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**THE USAID ECONOMIC  
SECURITY PROGRAM**

# SECTOR AND VALUE CHAIN ANALYTICS

## THE FOURTH ANALYTICAL REPORT

*(QUARTER II of 2021)*



Research

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## ACRONYMS

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

**WHO**

World Health Organization

## 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) across selected value chains within six sectors to improve evidence-based decision-making through the provision of quality information and analytics. The specific sectors are tourism, creative industries, light manufacturing, shared intellectual services, waste management and recycling, along with cross-cutting sectors. The analysis tracks trends from the second quarter of 2021<sup>1</sup>.

The following is a synopsis of the findings:

**Tourism (accommodation, catering, adventure tourism, gastronomic tourism, and cultural tourism):** In the first half of 2021, despite starting the year in strict lockdown, the first signs of recovery became visible. With the alleviation of COVID-19-related restrictions, the reopening of land borders, and the revival of flight routes, positive expectations about a recovery increased. By June 2021, the number of visitors to the country had recovered to 32% of pre-pandemic levels. The third quarter saw a continuation of this trend, with the number of visitors having recovered by 39% in July, 37% in August (negatively affected by the epidemiologic situation) and 43% in September. Moreover, as of September 2021, the number of flight routes has recovered to 91% of 2019 levels. In addition, domestic tourism has increased significantly even when compared to 2019, with number of visits having increased by 27.0% in Q2 2021 compared to Q2 2019.

The analysis of trends in travel services reveals that it has been the most hit VC by the pandemic. The accommodation VC has also been hit hard, with the number of accommodation facilities declining by 37.3% in 2020. However, the signs of recovery are evident for accommodation and food services VCs, having seen a Year over Year (YoY) increase in their turnover in Q2 2021, by 87.1% and 14.1%, respectively, while still 35.8% and 27.1% lower when compared to Q2 2019. Moreover, the prices of hotels have started to rebound in the third quarter, especially for 5-star hotels. However, despite these positive developments, major risks hindering the sound recovery of the sector still exist due to uncertainty surrounding the pandemic. Moreover, among benchmarked countries, Georgia has had the least effective tourism recovery, also falling behind Turkey. The large part of this could be attributed by the relatively low share of vaccinated people in Georgian population.

Among the existing impediments and challenges identified within the qualitative study, several have been substantial and common for each priority value chain, namely, related to: lack of a workforce in the tourism sector; country's international positioning; mountain tourism development opportunities in Georgia; the opportunity of founding students' recruitment agency clubs; the tendency of booking policy change; concerns about increased input costs; slow Covid-19 vaccine rollout in the regions; private sector's engagement in developing tourism infrastructure of museum-reserves; Nokalakevi as a new opportunity of the cultural tourism value chain; underdeveloped services in the cultural tourism VC.

**Creative industries (media content production and post-production, and artisan):** The creative industries were affected by the pandemic by a significant margin. The media content production and post-production value chain expressed impressive growth prior to 2020, expanding turnover, employment, and all other indicators; the pandemic affected the value chain considerably, it

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<sup>1</sup> While the reporting period for a majority of the report is Q2 2021, the project team has taken into account rapid developments in tourism sector due to the ongoing pandemic, and has included analysis of the Q3 2021, where possible.

experienced a contraction in all indicators from which it has yet to recover. The aggregate sector of information and communication, in contrast, recovered and even surpassed pre-2020 levels.

After being heavily hit by COVID-19, the media content production and post-production value chain has started its recovery from record-low numbers, recording its first growth in Q2 2021 after the start of the pandemic by experiencing turnover growth of 77.2% compared to Q2 2020, with low base having a huge contribution in this growth. The VC's turnover also expanding when compared to the previous quarter. However, the VC's key indicators including employment, average salary and productivity are yet to recover to 2019 levels. Employment in the VC has been particularly hit, not being able to recover to even Q2 2020 level.

The artisan VC has also seen the first signs of recovery in Q2 2021, with more than half of the firms reporting increased turnover. However, full-fledged recovery is still not in sight, as substantial part of the VC has completely halted operations even with tourism reopening in Q2 2021, and the increases in turnover for the firms have been modest, even when compared to Q2 of 2020.

