of industry players, to form working groups, and to draft HRM professional standards that will later be advocated to private and public sector organizations that hire HR professionals across the country. Nevertheless, these obstacles are not exclusive to the Georgian context. HRM culture is a relatively new phenomenon globally as well, and its development is tightly linked to the emergence of corporate culture, the broadening of which will largely rely on the development of the economy as a whole.

Quantitative Survey Results

In this section the dynamics of HRM business activity is assessed based on a quantitative survey conducted with 16 HRM companies. Surveyed firms were predominantly small-scale businesses providing outsourcing of HRM services, recruiting, and organizing trainings and employment (incl. abroad). The majority of them are based in Tbilisi, albeit there are also Batumi-based companies distinguished by their provision of employment services for sailors.

All surveyed firms in this business activity are Limited Liability Companies (LLC). Their declared turnover in 2019 was under GEL 500,000, with the majority (80%) indicating a turnover of less than GEL 100,000 (Chart 5.1).

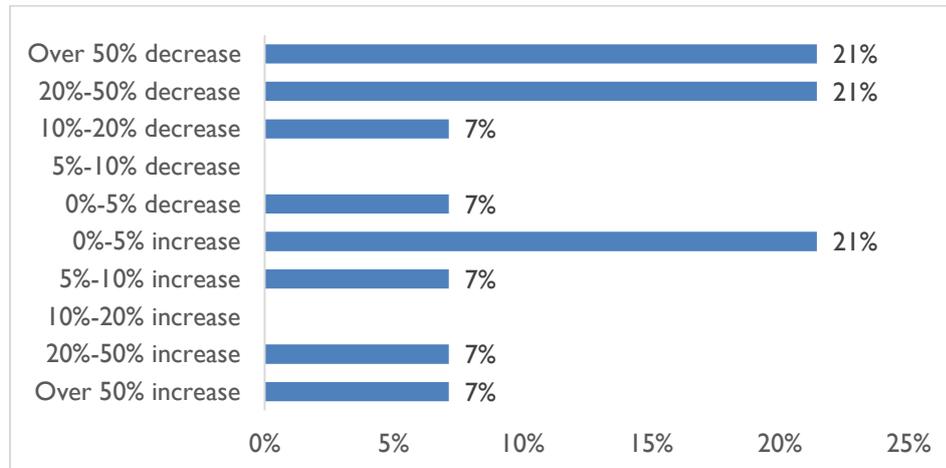
Chart 5.1 Distribution of HRM Companies by Turnover Range, 2019 (Gel)



Source: Authors' calculations

In 2020, turnover was largely declining across HRM companies. 21% of respondents reported that the decrease was more than 50%. (Chart 5.2).

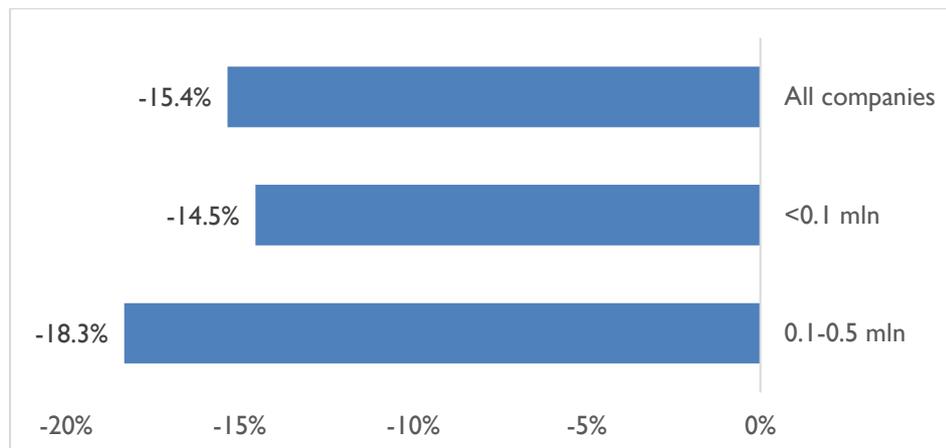
Chart 5.2 Percentage Distribution of Turnover Growth Rates in the HRM Value Chain, 2020 (Y-o-Y)



Source: Authors' calculations

On average, the turnover growth rate among HRM companies equaled approximately -15% in 2020 (Chart 5.3).

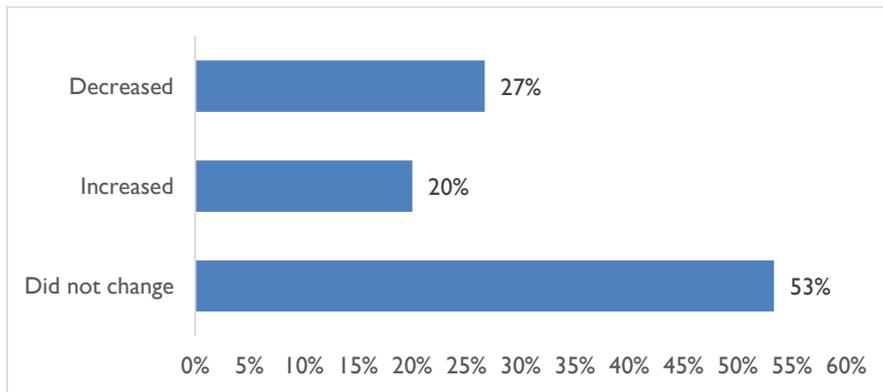
Chart 5.3 Distribution of HRM Companies Growth Rates by Turnover Range, 2020 (Y-o-Y)



Source: Authors' calculations

The number of employed persons in HRM companies varied from 2 to 23, with the median number being 5 employed persons. The share of women in HRM companies constituted around two-thirds, while the proportion of staff aged under 30 years was less than 40%. The majority (53%) of surveyed companies reported that the number of their employees did not change in 2020 compared to 2019. In 27% of HRM companies, employment decreased, while the rest (20%) reported an increase in employment (Chart 5.4).

Chart 5.4 Change in employment, 2020 (Y-o-Y)



Source: Authors' calculations

The average monthly salary of the HRM business activity employees is equated to GEL 1,236 in 2020. The wages of HRM companies' personnel also remained predominantly unchanged, with 17% of companies reporting a decline in their staff salaries of more than 20%.

FINANCE AND ACCOUNTING (F&A)

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

Depending on categorization of enterprises per the volume of i. total value of their assets ii. generated revenue, and iii. average number of persons employed, firms in Georgia are divided in four enterprise categories that possess different reporting requirements before SARAS⁴⁶. Due to the reporting requirements, compared to finance, accounting is at a relatively more advanced stage of development in the country. There are many small accounting firms, mainly specializing in outsourced accounting, which intensely compete over procurements stemming from the enterprises of the third and fourth categories. Leading players in accounting (e.g. the “Big Four” of EY, PWC, Deloitte, and KPMG; BDO; Nexia TA; and Grant and Thornton) mainly serve the enterprises of the first and second categories.

Private sector leadership within F&A is high. The largest players in the market, known as the Big Four, have significantly contributed to building up knowledge and qualification domestically. There are several local and international professional unions and associations in this business activity. These platforms offer networking services, share and spread industry-specific knowledge and, in particular cases, are delegated with certain administrative and organizational responsibilities. Locally, the work of the Georgian Federation of Professional Accountants and Auditors (GFPAA) is worth noting here. The GFPAA has been active since 1998 and currently brings together up to 7500 professionals of the sphere and 55 companies, altogether making up 92% of the accounting market in Georgia. The GFPAA is in charge of administering local accountancy qualifications, verified under the UK’s Association of Chartered Certified Accountants (ACCA). Furthermore, the federation translates international standards and disseminates them across the sphere, consults its members, and advocates their interests at state level. Besides the GFPAA, several participants of the focus group are members of DFK International, the Independent Valuers Society of Georgia, the Georgian Association of Women Auditors and Lawyers, and/or the Federation of Auditors, Accountants and Financial Managers (FAAFM).

In terms of accounting, increased regulations has significantly affected the domestic market. In response to the obligations of the Association Agreement with the European Union (EU), Georgia enacted the Law on Accounting, Auditing and Reporting in 2016. Following the law’s adoption, SARAS was established as the national supervisory authority on the market. SARAS, besides its obligation towards enterprises to meet International Financial Reporting Standards (IFRS), oversees the certification process of auditors and introduces quality control standards for auditing firms. While such measures ensure the homogeneity of auditing quality across the country, according to some of the interviewed representatives of relatively small-sized accounting companies it has been perceived as a burden, favoring the leading market players in this business activity.

Participants of focus group discussions mainly operate on the domestic market and do not export their services internationally. There are two key reasons behind this. Primarily, the sphere is heavily regulated in foreign markets, and, thus, outsourcing auditing services is risky and costly, unless the

⁴⁶ See more information regarding reporting requirements in Law of Georgia on Accounting, Reporting and Audit. Available at: <https://matsne.gov.ge/en/document/download/3311504/4/en/pdf>

service provider can comply in full with country-specific regulatory requirements. Moreover, the domestic demand and compliance standards set by SARAS often absorb the full national capacity of accounting services.

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

Overall, the advancement of the F&A business activity is positively correlated with economic growth. It can be projected that, as time passes, demand for high-quality F&A services will be increased. At present, the qualification of local professionals is rising, albeit slowly. In terms of accounting, the growing number of certified accountants and reputable auditing firms indicates that the activity has positive development dynamics. Even though the workforce, to some extent, is unskilled in this business activity, accounting firms frequently enhance their qualifications and upgrade their professionalism. However, the business activity's upgrade potential is hampered by the relative inability to penetrate international markets.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The CRM business activity is nascent in the Georgian context. Nevertheless, CRM has already shown promising signs in terms of growth and job creation. As an indication of such potential, in recent years Georgia has become a home to Majorel, CMX Solutions, Evolution Gaming, and other international companies offering CRM services from Georgia. As well as large international players, there are also Georgian firms engaged in this business activity that either offer offshore CRM services to foreign markets or offer outsourced CRM to local companies.

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

The entry of international CRM companies has kick-started this business activity in the Georgian market. As a representative of Majorel cited, its decision to establish an office in Georgia might be regarded as one of the main motivations behind other CRM companies launching their operations in the country as well. Moreover, CRM has been among the priority directions of Enterprise Georgia which has put significant effort into developing this business activity.

There is no precedent for traditional PPP in this business activity. However, in terms of Majorel, the Business Activity Prioritization and Gaps Assessment Study conducted under USAID GESP, identified a partnership opportunity with Iakob Gogebashvili State University of Telavi as having real potential for actualization. The university planned to provide a German-language workforce if the operations of Majorel were to expand to Telavi⁴⁷. Small-sized Georgian CRM firms do not have established experience of cooperating with the public sector. However, such cooperation has the potential to further improve social outcomes as, for example, some of the interviewed companies declare their willingness to employ vulnerable societal groups such as PwDs.

CRM operators that offer offshore services mainly provide customer support to the European, US, and regional markets (e.g. Azerbaijan or Russia). Operators that currently exclusively serve the domestic market are also planning international expansion, but have yet to decide on a niche service offering under CRM that might be attractive to the foreign markets.

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

Impediments faced by the representatives of the focus groups are company-specific, however none of them were of major concern to the given participants. To catalyze the upgrade of this business activity, three steps were identified. Firstly, it would be beneficial if the public sector was to contribute to information-sharing efforts regarding CRM employment opportunities to the wider public. This would potentially prepare the necessary talent pool of future employees for this business activity. Secondly, a more reliable internet connection was highlighted as essential so that the high quality of service offerings is retained in the country. Lastly, the existence of inter-sectoral networking platforms might enable small-sized CRM firms to expand their operations and to be better prepared to enter foreign markets.

⁴⁷ Business Activity Prioritization and Gaps Assessment, USAID 2019, p. 35.

6. CROSS-CUTTING SECTORS

SECTOR SUMMARY

Contrary to expectations, all of the cross-cutting value chains experienced a significant fall in turnover in the first quarter of 2020. As value chains like ICT and e-commerce were less susceptible to the restrictions imposed during the pandemic, it was logical that the demand for the services of the abovementioned value chains would not be affected. However, data show that due to the decline in general consumption levels and online transactions, even the online-oriented value chains were not as resistant as previously thought. One exception here would be ICT hardware, the turnover of which demonstrated a constantly positive year-on-year growth trend. It cannot be said with high certainty that the pandemic was the root cause of the initial economic slowdown at the beginning of 2020, as the transport and logistics chain, the largest value chain in the cross-cutting sectors, is characterized by heavy seasonality, with turnover routinely low in the first quarter of every year. Another factor to consider is that the ICT value chain had already been undergoing a steep decline even before the pandemic hit: since the second quarter of 2019, turnover for ICT had been shrinking, making the actual effects of the pandemic on the cross-cutting sectors harder to evaluate.

In the second half of 2020, the value chains in the cross-cutting sectors experienced a swift, albeit limited, recovery: companies managed to contain and even revert their declining turnover, but it is uncertain when a pre-pandemic trajectory will be reached. This is particularly true for businesses labeled as transport and logistics companies, but for the ICT value chains, both for software and hardware, it is unclear whether or not the pandemic has had a negative impact on either of them. If workforce reduction is taken as a sign of a contraction, for software such a reduction came in the second quarter of 2020, while the number of persons employed in ICT hardware was constantly increasing (year-on-year) during the pandemic. The transport and logistics value chain also experienced its first reduction in number of persons employed during the second quarter of 2020.

When it comes to the e-commerce value chain, the currently available relevant data pertaining to the dynamics of that value chain during the pandemic demonstrate the value of transactions with cards and through the internet. According to the abovementioned online transactions, the first significant year-on-year fall in the value of online purchases happened in April 2020, a trend which continued through the whole second quarter. This trend reversed in the third and fourth quarters with the value of online transactions increasing every single month. This difference between these two periods (second quarter of 2020 v. third and fourth quarters of 2020) could be explained by various factors, such as decreasing consumption in the second quarter, increasing demand for online purchases in the second half of 2020, and the general economic recovery of the sector.

This recovery might be attributed to a growing demand for e-commerce and ICT: as the first few months of 2020 passed, and expectations leaned towards a more prolonged pandemic, digital technologies became a vital tool for everyday life. This increased demand could explain the recovery of the ICT and e-commerce value chains, however transport and logistics showed similarly impressive turnover growth in the third and fourth quarters of 2020, which could be attributable to the high flexibility of the sector: due to the nature of their work, cross-cutting value chains have neither particularly rigid wages nor workforces, and thus companies were able to reduce monthly salaries and several employees. This implies that the flexibility and adjustability of such value chains is far more important than the online/offline nature of their business models.

Unfortunately, within the transport and logistics value chain, the airline industry was hit the hardest; without any flexibility in capital or workforce, it made no recovery in the year 2020. Accordingly, Georgian exports of airline services decreased by more than 92% in the last three quarters of 2020. Fortunately, Georgian transport service exports mostly rely on pipeline and electricity transmission, which was not only robust during the pandemic, but the total value of exported services actually increased compared to 2019. As transportation service imports, such as sea, road, and airline, also decreased in 2020, the overall trade balance in transportation services increased, which resulted in its lowest deficit since 2016.

Observing the opinions expressed by the ICT value chain stakeholders, the so-called 'in-house' service development within the private sector's biggest prospective client, the Government, represents one of the core challenges of the value chain today. As highlighted by most ICT enterprises, not relying on outsourcing, the Government, through the respective LEPLs, becomes both a developer and a provider of ICT services. From the GoG's perspective, outsourcing ICT services would be costly, while military and law enforcement institutions have emphasized the difficulties concerning confidentiality. The solution to this occurs to be complex and therefore a need exists for improved dialogue between sectors and a systemic approach.

A lack of a qualified ICT labor force, which is a local and a global concern of the value chain, is pertinent in Georgia where highly-qualified ICT professionals are highly likely to find better job opportunities abroad. However, as concluded by the majority of stakeholders, overcoming the abovementioned GoG's 'in-house' development challenge could serve as a partial solution to the problem of a qualified workforce, as such service outsourcing opportunities are expected to generate a new skilled workforce. Being an effective tool for investment attraction, a preferential regulatory and tax framework - the GoG's new initiative for eligible enterprises with 'international' status - represents a concern for local ICT enterprises without such status, as they struggle to compete.

The Draft Law on E-commerce, which the GoG has not yet approved, is believed by most of the respondents to play a crucial role in establishing a better electronic commerce business environment, making the country's e-commerce platform more credible and encouraging exports of goods and services through this modern sales channel. Besides, providing stable and secure payment platforms, commercial banks have a vital role in the e-commerce value chain's functionality. However, the presence of strong financial institutions, as the parent companies of their biggest rivals on the local e-commerce market, is believed to be the most challenging when it comes to ensuring fair competition. To deal with the challenge, the value chain stakeholders foresee the entry of fintech companies into the market.

According to the value chain stakeholders, delivery services using e-commerce platforms during the pandemic failed to capitalize on the customers' increased demand. Such a failure of courier and logistics services became even more evident during the New Year period (end of 2020 / start of 2021). Furthermore, as underlined by the value chain stakeholders, the number of merchants increased during the pandemic (many micro and small businesses switched to e-commerce platforms), albeit with a negative influence on the overall quality of online shopping services in Georgia.

According to the stakeholders of the transport and logistics value chain, the sequence of planned projects and actions of the GoG to found a regional hub for logistics are in the wrong order. They highlighted that, before making large investments, there is a need to devise an inclusive and result-oriented strategic plan, incorporating important feasibility studies and preparatory projects. For instance, focusing initially on ensuring the receipt of ferry backhaul (reverse flow) from Europe was mentioned, which was also one of the main reasons why the railway connection project with China

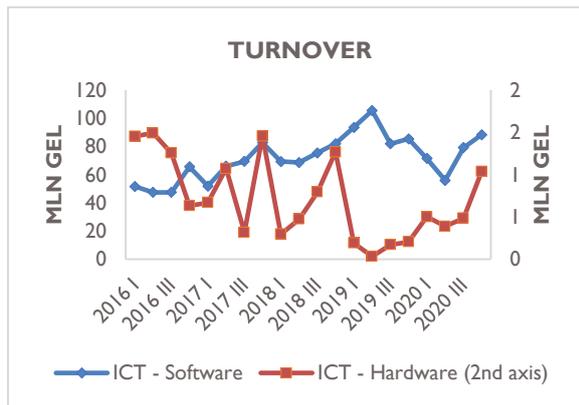
was halted (underdeveloped ferry backhaul from Bulgaria, Romania, etc.). The freight-forwarding companies expressed great concern about the ruthless competition on the local market, as seen in frequent price dumping, breach of confidentiality, and lack of adherence to business ethics. As highlighted by respondents, a dedicated association in the value chain could play an important role in stabilizing behavior therein.

In addition, issues relating to compliance with the legislation were highlighted by the stakeholders representing air-freight-forwarding companies. The legislation defining a terminal's responsibility for illegal handling of the cargo, results in a number of complications, in addition to the existing bureaucracy at customs linked to transit cargo. The lack of quality professional education programs and the difficulty in recruiting skillful professionals in the transport and logistics field have been identified as significant obstacles as well.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

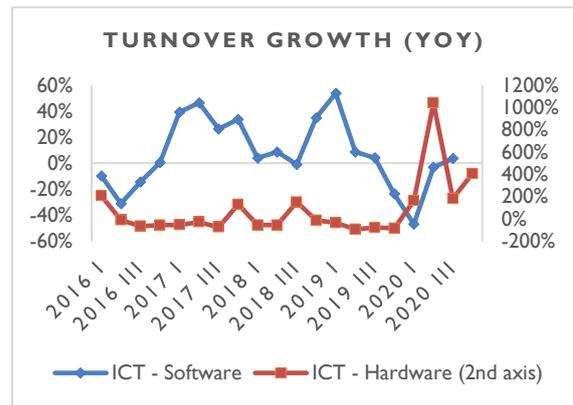
The pandemic has caused contraction of many sectors mainly due to the falling demand. Information and communications technology is one of the rare VCs that has actually shown a significant expansion as the pandemic has led to a surge in the use of digital technologies. The demand for computers and semiconductors has skyrocketed to a point where there is a worldwide shortage of basic chips, hindering production in every other sector. As ICT hardware and software VCs are highly complementary, the software industry has also expanded during the pandemic.