**Light manufacturing (furniture, packaging, construction materials, personal and protective equipment, and wooden toys):** According to the quarterly data, turnover in all value chains in this sector demonstrated positive nominal growth (YoY) in Q2 2021 compared to Q2 2020, with the highest growth observed in the construction materials value chain (78.9%). Employment has also increased (YoY) in every value chain, with highest growth observed in packaging (62.2%). The highest number of hired employees as of Q2 2021 was registered in the construction materials value chain, while the lowest was observed in furniture value chain. Improved performance (YoY) should be partly attributed to the base effect as for most of Q2 2020 Georgia experienced a quite strict Covid-19 lockdown measures.

The average monthly salary for Q2 2021 ranged between GEL 911 (in the furniture VC) and GEL 1430 (in construction materials VC). Similarly, the furniture VC has been characterized by the lowest productivity<sup>2</sup> (GEL 73,790), and the highest productivity was identified in the packaging value chain (GEL 174,000).

Survey results for the PPE value chain and the wooden toys business activity suggest that while majority (78%) of PPE manufacturers report increased turnover in Q2 2021, compared to Q2 2020, 56% of firms producing wooden toys have experienced lower turnover in 2021. As for employment, 56% of PPE value chain and 78% of wooden toys manufacturers reported no change in their number of employees in Q2 2021, compared to Q2 2020.

**Solid waste management and recycling:** In the second quarter of 2021 turnover for the solid waste management and recycling sector has increased, amounting to GEL 22 million, that is 36.3% higher compared to Q2 2020 (YoY). Moreover, employment and average monthly salary has also increased. Namely, employment increased as well by 0.69% YoY compared to Q2 2020 and reached 7,410 people, while the average monthly salary in the solid waste management and recycling sector expanded in Q2 2021, amounting to GEL 1 049, which is 19.1% higher than in Q2 2020.

The productivity in the solid waste management sector increased significantly (37.8% YoY) in Q2 2021 and amounted to GEL 12 200. Also, Investments in fixed assets and inventories recorded a slight increase in 2020, equating to GEL 32.6 million and marking a 1% increase compared to 2019. Value added in the sector has also deteriorated in 2020 by 16%, going down to GEL 44.5 million.

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<sup>2</sup> Quarterly output per hired employee, annualized.

**Shared intellectual services (finance and accounting, architecture, design and engineering, customer relationship management, and human resource management):**

The analysis suggests that turnover and the value added declined in 2020 for both ADE and F&A business activities. However, while ADE recorded a deterioration in employment, F&A business activity experienced a slight improvement in the number of hired people. On the other hand, productivity and average monthly salary declined in both VCs in 2020. ADE also recorded an abrupt drop in investment, while F&A experienced a sudden growth in this indicator.

As the survey results for the CRM and HRM show, the majority of surveyed companies of both business activities were small businesses, with turnover below GEL 100,000. Moreover, a significant proportion of the CRM and HRM companies (86% of HRM companies, and 50% of CRM companies) reported an increase in turnover compared to Q2 2020. Despite the positive tendencies, on average, the HRM business activity presented a 1.6% decrease in turnover, while the CRM recorded an increase of 23.8%. As for employment, the majority of companies from both business activities (67% of HRM companies, and 50% of CRM companies) reported no change in their number of employees compared to Q1 2020.

**Cross-cutting sectors (transport and logistics, ICT, and e-commerce):** Rebounding economy in the second quarter of 2021 was coincident with the rebound in cross-cutting sectors, even when loosening pandemic-related restrictions could act negatively for ICT and e-commerce VCs, as the two in fact got a slight boost by the pandemic-related restrictions. This hints at possible permanent nature of the shift towards digital economy, however, as pent-up demand and recovery in disposable income was also evident in Q2 2021, careful observations are needed over the course of next quarters to make such conclusions.

The ICT sector experienced growth all key indicators except for employment in Q2 2021, while the e-commerce value chain experiences a rapid surge in turnover and average monthly salary in 2020 combined with a sharp fall in employment. This combination of rising turnover and output and falling employment has resulted in significant growth of the VCs productivity. E-commerce transactions have continued their strong growth trajectory which started since Q2 of 2020, both, in terms of number and value of transactions. Interestingly, the share of gambling sector in total virtual transactions has declined significantly when compared to pre-pandemic levels, representing 73% of the number of transactions in Q2 2021 compared to 86% in Q2 2020. Overall, the expected decline of the number of transactions after loosened restrictions has not occurred, and in fact, the number of transactions has increased by 17.1% in Q2 when compared to Q1 of 2021. Also, the positive steps have been taken in a short period towards improving the level of communication between the private sector enterprises and respective government units. This progress is mainly aimed at overcoming some of the major challenges identified during previous studies relating to public-private dialogue and decentralizing a public e-service ecosystem.