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



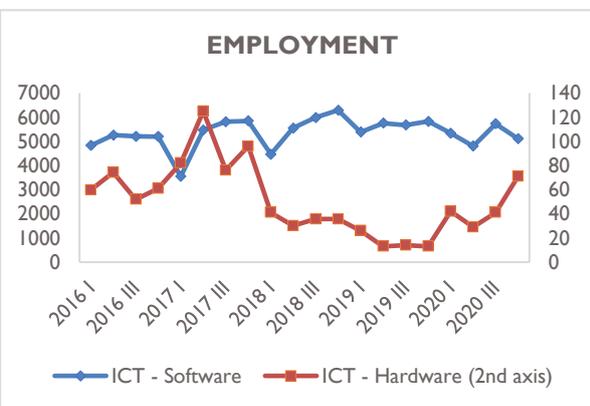
Source: National Statistics Office of Georgia

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



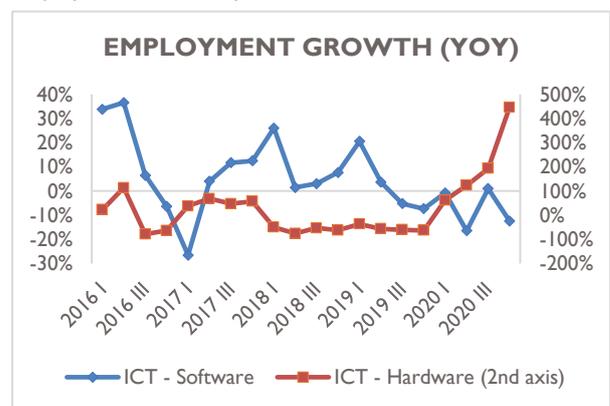
In Georgia software industry is significantly larger than hardware. The software industry has been expanding steadily from 2016 to 2019, reaching GEL 105.5 million turnover in a single quarter, 72 times higher than hardware's highest turnover in 2017. Interestingly, after reaching the highest amount of turnover in the first quarter of 2019, the software industry swiftly plunged into contraction. In a matter of a single year, turnover of the software industry was reduced by 46.9%. Unlike the software industry, the other part of the ICT VC – hardware is extremely volatile; it reached the minimum level of turnover in the second quarter of 2019: amounting up to GEL 30 thousand turnovers. The whole ICT VC recovered swiftly during the pandemic, but the recovery for the hardware industry had started a year earlier. Despite 57.9% and 166.6% increase in the second half of 2020 for software and hardware respectively, the latest quarterly turnover still cannot match the peak levels of 2019 and 2017 turnover.

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



Source: National Statistics Office of Georgia

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



Not only is the turnover of the Georgian software industry significantly larger than the hardware, but it also employed 71.8 times more workforce in the last quarter of 2020. There seems to be a low correlation between the size of the workforce employed in software and its output. The number of employees reached the highest number in the fourth quarter of 2018 – reaching 6287 workers. Meanwhile, the hardware industry reached the highest number of employees in the second quarter of 2017 – 125 people. The 2020 workforce dynamics of software also does not correlate with the turnover growth: software saw a 4.4% reduction in labor, whereas hardware’s workforce surged by 69.0% in a single year, reaching 446.2% year over year growth in the last quarter of 2020. In total, workforce of ICT reduced by 11.4% year over year in the final quarter of 2020, signifying the proportion of software in ICT VC.

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

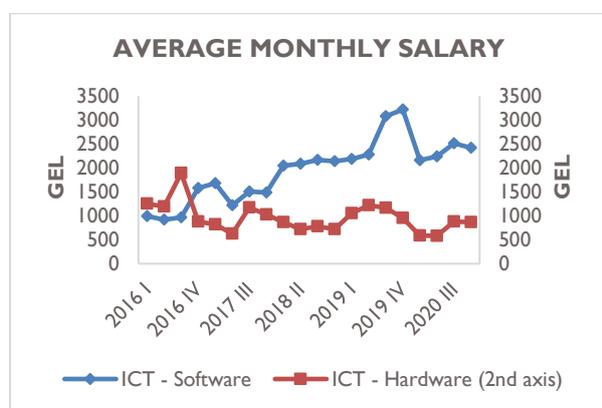
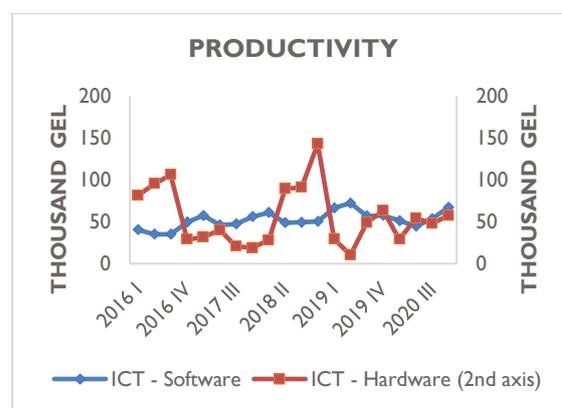


Chart 6.6 Productivity for the ICT value chain, divided by software and hardware



Source: National Statistics Office of Georgia

Since 2016 average monthly salary in the software industry has been significantly higher than in hardware. While the salaries in the former have been increasing steadily, they have been stagnant in the latter. From 2016 to 2019, they increased by 223.4% in software, while decreasing by 23.7% in hardware. The pandemic had similar effects on both industries: a sharp drop in the first quarter and a slow recovery in the second half of the year, however, the initial drop was more significant in software as salaries were cut by third (33.0%). Contrary to the expectations productivity in the hardware industry does not fall behind software, the difference between productivity and salary gap is significant: hardware industry has been more productive per employee than software for 8 quarters out of 20 (5 years in total). This difference can be explained by diminishing marginal returns and the fact that the hardware workforce is far smaller, making it far more volatile. Effects of the pandemic on productivity are vague as both the output and workforce grew in the later part of 2020, due to which there has not been a drastic fall in productivity, at least compared to previous years.

Overview of existing challenges and opportunities

Among several aspects revealed as important during the history’s most unpredicted crisis of COVID-19 pandemic, the necessity of the digitalization of public services and thus the role of the ICT value chain was identified as vital. As a consequence, the major problems identified during previous studies⁴⁸

⁴⁸ Policy Brief on Shared Intellectual Services Sector in Georgia (2020), USAID, and the Value Chain Prioritization and Gaps Assessment Report (2019), USAID.

as hampering the development of this value chain have become more obvious and the need to solve them have become more urgent.

This qualitative analysis is based on in-depth interviews and focus groups meetings with representatives from the private sector (both SMEs and large-sized companies), as well as from the ICT cluster which has been established within the framework of the EU4Business initiative, with the support of EU-funded SME Development and DCFTA project in Georgia, implemented by GIZ. The cluster was formed with the aim of encouraging business linkages at the local and international levels in order to increase the Georgian ICT value chain's competitiveness.

It is worth noting that the opinions expressed by diverse stakeholders of the ICT value chain during the discussions about several issues and their suggested ways to solve them were very similar. Ultimately, the value chain's stakeholders are united around the same challenges and are looking forward to overcoming them and even turning them into opportunities.

The key impediments of the ICT value chain identified during the study are summarized below:

'In-house' service development through LEPLs: According to the conducted analysis and the opinions expressed during the individual interviews and focus group meetings, three main groups of prospective clients of ICT services were considered: small- and medium-sized businesses (SMEs); large-sized businesses; and the government sector. Of these, the SMEs, due to their low purchasing power (along with the lack of awareness about the importance of digitalization and innovation), are hardly contemplated as significant end clients. The other two groups, despite having large expenditures in the IT field, use most of such funds to finance so-called 'in-house' groups. In the case of government entities (which is the largest client group among the three) despite large budget investments in the ICT value chain, the majority of which are used by LEPLs due to following the same practice of in-house projects. Hence, the State itself becomes both a developer and a provider of ICT services. According to the stakeholders, government services are outsourced only if they are limited in time and are obliged to find a solution to a specific problem quickly.

According to the majority of private sector representatives, such an approach disempowers the ICT market not only because the major state funding is administered by the LEPLs, but they also attract already-scarce human resources with IT specialization thus leaving private enterprises less competitive. In addition, the same stakeholders stressed that the LEPLs, despite their dominant status, are unable to create competitive IT products for export.

The private sector representatives generally agreed that to solve this problem would be necessary to develop a unified government strategy, incorporating a clear vision for the systemic development of the ICT value chain, accompanied by an implementation plan through which the Government would transform the public service business model and create a competitive and open marketplace. To ensure the effective implementation of the action plan, they recommended the creation of an e-governance/digital transformation board under the supervision of the Prime Minister, which would coordinate stakeholders. The private sector stakeholders' ideas are influenced by international experience. In countries with strong ICT sectors, such services are outsourced, thereby enhancing competition and supporting the faster development of the sector overall.

On the other hand, according to the policy brief "Shared Intellectual Services Sector in Georgia," the GoG's perspective is that such an IT service outsourcing process would be costly, while military as

well as law enforcement institutions have underlined probable complications associated with confidentiality.

Referring back to the private sector representatives' viewpoint, a more specific plan has been discussed between small-, medium-, and large-sized IT companies during the focus group meetings: they expressed a readiness to develop specific public service IT demo products for free, in order to demonstrate the innovation patterns of such products, highlighting their advantages and the overall potential of private sector engagement in the process.

Lack of a qualified workforce in the ICT value chain: This represents a significant obstacle, not only at the local level but globally. Being the fastest-growing value chain globally today, the ICT field demands skillful professionals graduated from regularly-updated educational programs. According to most of the stakeholders, Georgia lacks such educational programs both at an academic and specialized educational level. Due to the rapid pace of this value chain's development, the programs at Georgian universities, VET institutions, and training centers are in need of frequent updates.

Nevertheless, based on the conducted qualitative analysis, IT human resources development represents a dual puzzle for the value chain, associated with a high global demand for qualified specialists. In other words, locally-educated and highly-skilled professionals will always find higher-paying jobs abroad. Therefore, arriving at a solution to this problem appears complex. However, in line with most of the private sector representatives' opinions, the resolution of the above challenge relating to the GoG's public service outsourcing will become a medium-term solution to HR problems. In this regard, the respondents argued that the GoG's establishment of an open marketplace for high-value public services would automatically generate highly-skilled professionals in the ICT value chain.

Export impediments: According to the many of the respondents, there have been several occasions where ICT products have been exported from Georgia, however these are mostly of a spontaneous nature and are not stable. Despite the great opportunities presented by trade liberalization with the EU through the DCFTA and AA, this potential has yet to be realized to even a small extent as no ICT products have yet been developed in Georgia attracting global demand. As reported by some of the respondents, convincing European markets that Georgia can produce high-quality tech products is a tall order, especially when the GoG has a hesitation about the same.

To overcome this challenge, some stakeholders mentioned the importance of output-oriented trade missions being undertaken by Georgian ICT companies to a targeted country. Rather than focusing on trade fairs, which are not always fruitful, a result-oriented, well-organized, and immersive trade mission of Georgian companies visiting a targeted country's relevant IT service buyer companies, whose prior interest and readiness to cooperate with Georgian ICT companies has been established, was cited as potentially having tangible outputs for the private sector.

Domestic ICT companies' claims about unequal conditions for private sector ICT actors: Through a new initiative of the Government of Georgia, which entered into force in October 2020, influenced by international practice, ICT-specialized enterprises with eligible "international" status may benefit from several tax relief schemes including decreased income and profit tax (to 5%) and property tax exemption. According to an absolute majority of interviewed respondents, such a preferential regulatory and tax framework is an effective tool for attracting investments and encouraging penetration of international enterprises into the Georgian market. However, establishing tax benefits

only for enterprises with “international” status gives them an advantage over local companies and renders competition unbalanced on the local market.

Private sector claims of a lack of support for existing ICT companies:

As highlighted by the majority of private sector representatives during the focus group meetings, there is a lack of government-initiated programs supporting existing ICT companies in Georgia. The support that does exist is mainly targeted toward start-ups and export-oriented ICT companies (for instance, the GITA provides grants of up to GEL 650 000). Furthermore, the private sector representatives claimed there was a shortage of government-initiated support programs encouraging the digital transformation of different enterprises in Georgia that would help to increase demand for ICT products.

Public-private dialogue: The private sector representatives asserted that there was a low level of communication between private sector enterprises and respective government units. According to several of the interviewed respondents, there is an absence of an individual decision-maker or a group of decision-makers from the Government dedicated to supporting this sector. According to them, for now, it is only worthwhile communicating directly to the Prime Minister, about existing challenges and opportunities. Overall, according to the respondents, there is a need to establish a systemic vision and to elaborate a corresponding strategy on this matter.

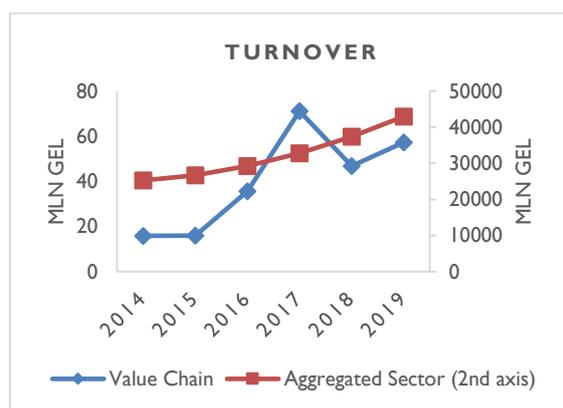
On the other hand, as marked out by the ICT cluster and relevant ICT associations, it would be desirable to have increased support from international donor organizations in developing the overall capacity-building mechanism for clusters/associations to upgrade services for their members.

E-COMMERCE

For many years, e-commerce has been considered a niche segment of the Wholesale and retail trade sector. However, this perception has changed globally as e-commerce value chains have become among the most dominant and fastest-growing in modern times. The ongoing pandemic has further cemented e-commerce's place as a vital part of the economy, and, as the data show, Georgia is no exception in this regard. As no quarterly or annual data is available for e-commerce in 2020, 2014-2019, trends will be analyzed similar to the last report, in addition to the payment card transactions, to reflect the turnover change of the VC during the pandemic.

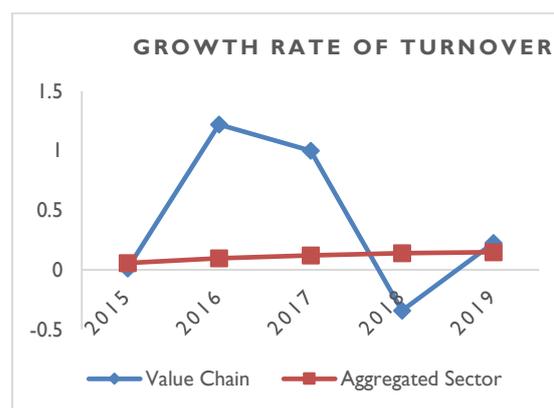
Important to highlight that, as set out in the methodology, the GeoStat data applied for E-commerce value chain analysis depicts economic activities only of those enterprises that operate under the Nace code 47.9 "Retail trade not in stores, stalls or markets," the closest statistical classification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

Chart 6.7 Turnover of the e-commerce value chain and the corresponding aggregated sector



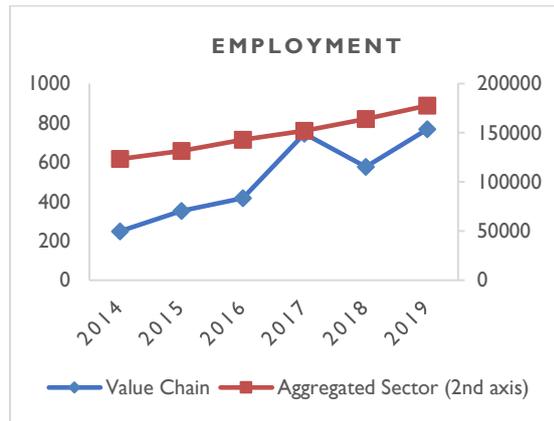
Source: National Statistics Office of Georgia

Chart 6.8 Annual growth rate of the e-commerce value chain and the corresponding aggregated sector



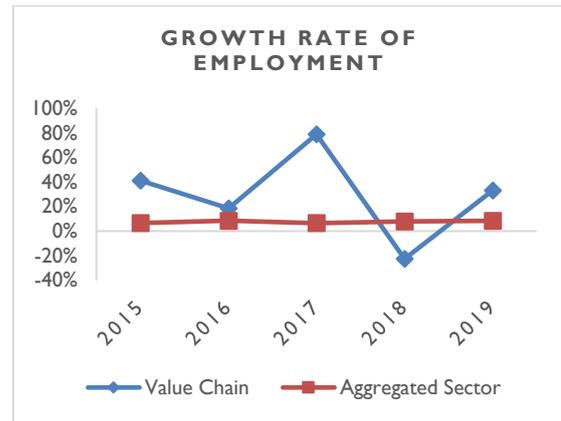
From 2014 to 2019, the turnover of this value chain increased from GEL 15.853 million to GEL 57.303 million, which is equal to 261.5% cumulative growth. The turnover of the e-commerce value chain represents only 0.1% of the turnover of the aggregated sector (wholesale and retail trade). Over the covered period, the turnover of the aggregated sector increased by only 70.1%, 3.7 times less compared to the e-commerce value chain. The aggregated sector's growth was relatively smooth over this period, starting with a 5.7% increase in 2015 and slowly increasing to 14.8% annual growth in 2019. Unlike the aggregated sector, the turnover of the e-commerce value chain experienced a surge in 2016 and 2017, rising by 121.9% and 99.9%, respectively, which can be explained by a surge in investments and various logistical factors in Georgia. This growth was somewhat offset by a 34.2% decrease in turnover in 2018.

Chart 6.9 Employment in the e-commerce value chain and the corresponding aggregated sector



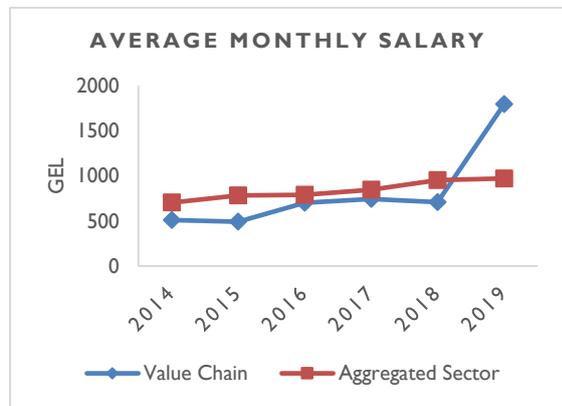
Source: National Statistics Office of Georgia

Chart 6.10 Growth rate of the e-commerce value chain employment and the corresponding aggregated sector



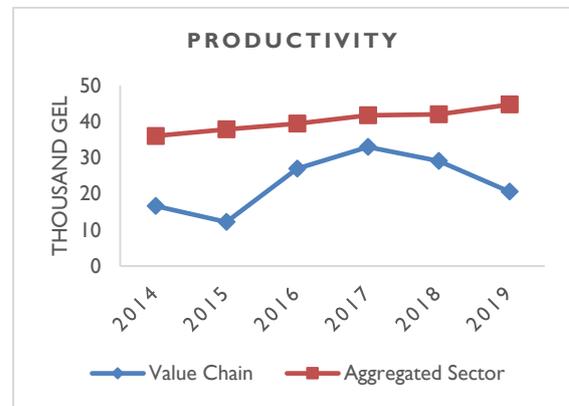
The number of hired employees in this value chain has been steadily increasing since 2014. Since then, the e-commerce value chain has added more than 470 employees, and in 2019 its total amounted to 768. E-commerce only employs a tiny proportion of the total employed in the wholesale and resale trade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

Chart 6.11 Average monthly salary for the e-commerce value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 6.12 Productivity for the e-commerce value chain and the corresponding aggregated sector



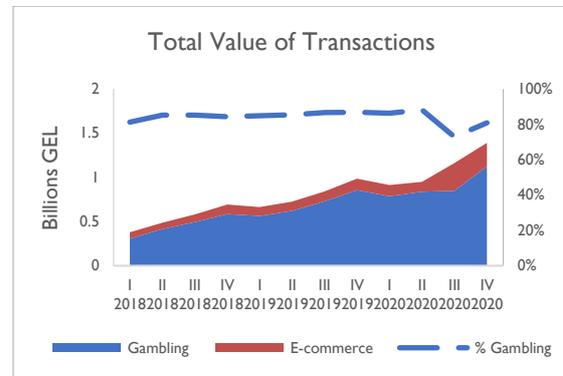
The average monthly salary increased from GEL 511 in 2014 to GEL 706 in 2018, equating to 38.1% growth. During this period, the average monthly salary in the e-commerce value chain was on average 22.7% lower compared to the aggregated sector. In 2019, the average monthly salary for the e-commerce value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

productivity in the e-commerce value chain, the cumulative growth of productivity from 2014 to 2019 equaled 24% in both the value chain and the aggregated sector.