Unfortunately for the transport and logistics value chain, the airline industry was hit the hardest as there was no flexibility in contrast to other sectors of the value chains, with the decline continuing throughout Q1 2021. The transport and logistics VC experienced its first growth since the start of the pandemic in Q2 2021, growing by 25.9% in turnover, which was only partially attributed to low base in Q2 2020 – the VC's turnover also saw an increase of 15.0% when compared to Q2 2019. This recovery has been paired with the rebound of external trade in Q2 2021. Moreover, the VC's other key indicators, such as employment, average monthly salary and productivity have also increased when compared to Q2 2020 and Q1 of 2021. This strong recovery has been fueled by the rebound of air transport, remaining subdued up until Q1 of 2021.

## METHODOLOGY

### DATA AND METHODOLOGY

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

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

Table I Main indicators and respective data sources

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

The process of data collection and analysis is outlined below:

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

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

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

- II. The numbers of active enterprises operating in each value chain are taken from Geostat’s Business Register. This allows us to observe the dynamics in the number of active enterprises located in or outside Tbilisi by main kind of economic activity (available at a narrower level of NACE codes).
- III. For trade data, the correspondence analysis was performed to link NACE sectors (through CPA product classification, which is also used by the EU) with foreign trade data (through Harmonized System (HS) classification at the six-digit level). Importantly, the applicable HS codes for the personal and protective equipment value chain were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization (WCO) and the World Health Organization (WHO)<sup>3</sup>.

## Survey

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

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

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

To cover the data gaps, it was decided to obtain the key business indicators describing development in the above six value chains through a short quantitative survey. For this purpose, the business register of Geostat<sup>1</sup> as well as the list of stakeholders<sup>2</sup> were used to map the six value chains to NACE classification of economic activities and to select enterprises. As a result, the following mapping was undertaken:

Table 2 Value Chain Mapping

Value Chains	NACE Codes
Personal and Protective Equipment (PPE)	14.12 Manufacture of workwear

<sup>3</sup> HS classification reference for Covid-19 medical supplies 2<sup>nd</sup> Edition. WCO.WHO (2020)

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

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

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

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

## QUALITATIVE ANALYSIS

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

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

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

**Focus groups and individual interviews with enterprises (Appendix 3):** Focus groups were formed of representatives of companies within the same or similar value chains. Each individual group was composed of participants from companies of similar size and characteristics to ensure the maximum openness and responsiveness of the respondents. Focus groups with the same composition of



participants will be interviewed in subsequent quarters to ensure respondents' commitment and more consistent tracking of the trends in the value chains. In addition to the focus groups, which are composed of homogeneous enterprises, researchers conducted individual interviews with companies that do not share common characteristics to widen the range of perspectives obtained from within the value chains (Appendix 4).

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

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

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

# I. TOURISM

## SECTOR SUMMARY

This chapter provides a quantitative and qualitative analysis of the tourism sector in Georgia, as well as an overview of the first signs of its recovery from the heavy blow it suffered in 2020. This study on the tourism sector has been categorized into the following four main value chains: accommodation; adventure tourism; gastronomic tourism; and cultural tourism<sup>4</sup>.

In early 2020, the COVID-19 pandemic struck, with tourism heavily disrupted all over the world ever since. A full recovery is not expected until at least the end of 2024 and Georgia, being heavily tourism-dependent country has been hit especially hard.

In the first half of 2021, despite starting the year in strict lockdown, the first signs of recovery became visible. With the alleviation of COVID-19-related restrictions, the reopening of land borders, and the revival of flight routes, positive expectations about a recovery increased. By June 2021, the number of international visitors<sup>5</sup> to the country had recovered to 32% of pre-pandemic levels. The third quarter saw a continuation of this trend, with the number of visitors having recovered by 39% in July, 37% in August (negatively affected by the epidemiologic situation) and 43% in September.