Chart 6.13 Number of online transactions in Georgia decomposed by gambling and E-commerce



Chart 6.14 Total value of online transactions in Georgia decomposed by gambling and E-commerce



Source: National Bank of Georgia

To analyze the e-commerce sector in 2020, online card transactions within the Georgian economy are being used. It is important to note that part of the transactions with payment cards would not be part of the e-commerce turnover, as some of the companies are labeled under different sectors. As the e-commerce value chain does not include gambling companies, internet transactions made on gambling websites are presented separately from 2018 onwards. It is assumed that the abovementioned data reflect the non-cash operations of e-commerce companies. Hereafter the gambling excluded portion of the total online transactions are represented as e-commerce transactions.

2020 has been one of the most significant years for e-commerce transactions, especially the last two quarters: in the third quarter of 2020, e-commerce transactions increased threefold in value compared to the same quarter of the last year. This phenomenon can be explained by the pandemic and the subsequent increase in online shopping. Notably, the number of transactions has increased far more than the total value of transactions, decreasing the average value of a single transaction from GEL 45.4 to GEL 39.6 in the third quarter. Overall, e-commerce and gambling online transactions have similar patterns: both have been steadily increasing since 2018. Both the value and number of transactions experience seasonality, during which the highest annual growth is reached in the last quarter of a year, slightly decreasing in the following quarter of each year. Overall, the value of transactions for the gambling companies has increased by 267.6% in the last three years, whereas for e-commerce, the number is 276.3%. For the gambling industry, the pandemic played more of a negative than a positive one. The number of transactions for the gambling companies decreased from 14.6 million in the second quarter to 13.1 million in the following quarter. It seems that the contraction was only temporary, as in the final three months of the previous year number of transactions surged by more than 4.3 million transactions. Interestingly, unlike the fall in the number of transactions in the third quarter, the total value has only increased throughout the year, probably because those who were not able to spend significant amounts of resources in the gambling activities were hit the hardest by the pandemic and took a temporary hiatus from their "activities". This indicates how inelastic the gambling demand is in the country, which showed a strong resilience even during the economic contraction. This idiosyncratic shock to the economy affected the gambling/e-commerce transaction ratio, which has been idle at 76-86% in 2018 and 2019. In the third quarter of 2020, only 62% of all online transactions within Georgia had gambling purposes, the lowest figure in the last three years, mainly due to the high number of e-commerce transactions. It looks that the drop was only temporary, as the gambling transactions swiftly recovered in the following quarter and are on a trajectory to reach the levels of

status quo ante. It is unclear how the purchasing pattern of the average consumer is going to change in the following quarters, but if the current online transaction pattern outlives the pandemic, it will undoubtedly have salutary effects on the e-commerce value chain.

When it comes to the online transactions made via non-domestic issued cards, more than 98% are done in e-commerce rather than gambling. However, the low number of such transactions has virtually no effect on the overall ratio, as in the whole year of 2020 total value of such transactions amounted to GEL 34.3 million, less than 0.8% of the total online transactions within Georgia. On the other hand, the average value of such transactions is significantly higher: GEL 84.1 in 2020. It seems that due to the pandemic and lower number of foreigners in 2020, the total value of such transactions dropped by more than 53.1% in the second quarter, compared to the same quarter of the previous year. The third and fourth quarters saw a relative improvement, and if this trend continues, the losses of 2020 should be fully recovered in 2021.

Overview of the Existing Challenges and Opportunities

Development in the value chain was noticeable in 2020, however, questions remain about the e-commerce value chain's readiness to overcome challenges and how adequate its response has been to the increased demand. Characterized by a so-called iceberg effect, e-commerce encompasses many elements beyond functional websites. Indeed, dysfunction in every single ring of this value chain is significantly influencing the overall functionality of the value chain. Being an important forward linkage for many other sectors on the local market, e-commerce already serves as an important cross-cutting value chain for further economic development.

The qualitative analysis here has been based on in-depth interviews and focus group meetings with representatives from the private sector, represented by SMEs, large-sized enterprises, as well as the associations of the value chain (E-commerce Association of Georgia; and Voice of E-commerce). The challenges most commonly mentioned by respondents are summarized below:

Unequal competition as an impediment to the e-commerce value chain's development:

As noted by the E-commerce Association of Georgia's founders, one of the most striking issues relating to the value chain's competitiveness is associated with the presence of strong financial institutions on the market, with commercial banks (mostly the strongest two) acting as the parent companies of the biggest e-commerce companies with the largest market shares. Benefitting from strong financial and intellectual resources and being backed by commercial banks, such e-commerce companies hold an absolute competitive advantage when it comes to generating greater sales and superior margins compared to their market rivals (i.e., SMEs). Nevertheless, some respondents opined that the Georgian e-commerce value chain is still at an emerging stage and cannot keep up with the pace of global e-commerce development. A similar idea was shared by the representative from the "Voice of E-commerce" association, especially in terms of low-price policies introduced. I.e., such big e-commerce companies penetrated the local market initially, setting very low prices, which put the existing actors at the market in bad condition. However, as the respondents mentioned, the prices have been normalized over time.

All respondents agreed that commercial banks have a significant role in e-commerce in terms of being a basis for the provision of stable and secure payment platforms. However, some stakeholders, including the aforementioned association, highlighted the importance of the self-reliance of business actors in e-commerce.

To overcome this obstacle, the association's management foresees the penetration of fintech companies into the local market, which will offer new solutions to e-commerce players. The association concluded that this would eventually stimulate healthier competition among players, with banks being partners rather than competitors in the e-commerce value chain.

Hindered exports and investment opportunities:

According to the majority of interviewed respondents, there have yet to be any successful exports of goods or services from Georgia through e-commerce channels. This, among other factors, is mainly due to problems associated with logistics. Some of the interviewed e-commerce companies referred to an experience of exporting goods to neighboring Armenia using Georgian Post, which turned out to be a very costly, time-consuming, and complicated exercise. In addition, limited exports could to some extent be attributed to a lack of transactions made from abroad using foreign debit/credit cards – described further below. As mentioned by the association representatives, this direction cannot be developed on its own and needs support in several aspects. One of the essentials is believed to be a consolidation of e-commerce outlets in founding an export logistics hub that would play a crucial role in organizing logistics and thus promoting exports through e-commerce.

There have been attempts made to exporting Georgian e-commerce business models. One of the founders of the E-commerce Association of Georgia is currently negotiating with Visa and Mastercard to launch a feasibility study, taking into account all relevant factors (including technical, legal, and economic) regarding the export of a Georgian B2C e-commerce model to Azerbaijan. Meanwhile, one of the largest local e-commerce platforms has confirmed its involvement in similar negotiations regarding the potential export of its business model to developing countries.

On the other hand, the E-commerce Association of Georgia highlighted opportunities relating to investment attraction in the country's e-commerce value chain. According to the association, there already exists some interest among merchants from Eastern markets about investing in Georgia's e-commerce market with the final goal of reaching the EU market. The main factors attracting such interest are the ease of doing business and the existing free trade agreements. Besides, as highlighted by the respondents, based on the specifics of this value chain, even though local e-commerce is as yet underdeveloped and with a lack of warehousing and logistics in the country, entering the Georgian market could still be profitable for international merchants.

Limited payments from abroad using foreign debit/credit cards:

Foreign customers are limited with respect to making payments from abroad on Georgian e-commerce websites using foreign debit or credit cards. This is due to a national security policy preventing and combating cybercrime. Thus, the National Bank of Georgia and commercial banks limit such transactions. As the e-commerce associations highlighted, the root of the problem here is the presence of too many regulations and the levels of ambiguity therein, which forces banks to be overly cautious against fraud. On the other hand, Georgia is among the safest countries when it comes to cyber fraud, being ranked 9th in the European region and 18th in the world for cybersecurity among 178 countries.⁴⁹

Draft law on e-commerce still pending:

⁴⁹ The Global Cybersecurity Index (GCI) 2018, of International Telecommunication Union (ITU).

The draft law on e-commerce has not yet been approved by the Parliament of Georgia. According to the vast majority of the interviewed stakeholders, the adoption of a new law on e-commerce will make Georgia's e-commerce platforms more credible and increase customer confidence therein. It will also enable the development of local e-commerce outlets and encourage their more active use. Furthermore, as the respondents highlighted, the establishment of law on e-commerce is a necessary prerequisite for the commencement of exporting goods and services through e-commerce sales channels to countries with FTAs with Georgia.

However, the value chain stakeholders highlighted the inactive engagement of the private sector in the process as a problem. As noted by the founders of the E-commerce Association of Georgia, had it not been for the USAID Economic Security Program, which incorporated the association in a joint working group dedicated to the e-commerce draft law discussions, they would not have been invited to partake. The Voice of E-commerce reported no engagement nor invitation to be engaged in the draft law discussions. The concerns are the same from the private sector's perspective.

E-commerce website complications and common mistakes:

According to the majority of private sector representatives, technical obstacles on e-commerce websites significantly hamper cooperation between merchant and buyer. For instance, as was highlighted by respondents, 70% of customers who were adding a product to their cart on e-commerce websites do not actually place an order. The main reason for this is that they have to fill out complex forms at the end of the e-purchase process. This indicates that the payment platforms need to be even more flexible, user-friendly, and adjusted to customer needs.

Overall, the stakeholders identified the following technical mistakes frequently made by Georgian e-commerce merchants: *Extensive registration forms* – buyers are regularly frustrated when they face 10 to 15 fields to be filled. It has been suggested only the essential fields should be kept; *Modest product descriptions* – incomplete descriptions of goods and services result in uncertainty among customers and unnecessarily burdens call centers; *Absence of a returns policy* – nearly none of the Georgian e-commerce websites have a returns policy, thus negatively affecting customers' confidence levels; *Unsaved credit/debit card information*: Many Georgian e-commerce websites do not keep customers' credit or debit card information, which is inconvenient when it comes to returning for a second or third purchase and is frequently a reason for losing clients; and *Inventory management* – when goods are purchased and the merchant (depending on the stocks of the partner manufacturer company) is running out of stock, this causes frustration among customers. The process itself becomes time-consuming in dealing with customers explaining the reasons, and looking for possible outcomes. This particular problem is linked to a more systemic obstacle, namely logistics and the implementation of various operations from the point of origin to the point of consumption.