Moreover, as of September 2021, the number of flight routes has recovered to 91% of 2019 levels. Air travel carries much higher importance for tourism in Georgia in 2021 and has contributed to the recovery of source markets such as Belarus, Ukraine, Kazakhstan, Gulf States and Israel, while the number of visitors from neighboring countries remains limited. In addition, domestic tourism has increased significantly even when compared to 2019, with number of visits having increased by 27.0% in Q2 2021 compared to Q2 2019.

The analysis of trends in travel services reveals that it has been the most hit VC by the pandemic. The accommodation VC has also been hit hard, with the number of accommodation facilities<sup>6</sup> declining by 37.3% in 2020. However, the signs of recovery are evident for accommodation and food services VCs, having seen a Year over Year (YoY) increase in their turnover in Q2 2021, by 87.1% and 14.1%, respectively, while still 35.8% and 27.1% lower when compared to Q2 2019. Moreover, the prices of hotels have started to rebound in the third quarter, especially for 5-star hotels.

However, despite these positive developments, major risks hindering the sound recovery of the sector still exist due to uncertainty surrounding the pandemic. Moreover, among benchmarked countries<sup>7</sup> (Albania, Croatia and Greece), Georgia has had the least effective tourism recovery, also falling behind

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<sup>4</sup> The following methods of quantitative analysis were used: firstly, a study of the industry's general trends for two distinct periods 2015-2019 and 2020, with a focus on 2020, expressed in FDI flows, expenditure by visitors from target countries, loss of revenues in 2020 from the target countries, trends in domestic tourism in Georgia, regional and international comparison of Georgia, analysis of sales in top Georgian destination. Secondly, trends in priority value chains, incorporating dynamics in turnover, output, employment, and productivity are also analyzed. While qualitative analysis observes attitudes, perceptions, and expectations of respective stakeholders relating to the market competition and competitiveness potential, public-private partnership (PPP), the sector's potential for upgrading, and finally, the core challenges and impediments faced.

<sup>5</sup> An international visitor is a traveler taking a trip to a main destination outside his/her usual environment, for less than a year, for any purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. The usual environment of an individual, a key concept in tourism, is defined as the geographical area within which an individual conducts his/her regular life routines. For the purposes of defining "usual environment" in Georgia, travelers conducting 8 or more trips are excluded from the data.

<sup>6</sup> This refers to officially registered accommodation facilities, and the source for the analysis is Geostat.

<sup>7</sup> Please see the detailed analysis of the benchmark countries on page 24.

Turkey. The large part of this could be attributed by the relatively low share of vaccinated people in Georgian population.

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

***Lack of a workforce in the tourism sector:***

Yet again, in the post-crisis period, complications relating to the recruitment of a workforce turn out to have a major influence on all VCs' performance. Stakeholders of adventure tourism are also concerned about the tendency of the qualified guides' outflow from the country, associated with the negative expectations among employees towards the stability of the tourism sector in Georgia.

***Country's international positioning:***

In line with the opinions shared by some respondents from the sector associations, overall, the country's potential is underestimated. The international positioning of the country is still general and abstract and in need of making important amendments. According to the association members, primarily, such changes should be addressed to specific destinations rather than being positioned and represented as the country in general. A common example is Turkey, which uses destination marketing, promoting specific destinations, and performing rather successfully.

***Mountain tourism development opportunities in Georgia***

According to representatives from the Mountain Guides Association, the conceptual development of mountain tourism represents a great perspective in the tourism industry in Georgia. In line with the experts' opinions in this field, the context of mountain tourism development should include a systemic development of four interconnected, key components: Huts, Routes, Guides, Rescuers - Huts, Routs, Guides, Rescue (HuRoGuRe).

***The opportunity of founding students' recruitment agency clubs***

As claimed by interviewed stakeholders, one of the solutions to a workforce shortage challenge of the sector could be in founding students' recruitment agencies - an outsourced organization offering job opportunities to students. Typically, such jobs are not permanent, rather the platform provides temporary recruitment opportunities to students. According to the respondents, an agency would unite students and give them incentives to work. Most importantly, young people would acquire meaningful practical experience and improve skills through short-term occupations.

***The tendency of booking policy change***

According to the interviewed stakeholders, recently the booking practice has been changed dramatically in accommodating industry, not only in Georgia, but globally as well. The booking confirmations are made 2-3 days in advance. As highlighted, this represents a significant challenge for the private sector actors, as they are unable to engage in medium-term business planning.