Lack of cooperation among e-commerce actors: From the focus group meeting with private sector representatives, it emerged that only a few e-commerce companies had all of the above-listed processes in place. Therefore, joining efforts through good cooperation practices between market competitors, taking into consideration best international practices, would lead to the streamlining of processes and would encourage the value chain's fast development. As the respondents highlighted, even setting some sort of precedent in this regard would be enough for others to pursue the process.

Deficiencies in the e-commerce value chain revealed in the COVID-19 pandemic:

Not a single e-commerce value chain actor in Georgia was ready to take on the load brought on by the pandemic - sometimes, even large companies could not meet customers' requirements during the pandemic. During the first lockdown in March 2020, restrictions were imposed on online shopping

companies for specific items. The list of allowed products changed fluidly, and the e-commerce companies could not cope. On the other hand, delivery services were nearly paralyzed, especially in the shipping of medium- and large-sized items. The supply during this period turned out to be inadequate for the increased demand with customers going unsatisfied. The shortcomings of courier and logistics services became even more obvious during the New Year period (end of 2020 / start of 2021).

During the same period, even micro and small businesses that had not previously thought about engaging in e-commerce sales switched to online sales. As a result, the pandemic has increased competition, albeit with a negative influence on the overall quality of online shopping services in Georgia.

Standard waybill system hindering e-commerce VC: Currently, during shipments of goods bought through the internet, all e-commerce and respective logistics companies are required to use standard waybills documents and each uploaded on the website of the Revenue Service of Georgia. According to the Voice of E-commerce, such an approach is an extra bureaucracy for the e-commerce value chain, prolongs a delivery time, and complicates the whole process. Their argument is also based on a best international practice of e-commerce value chains, where the process is much more simplified. As they reported, this issue has already been communicated with respective Government entities; however, they still emphasize the importance of the problem and request attention to it.

E-commerce value chain data availability:

As claimed by most of the interviewed respondents from the private sector as well as from the associations, one of the most striking issues is associated with the availability of the data of the value chain, as the existing data is insufficient and doesn't fully depict the certainty. The research team is on the same wavelength. On the one hand, as mentioned above, following the Geostat data on e-commerce economic activity (Nace code 47.9) doesn't fully interpret the activities of all e-commerce companies in Georgia (as some of them are currently operating under different Nace codes). On the other hand, the transactions through the internet (data source: National Bank of Georgia) cover only purchases made via credit or debit cards, while Cash on Delivery (COD) service of E-commerce outlets accounts for around 70-80% of their turnovers – as the respondents reported. The associations expressed readiness to unite around the issue, use their contacts and networking and support the value chain in collecting the data internally.

Underdeveloped services of the value chain's main associations:

One of the main directions of the 'E-commerce Association of Georgia' is educational. It currently cooperates closely with the Business Technological University (BTU), and 50 undergraduates take e-commerce courses organized by the association, in which sector experts are invited to conduct e-commerce courses. According to the association's representatives, the approach has been successful, as this initiative has been followed by an expressed desire from one of the largest firms in the value chain to employ several students. With a primary goal to strengthen communication between the private sector and respective units of the GoG, the 'Voice of E-commerce' was founded by several actors of the value chain during the first lockdown of the Covid19 Pandemic. They periodically conduct webinars for its members with an aim to increase awareness about the e-commerce value chain functionality and supply chain linkages.

However, respondents from both associations were still concerned about an absence of tangible services for its members. According to one of the opinions, the main reason for this is a lack of human

and financial resources to ensure the proper running of the association, and, secondly, the sector is at a developing stage in Georgia, and members may not be ready to pay fees quite yet. Currently, membership is free, and it is the founders who finance the organization's main activities. They actively deliver market information through their website, and, later on, their goals are linked to active engagement in capacity-building training and workshop sessions for its members.

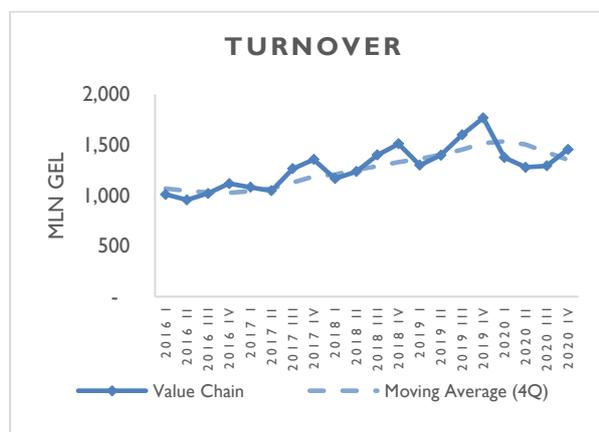
Besides, as the 'Voice of E-commerce' association representatives reported, they also occasionally try to reach international donor organizations with several initiatives to contribute to the development of the value chain. One such new initiative is intended to encourage cooperation between private sector actors and raise the credibility of the value chain. In particular, the project envisages the development of the e-commerce networking website (LinkedIn alike) platform uniting all stakeholders of the value chain: customers, e-commerce companies, potential investors, and partners. As noted by the respondents, the development of such a website would take up to 3 months and application of which is believed to play an important role for VC's development. The 'Voice of E-commerce' would like to communicate the idea with the USAID Economic Security Program.

Public-private dialogue: According to the value chain associations of Georgia, there is a low level of communication between the public and e-commerce private sector representatives. According to respondents, if there exists any dialogue between the two, it is mostly with one or two large e-commerce players only. Among private sector representatives, this view is common. Only a few respondents claimed to face no barriers when it came to sharing their opinion with the GoG through the association; however many claimed there was a low level of response and a lack of subsequent action.

TRANSPORT AND LOGISTICS

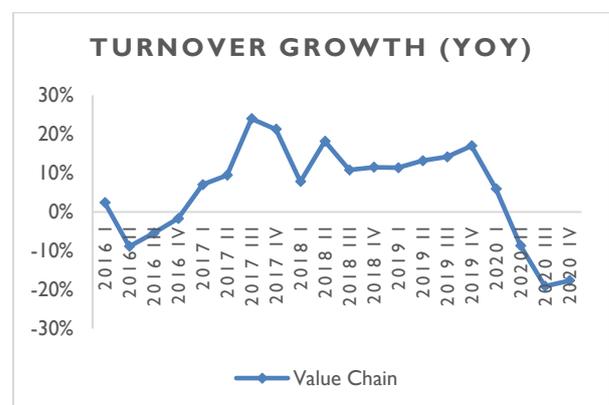
The transport and logistics value chain is the largest value chain among the cross-cutting value chains and probably the most affected by the pandemic. As the economic growth came to a standstill, so did the demand for transportation and logistics fall. This fall in demand was further intensified by already existing market imperfections and inefficiencies. It is important for the reader to remember that the data includes a few large-scale pipeline companies, exaggerating the actual size of the sector.

Chart 6.15 Turnover of the transport and logistics value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 6.16 Annual growth rate of turnover for the transport and logistics value chain and the corresponding aggregated sector



The transport and logistics value chain experienced a stable growth from the last quarter of 2016 until 2020. In that period sector's turnover expanded by 58.1%, taking into account the size of the VC – more than GEL 1.4 billion turnover in the last quarter of 2020 makes the growth number impressive compared to other sectors. The VC is characterized by a noticeable seasonality as the turnover is prone to a contraction in the first quarter and routinely reaches the local maximums at the end of the year. The effects of the pandemic can be observed in the first quarter of 2020 when the turnover fell by 22.2%, significantly higher than the previous first quarter drops year over year growth went negative in the second quarter when it reached negative 8.7%. The turnover change stabilized in the third quarter, however, unlike the pre-pandemic years it failed to surpass the final quarter of the previous year. Even with a slight recovery in the final quarter, at the end of 2020 the turnover was 17.6% less compared to the same quarter of 2019. Because of which the quarterly moving average for the last quarter is also down by 11% year over year. Meanwhile, the recovery depends on whether or not the VC can keep the momentum of the last quarter's growth and curb the adverse seasonality trends in the first half of 2021. As the VC and the aggregated sector, with the same name, are identical, the characteristics of the aggregated sector are not analyzed.

Chart 6.17 Employment in the transport and logistics value chain and the corresponding aggregated sector

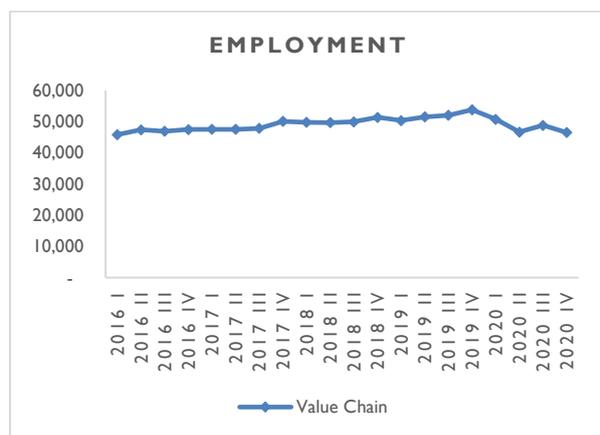


Chart 6.18 Growth rate of employment in the transport and logistics value chain and the corresponding aggregated sector