***Concerns about increased input costs:***

As revealed in the previous qualitative study, a vast majority of gastronomic and accommodation value chain respondents are still concerned about the rapid growth in input costs including utility expenses and operational costs. According to private sector actors, such shifts have been especially damaging as they occurred during the crisis and part of the business actors, especially smaller ones, could not withstand such circumstances and went bankrupt.

***Slow Covid-19 vaccine rollout in the regions:***

The rate of vaccination against COVID-19 among is still very low. As described by the respondents, the challenge is especially severe in the regions, and it is again linked to irrational fears among the employees of the value chain towards vaccination.

**Private sector's engagement in developing tourism infrastructure of museum-reserves.** The cultural tourism value chain representatives emphasized an urgency for intensifying information campaigns, intending to stimulate private sector engagement and attract more investments. In their opinion, providing evidence-based information to targeted business actors about the tourism potential of specific museum-reserves could become the main stimulator for their involvement in tourism infrastructure development projects.

#### ***Nokalakevi – a new opportunity of the cultural tourism value chain***

As opined by a majority of interviewed respondents from the cultural tourism VC, recently a new fast-growing direction has emerged - Nokalakevi historical-architectural museum-reserve in Senaki municipality, Samegrelo-Zemo Svaneti region. It is a fortress city village with a total area of 37 hectares. Although the rehabilitation works are still not fully finished, recently the site displayed a dramatic increase in the number of visitors.

#### ***Underdeveloped services in the cultural tourism VC***

As highlighted, the quality of services in the cultural tourism value chain is directly correlated with the satisfaction, attitudes, and hence decisions made by the tourists. Therefore, an urgent need of leveling up such services was highlighted, since the combination of high-quality services with the unique museum-reserves of Georgia is an outstanding prerequisite for the efficient and rapid development of the VC.

## **SECTOR TRENDS**

### **Global Tourism Trends**

The tourism sector has been decimated by the COVID-19 pandemic, with the number of international visitors having declined by 1 billion in 2020, equaling a 74% decline compared to 2019. In 2021, the tourism sector has partially recovered from a devastating 2020, however, 49% of the United Nations World Tourism Organization's (UNWTO) experts do not forecast a full return to pre-pandemic levels until 2024 in their countries<sup>8</sup>.

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 pandemic<sup>9</sup>. Several of these trends have already been evident in Georgia, according to some representatives of the tourism sector. For instance, increased demand for safety<sup>10</sup> and an increased proportion of last-minute bookings<sup>11</sup> are two such trends which have been reported so far.

With respect to the recovery of tourism sector, the survey conducted by UNWTO reveals that rapid and widespread vaccination roll-out is a number one factor that could contribute to an effective

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<sup>8</sup> <https://www.unwto.org/news/2020-worst-year-in-tourism-history-with-1-billion-fewer-international-arrivals>

<sup>9</sup> Please see the detailed overview of global trends in the second analytical report, page 14

<sup>10</sup> <https://bm.ge/ka/article/turistebi-kitxuloben-arian-tu-ara-servisimimwodeblebi-acrilebi/84220/>

<sup>11</sup> <https://bm.ge/ka/article/quotstumrebi-didi-xnit-adre-javshnebis-gaketebisgan-tavs-ikavebenquot---glamping-georgia-racha-85230/>

recovery of international tourism, followed by major lifting of travel restrictions and coordination action among countries on travel protocols<sup>12</sup>.

### Tourism developments in Georgia<sup>13</sup>

After a challenging 2020 and early 2021 for the tourism sector, various positive developments, such as the alleviation of restrictions, were seen in the tourism sector in Georgia in the second quarter of 2021. The second and third quarters of 2021 saw no significant pandemic-related restrictions in place in Georgia, with both land and air borders open for eligible visitors<sup>14</sup>.

The prospects of the tourism sector's recovery in 2021 have received a significant boost from developments in the aviation industry. According to Mariam Kvrivishvili, Deputy Minister of the Ministry of Economy and Sustainable Development, as of September 2021, 91% of direct flight routes had been recovered, compared to 2019 levels<sup>15</sup>. More importantly, EUROCONTROL, a European organization for the safety of air navigation, reported that Georgia is the second country among its member states with respect to recovery of flights<sup>16</sup>. In addition to those airline carriers that have renewed, expanded, or started operations in 2021 before July 2021<sup>17</sup>, several airlines have started or expanded operations in Georgia since then, such as Kazakh SCAT airlines<sup>18</sup>, Middle East Airlines (MEA)<sup>19</sup>, FlyJordan<sup>20</sup>, while Georgian MyWay airlines started direct flights to Poland<sup>21</sup>. Currently, 40 airlines operate in Georgia, which is nearly the same amount as in 2019.

During the third quarter of 2021, the GNTA has organized various information tours and promotional activities:

- With the support of GNTA, Georgian chefs and gastronomic society participated in international gastronomic contest “Bocuse-d'Or” and international gastronomic fair “Sirha 2021”<sup>22</sup>,
- Hosted US-based “The Daily Beast” journalist<sup>23</sup>
- Hosted photographs from the UAE<sup>24</sup>
- Hosted journalists from UK<sup>25</sup>
- Hosted press-tour from Bulgaria<sup>26</sup>
- Info-tour in Kvemo Kartli<sup>27</sup>

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<sup>12</sup> <https://www.unwto.org/news/vaccines-and-reopen-borders-driving-tourism-s-recovery>

<sup>13</sup> Please see the detailed overview of the developments in the Georgian tourism sector in 2020 in the first analytical report, page #25.

<sup>14</sup> <https://www.geoconsul.gov.ge/HtmlPage/Html/View?id=2131&lang=Eng>

<sup>15</sup> <https://bm.ge/ka/article/-sahaero-mimosvla-2019-wlis-analogiur-periodtan-shedarebit-titqmis-90-it-agdga---qvrivishvili/90345/>

<sup>16</sup> <https://bm.ge/ka/article/eurocontrol-is-monacemebit-saqartvelos-sahaero-mimosvlis-machvenebelma-15-it-gadaacharba-2019-wlis-machvenebels---qvrivishvili/89728/>

<sup>17</sup> The list of those airlines is provided in the third analytical report, page 14.

<sup>18</sup> <https://bm.ge/ka/article/yazaxuri-scat-airlines-frenews-aqtobe-tbilisi-aqtobes-mimartulebit-iwyebs-/89430/>

<sup>19</sup> <https://bm.ge/ka/article/saqartvelos-aviabazarze-kompania-middle-east-airlines-shemodis--/88467/>

<sup>20</sup> <https://bm.ge/ka/article/aviakompania-fly-jordan-i-saqartvelos-mimartulebit-operirebas-anaxlebs/89017/>

<sup>21</sup> <https://bm.ge/ka/article/myway-airlines-i-polonetshi-charteruli-frenews-shesrulebas-iwyebs-/89122/>

<sup>22</sup> <https://bm.ge/ka/article/turizmis-administraciis-mxardacherit-saqartvelo-yvelaze-masshtabur-gastronomiul-gamofenashi-da-konkursshi-monawileobs/91694/>

<sup>23</sup> <https://bm.ge/ka/article/turizmis-erovnuli-administracia-amerikul-gamocema-the-daily-beast-s-maspindzlobs--/91045/>

<sup>24</sup> <https://rustavi2.ge/ka/news/211476?fbclid=IwAR2M2hrnj8J4sADM5phjv8vHXa7Jspq6mOmJAekoPp-TXWp0qyyB5IO5Dlc>

<sup>25</sup> <https://bm.ge/ka/article/turizmis-erovnuli-administracia-didi-britanetidan-jurnalists-maspindzlobs/90156/>

<sup>26</sup> <https://bm.ge/ka/article/saqartvelos-shesaxeb-siujetebi-da-statiebi-bulgaretis-mediasashualebebshi-gava---administracia-/92095/>

<sup>27</sup> <https://bm.ge/ka/article/turizmis-erovnuli-administraciis-info-turi-qvemo-qartlshi/93056/>

- Info-tour for Kazakh tour-operators and AirAstana<sup>28</sup>.
- Press-tour for Forbes US<sup>29</sup>.
- Press-tour from Poland<sup>30</sup>
- Press-tours for boosting domestic tourism<sup>31</sup>
- Gastro-tour in Racha Lechkumi<sup>32</sup>
- Acting head of GNTA held a meeting with the ambassador of the Philippines and discussed tourism potential from the country<sup>33</sup>.