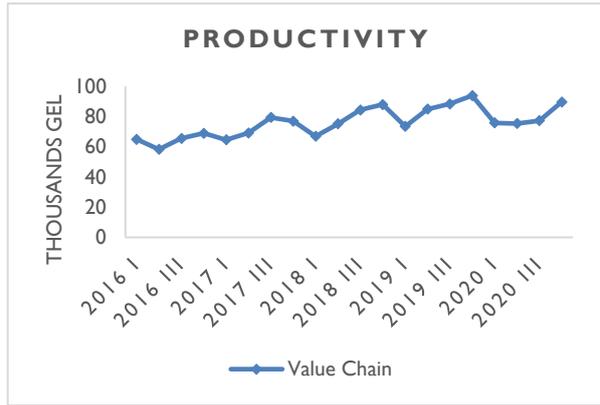
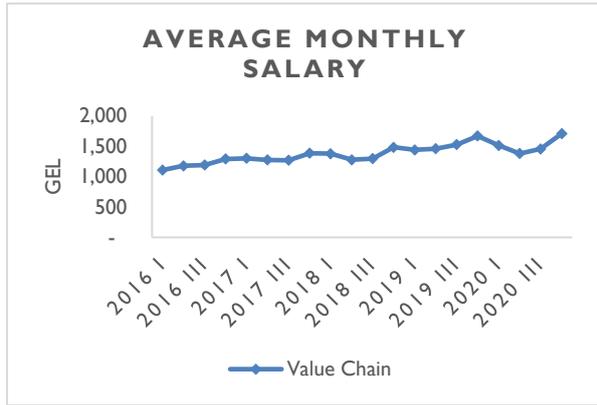


Source: National Statistics Office of Georgia

The VC employs more than 40,000 workers. In the long run it might seem that number of employees is quite rigid in the VC, as from 2016 to 2019 transport and logistics value chain increased its labor only by 17.4%. However, the change in employment is quite responsive to the short-term contractions and highly correlates with the turnover seasonality, which can be seen in 2017 and 2019. With the turnover contraction in 2020 the sector managed to decrease the number of workers: from 53.8 thousand in the last quarter of 2019 to 46,5 thousand at the end of 2020, equaling a 13.6% year over year decrease. There was a slight increase in the number of employees in the third quarter of 2020, adding more than 2 thousand jobs. But the minor rise was temporary, as the number of employed people in the VC decreased by 4.7% the following quarter, contrary to the expanding turnover the same quarter.

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

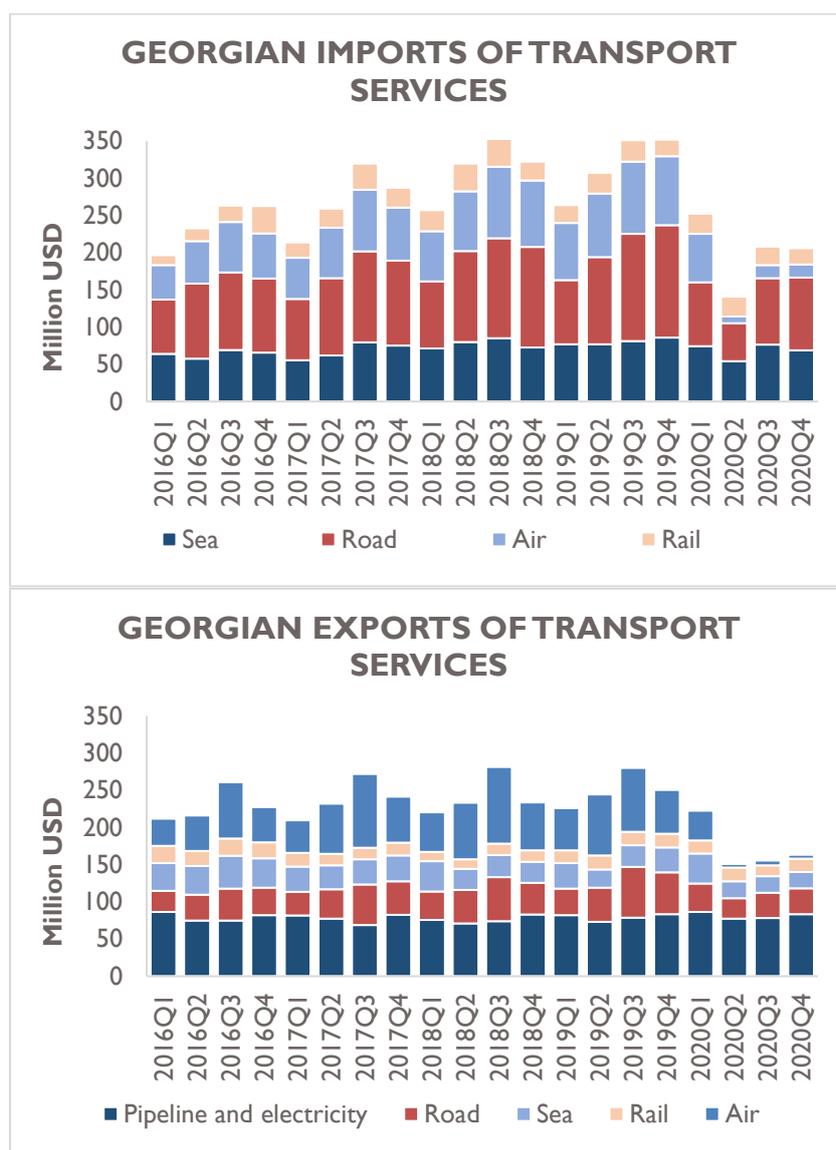
Chart 6.20 Productivity for the transport and logistics value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Salary had quite a remarkable growth in the transport and logistics VC from 2016 to 2019 – increasing from GEL 1 109 to GEL 1 672, equaling 50.7% increase. Even more remarkable is the fact that average monthly salaries passed the pre-pandemic levels at the end of 2020. There was a significant fall in the second and third quarters – 5.3% and 4.8% year over year, but in a single quarter average salary increased by 17.3%, equaling 2.2% of year over year in the last quarter. The productivity highly correlates with the average monthly salary, however with a higher fluctuation. Although the productivity increased in the last quarter of 2020 compared to other quarters of the same year, it failed to pass the productivity levels of the last quarter of 2019 – falling short by 4.5%. The increasing productivity and wages in the last quarter of 2020 is probably due to increasing turnover and significant workforce reduction.

Chart 6.2I Georgian imports and exports of transport services



Source: National Bank of Georgia

From 2016 to 2020, The first quarter of 2016 was the only time when Georgia’s trade in transportation services was positive, since then imports of transportation services have exceeded the exports. The bulk of the Georgian transportation service export is the pipeline transport and electricity transport. Despite the 2020 pandemic, exports of the abovementioned service have actually increased: in 2019, Georgia exported GEL 317.5 million value of pipeline and electricity transmission services, while in 2020, that number increased to GEL 325.5 million. Unlike pipeline and electricity, air transportation completely halted, especially in the last 3 quarters. In 2019 exports of the air transportation service amounted up to GEL 283.1 million, this number decreased to GEL 56.4 million the following year, 70.6% of which was exported in the first quarter alone. When the harshest period for air transport, that is the last three quarters of 2020, are compared to the same quarters of 2019, the reduction in airline service export reaches 92.7%. Overall, annual transport service exports decreased by 30.8% due to the pandemic. Interestingly, total annual imports have decreased even more than the exports: by 36.6%. Both air and road transportation service imports were hit in 2020, the later seeing a significant recovery in the second half of the year, mainly due to which overall imports of transport services had a swift increase in the third quarter, compared to the smooth and slow recovery for the exports. Whereas the railway service, which has the lowest value compared to other means of

transportation, was one of the least affected both in exports and imports. Thanks to the robust pipeline and road transport service exports, the overall trade deficit of transport service has decreased from GEL 269.7 million to GEL 111.8 million, the lowest deficit since 2016.

Overview of the Existing Challenges and Opportunities

Representing a substantial contributor to the country's economy, a sustainable transportation system plays a crucial role in the proper functioning of logistic operations. The logistics itself, being a complex process of planning and organizing a flow of goods from the point of origin to the point of consumption, is a major influence on consumers' satisfaction. The recent events showed such influence precisely and that proper technologies and efficient management of transportation and logistics operations are vital for the cross-cutting sector functionality.

The most important challenges and opportunities identified during the focus group and individual meetings with the private sector and the association representatives, are summarized below.

Chaotic competition among freight forwarder companies:

The overall concern of the freight forwarders is that the competition at the local market, especially recently, has become ruthless and unorganized, breaking all principal rules of fair play. According to them, such activities are frequently related to price dumping, disclosure of confidential information, unfair recruitment practice, etc. As they highlight, this problem eventually harms the end clients and in the medium term will have a negative influence on the level of confidence in the VC transparent functionality. Importantly, as underlined by the majority of the private sector respondents, a functional association, as a neutral party, could play an important role in normalizing the situation.

VC in need of supplementary functional associations. The VC members in need of support in lobbying, policy advocacy, and improved Public-Private Dialogue: Although the majority of interviewed freight forwarder companies being members of the International Freight Forwarders Association (FIATA), they unite around the opinion of becoming members of an association with different status and functions. Such association would ideally provide a variety of services for its members including, but not limited to: policy advocacy – ensuring that the related policy regulates the market and are adjusted to its members' needs; Higher level of Public-Private Dialogue – mediation between the sectors, when the voice of businesses is well and timely heard from the public sector, and on the other hand, the private sector is regularly informed about important initiatives of the GoG or possible amendments in legislation; Strives for organizing chaotic market – despite the ruthless competition of freight forwarders, existing complex and systemic problems are common for everyone. Fail of a particular segment in the VC harms the other. Therefore, an association could play a crucial role in uniting the members around specific problems and finding optimal ways for solving them. The respondents expressed readiness for paying a membership fee if it is spent purposefully on VC development.

Notably, as was highlighted by one of the private sector representative company (being a member of the Aviation Committee) during the FG meeting, there have been held discussions recently at the Aviation Committee of the Chamber of Commerce about the importance of founding an association that would unite not only the air freights, but the VC in general.

Lack of quality educational institutions in Transport and logistics VC: As highlighted by the VC actors, there is a lack of quality and result-oriented professional educational programs specialized in logistics, which is a huge impediment in recruiting qualified and skillful employees at the local labor

market. Most of the companies' managers are self-educated which in most cases results in negative outputs in terms of quality and, importantly, above-mentioned fair competition.

The burden of customs procedures linked with legislation: As highlighted by the air forwarder company representatives, one of the biggest challenges they regularly face during customs procedures is a controversy with the legislators. For instance, a single record in the Customs Code of Georgia which defines a customs terminal's responsibility for illegal handling of the cargo can provoke a number of complications. Even though dialogue with the public sector about this issue was normal, the problem is still open. There is a will from the latter to resolve it, but the solution turns out to be complex and needs a more systemic approach.

The bureaucracy of customs procedures about transit cargo. Another important case was discussed about transit cargo. Generally, the transit cargo, considered to be at 'sterile' zones (practically does not enter the territory of the country) and are transported from bord to bord, regularly stuck at Georgina customs, reporting the carrier that such cargo is not allowed to be transported through Georgia, whereas, on the other hand, it is not a problem for the sender and the consignee country. Part of the respondents thinks that the association could probably play a better role in resolving customs-related issues.

A creation of logistics hub in Georgia: According to the opinions expressed during the FG meeting, the sequence of actions of the Government of Georgia with aim of creating a regional logistics hub in Georgia are put in the wrong order. As highlighted, there is a need of inclusive and result-oriented strategic plan, incorporating important feasibility studies and preliminary projects prior to making large investments in building a modern logistics center

GoG has to contemplate and then implement necessary preliminary projects. For instance, focusing initially on ensuring the receipt of ferry backhaul (reverse flow) from Europe. As marked, the latter is also a reason why the railway transport project with China did not work (underdeveloped ferry backhaul from Bulgaria, Romania, etc.).

Public-Private Dialogue: The opinion about the level of Public-Private Dialogue was split into two. On one hand, as marked mostly by air forwarding company representatives, such dialogue and communication with the public sector have never been an issue, however, there are a number of problems, mainly related to the legislation, that still remains unresolved. On the other hand, the rest stakeholders underlined that the dialogue level is at a very initial developing stage and needs to be further improved. Once again, they highlighted a crucial role an association could play for such dialogue with the public sector.

APPENDIX I- NACE codes

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

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

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

APPENDIX 2 - Survey questionnaire

A1. კომპანიის რეკვიზიტები:

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

B1. როგორ იყო კომპანიის წლიური ბრუნვა 2019 წელში:

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

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

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

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

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

C2. აქედან რამდენ პროცენტს შეადგენდნენ?

ქალები _____ % 15-29 წლის ახალგაზრდები _____ %

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

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

APPENDIX 3 - Stakeholders

Organisation		Name
TOURISM		
Associations		
Georgian Wine Association		Tata Jaiani
International Chamber of Commerce - ICC Georgia		Maia Sidamonidze
Georgian Tourism Association		Nata Kvachantiradze
Georgian Restaurateurs Association		Kote Gabrichidze
Sakartvelo's Certified Guides Association		Giorgi Dartsimelia
Private Sector		
Geotravel		Nino Chumburidze
Legends Tskaltubo Spa Resort		Andro Jishkariani
Caucasus Travel		Gvantsa Razmadze
Hotel Collection International- Georgia & CIS		Ketevan Mikashvidze
Exotour		Niko Kululashvili
Château Mukhrani		Tamar Buadze
LIGHT MANUFACTURING⁵⁰		
Clusters/Associations		
Georgian Construction Materials Cluster		Lika Kardava
Georgian Cement Association (GCA)		Irakli Makharoblidze, Irakli Giorgadze
Private Sector		
Construction Materials	LTD Basalt Fibers	Iveri Kutsnashvili
Personal and Protective Equipment (PPE)	LTD Elselema	Elguja Mamasakhlisi, Marina Tsiklauri
SHARED INTELLECTUAL SERVICES		
Business Processes Outsourcing (BPO)		
Associations		
Georgian Federation of Professional Accountants and Auditors (GFPA)		Lavrenti Chumburidze
Human Resources Professionals Association (HRPA)		Sergo Nozadze, Salome Ghachava
Private Sector		
Architecture, Design and Engineering (ADE)	MUA - Multiverse Architecture	Devi kituashvili
	TIMM architecture	Nikoloz Lekveishvili
	Wunderwerk	Gigi Shukakidze
	Individual Representative	Soso Alavidze
	Individual Representative	Nino Zazanashvili
	Center of Contemporary Art (CCA) - Tbilisi	Wato Tsereteli
	Urban Reactor	Levan Asabashvili
	Werkraum Design Architecture	Kakhaber Kakhishvili
	Green Studio	Sulkhan Sulkhanishvili
	Designbureau	Nia Mgaloblishvili
	ADM	Levan Mamisashvili
	IDAAF Architects	Nana Zaalishvili

⁵⁰ Additional stakeholders to the list given in the 1st VCA report

	Individual Representative	Giorgi Inasaridze
Human Resources Management (HRM)	Insource	Medea Tabatadze
	Employment Agency - Georgian Service	Nugzar Panchulidze
	Individual Consultant	Irakli Dadiani
	Individual Consultant	Ana Gagua
	HR Partners	Nino Jinjolava
	HR Hub; Student.job.ge	Ana Navdarashvili
	HR4B	Irina Shalamberidze
	Career Success Group	Nina Chavchanidze
	International Maritime Group	Dias Jalaghonia
Customer Relationship Management (CRM)	Majorel	Natia Gobejishvili
	K-call	Irina Darovskaya
	Youcall	Teimuraz Sardarov
Finance and Accounting (F&A)	Savvy Consulting	Nikoloz Koiava
	LTD Today Account	Tamar Chonkadze
	Ecovic Ata LLC	Eka Rukhadze
	Auditi 2016	Khatuna Metonidze
	Business Consultancy Center	Archili Devadze
	LTD Tbilisi Auditors Team	Levan Jangulashvili
CROSS-CUTTING SECTORS		
Associations		
E-Commerce Association of Georgia		Maia Kheladze
		Natia Ninikelashvili
Voice of E-Commerce		Tamar Gogolashvili
Georgian ICT Cluster		Mariam Sumbadze
Georgian Logistic Association		Giorgi Doborjginidze
Private Sector		
E-Commerce	Extra.Ge	Ana Tabatadze
	Optimo	Nikoloz Popkhadze
	My.Ge	Nika Chilindrishvili
	Vendoo	Giorgi Berechikidze
	Hotsale	Tatuli Zakalashvili
	Allmarket.Ge	Kote Kublashvili
ICT	Orient Logic	Levan Akhvlediani
	Azry	David Japaridze
	Innovative System Management	Davit Kiziria
	Iknow	Irakli Gogoladze
	UGT	Zurab Magradze
Transport & Logistic	Vengo	Levan Nebieridze
	Mintrans	Irma Varsimashvili
	Lasare	Giorgi Kakashvili
Giorgi Nadirashvili		

APPENDIX 4 - Focus group questionnaire

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

1. ბიზნეს საქმიანობა

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

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

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

3. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

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

4. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

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

6. პროგნოზი

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

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

7. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

8. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

APPENDIX 5 - Associations questionnaire

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

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

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

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

11. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

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

12. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

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

14. პროგნოზი

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

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

15. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

16. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

APPENDIX 6 – Expenditure per visit and average daily expenditures of visitors by countries, based on data from 2015-2019

⁵¹	Expenditure per visit	Average daily expenditures
Saudi Arabia	3098	515
United States	3034	315
Qatar	2598	462
UAE	2595	423
United Kingdom	2393	232
Netherlands	2295	219
India	2059	152
Israel	1995	277
Iran	1951	294
Austria	1907	216
Kazakhstan	1897	229
Belgium	1869	215
France	1848	191
China	1834	179
Germany	1779	199
Czech Republic	1768	224
Philippines	1732	287
Japan	1630	180
South Korea	1617	222
Estonia	1609	205
Sweden	1542	214
Italy	1486	122
Poland	1479	190
Hungary	1453	188
Ukraine	1422	170
Greece	1340	113
Belarus	1263	142
Bulgaria	1129	291
Russia	1051	179
Turkey	1002	539
Armenia	496	326
Azerbaijan	383	169
Groups of countries		
Gulf	2769	457
Scandinavia	2044	223
Baltic States	1636	219
EU	1732	186

⁵¹ * Sample sizes for Bahrain, Kuwait, Iraq, Oman, Latvia, Lithuania, Spain, Uzbekistan, Denmark, Finland, Iceland and Norway were not sufficient

APPENDIX 7 - Number of visitors and key indicators for selected national parks, natural monuments and protected areas of Georgia

	2015	2016	2017	2018	2019	2020	Share of foreign visitors (2015-2020)	Growth in 2019 compared to 2015	Average yearly growth rate for 2015-2019
Kazbegi National Park	98 788	134 111	154 085	174 520	195 228	6 046	47%	98%	19%
Martvili Canyon		62 434	147 644	174 143	189 894	2 836	60%	204%	54%
Prometheus Cave Natural Monument	106 959	138 227	163 923	185 516	184 264	6 726	64%	72%	15%
Tbilisi National Park	15 220	35 439	52 015	97 480	102 104	16 280	17%	571%	68%
Okatse Canyon Natural Monument	44 527	52 197	73 113	84 189	92 872	1 919	50%	109%	21%
Mtirala National Park	21 981	33 774	47 460	57 770	77 264	2 276	65%	252%	37%
Sataplia Managed Reserve	73 601	78 323	85 507	81 556	74 198	2 129	39%	1%	0%
Borjomi-Kharagauli National Park	51 573	55 818	59 458	61 952	64 357	2 398	36%	25%	6%
Lagodekhi Managed Reserve	44 065	49 590	55 519	57 472	59 761	788	23%	36%	8%
Algeti National Park	8 030	16 076	28 020	33 248	37 758	963	3%	370%	52%
Kolkheti National Park	13 747	26 816	29 523	34 000	27 300	336	11%	99%	25%
Tusheti National Park	9 676	13 793	14 306	14 867	16 427	-	62%	70%	15%
Kobuleti Managed Reserve	8 737	9 175	11 286	14 325	14 185	725	18%	62%	13%
Machakhela National Park		2 062	5 092	10 086	11 303	144	51%	448%	86%
Vashlovani National Park	10 976	11 806	12 250	12 404	10 511	344	28%	-4%	-1%
Kintrishi Protected Areas	3 758	5 138	5 384	6 554	7 005	209	27%	86%	18%
Javakheti National Park	4 190	6 803	6 872	4 616	6 425	13	44%	53%	17%
Chachuna Managed Reserve	2 390	3 292	3 235	3 262	3 060	326	52%	28%	8%

APPENDIX 8 – About the program and project

ABOUT THE PROGRAM

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

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

Through its four components, the Program:

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

ABOUT THE PROJECT

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

- Tourism
- Creative Industries
- Light Manufacturing
- Shared Intellectual Services
- Cross-cutting sectors

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

The specific objectives of the project are:

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

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

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

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

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

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

REPORT OBJECTIVES AND STRUCTURE

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

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

The report is structured as follows:

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