Apart from these, several notable events during the reporting period include:

- Memorandum of cooperation in the implementation of the Georgian Ecotourism Strategy and Action Plan 2020-2030 between the Ministry of Economy and Sustainable Development and the Ministry of Environmental Protection and Agriculture of Georgia was signed<sup>34</sup>.
- Colchic Rainforests and Wetlands in Kolkheti National Park has been recognized by UNESCO as a world natural heritage site in July 2021<sup>35</sup>.
- Georgia participated in UNWTO's Global Conference on Wine Tourism.<sup>36</sup>
- The Kazakh-Georgian Economic Union organized a round table discussion on "The Importance and Prospects of the Kazakh Tourism Flow for Georgia", where the key stakeholders discussed challenges and opportunities in terms of the development of tourism with Kazakhstan<sup>37</sup>.

Despite all these positive developments, which have also contributed to the rapid recovery in terms of visitors especially in June and July, the epidemiologic situation still has had its toll on the number of international visitors. In particular, the fourth wave of COVID-19 resulted in Georgia moving to the red country list of Israel<sup>38</sup>, with airlines from Israel suspending their flights since the end of July. This has negatively affected the number of visitors in August.

Moreover, despite the rollout of a general vaccination program, and a specific program for the tourism sector<sup>39</sup>, the vaccination process has not been fast enough so far, with most of the sector and the country still unvaccinated. The private sector has been pushing for mandatory vaccination. Some tourism facilities have imposed restrictions on entry of non-vaccinated visitors in their facilities, while others advocate for a need for government policy on the matter, and some recommending mandatory vaccination for using mountain resort infrastructure.

Further scale-up of the vaccination process and boosting mitigation of the spread of the virus remain crucial if positive developments in the sector are to endure. To boost the process in the tourism

<sup>28</sup> <https://bm.ge/ka/article/air-astana-zamtris-sezonze-yazaxetsa-da-saqartvelos-shoris-turistuli-nakadebis-gazrda-gvinda/93622/>

<sup>29</sup> <https://bm.ge/ka/article/saqartvelos-turistuli-mimartulebis-popularizaciis-miznit-forbes--america-statias-moamzadebs-/88041/>

<sup>30</sup> [bm.ge/ka/article/turizmis-administracia-polonetis-umsxvilesi-mediasashualebebis-warmomadgnebebs-maspindzlobs/89544/](https://bm.ge/ka/article/turizmis-administracia-polonetis-umsxvilesi-mediasashualebebis-warmomadgnebebs-maspindzlobs/89544/)

<sup>31</sup> <https://bm.ge/ka/article/turizmis-erovnuli-administracia-shida-turizmis-xelshewyobis-miznit-aqtiur-kampaniebs-vagrdelebt/91826/>

<sup>32</sup> <https://bm.ge/ka/article/turizmis-administraciis-gastro-turi-racha-lechxumshi/93325/>

<sup>33</sup> <https://bm.ge/ka/article/medea-janiashvili-filipinebis-elchs-shexvda-/90405/>

<sup>34</sup> <https://bm.ge/ka/article/quotekoturizmis-strategiis-mizania-otxi-sezonis-ekoturistuli-shetavazebebis-ganvitarebaquot/93178/>

<sup>35</sup> <http://zrda.georgiane.org/index.php/en/unesco-kolkheti-national-park-eng>

<sup>36</sup> <https://bm.ge/ka/article/quotsaqartvelos-cnobadoba-rogorc-gvinis-samshoblos-da-gvinis-turizmis-qveynis-sakmaod-gazrdiliaquot/90671/>

<sup>37</sup> <https://bm.ge/ka/article/yazaxetidan-05-mln-turistis-shemoyvana-shegvidzlia---giorgi-jaxutashvili/92143/>

<sup>38</sup> <https://report.ge/en/world/israel-includes-georgia-in-the-list-of-red-countries/>

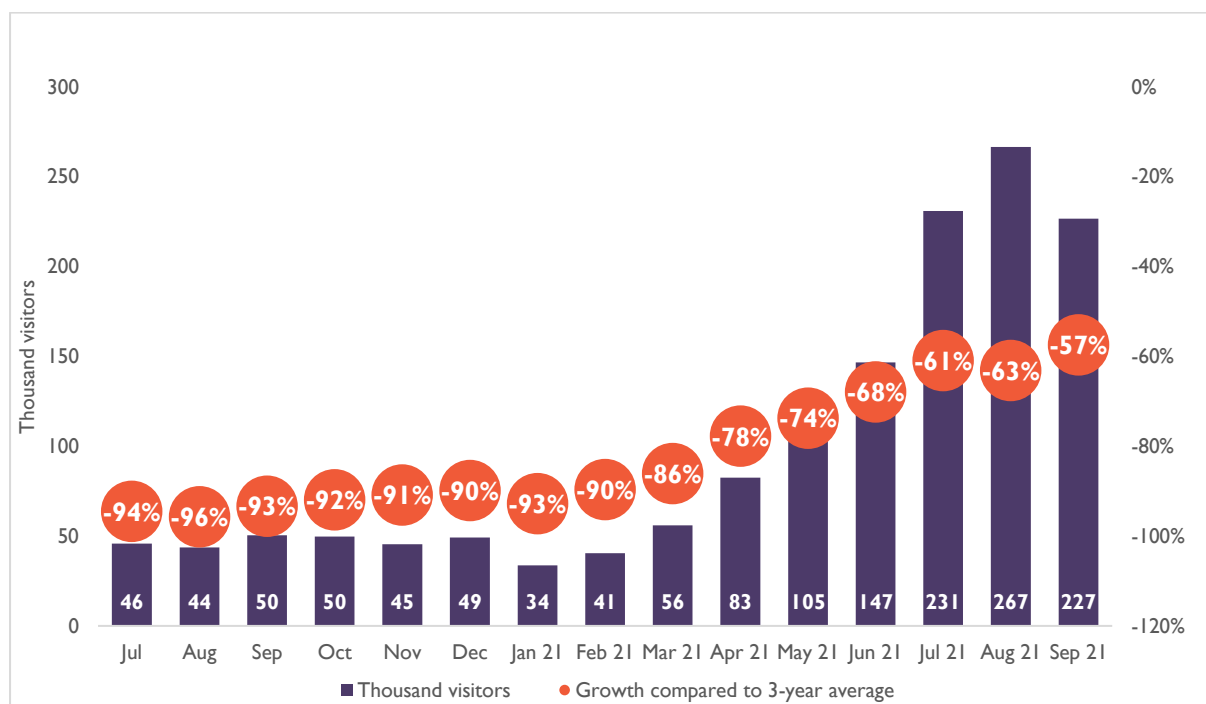
<sup>39</sup> <https://bm.ge/ka/article/vaqcinaciis-prioritetebis-nusxas-turizmis-industriashi-dasaqmebulebi-daemata/81707/>

sector, the government introduced vaccine stimulation package for tourism industry on August 24, which implies a 50% or 30% discount on participating in international fair organized by the GNTA, given that the number of vaccinated employees in the firm is over 80% or 60%, respectively. In addition, every vaccinated guide has a free access on government tourism services such as access to museums, national parks and mountain ropeways<sup>40</sup>. In addition, recommendations for the upcoming skiing season have been elaborated and announced on October 21<sup>41</sup>.

### Number of visitors in 2021

As already mentioned, COVID-19 and the related restrictions on mobility in and between countries have had a tremendously negative impact on the number of international visitors to the country. When compared to the average for the corresponding months of 2017-2019, Georgia counted drop of more than 90% in the number of foreign arrivals every month between April 2020 and February 2021. Since March 2021, with the gradual alleviation of COVID-19-related safety measures, the number of visitors started to grow each month, and in September 2021 it recovered to 43% of the average level for the previous three years. In absolute numbers, in the third quarter of 2021, 724 108 international visitors entered the country, while in the third quarter of 2020 the corresponding figure was 139 999. The average number of visitors during the same period in 2017-2019 amounted to 2.61 mln. As for the future flows of visitors, the GNTA forecasts that the number of visitors will not return to 2019 levels until 2024, which is in line with international expectations.

Chart 1.1 Monthly visitors from Q3 2020 to Q3 2021 and its growth rate compared to the average of 2017-2019



Source: Georgian National Tourism Administration

It is worth noting that pandemic has also modified the patterns of border crossing types. In particular, 40% of visitors in the third quarter of 2021 came by air, while 59% came by air. In Q3 2020, the

<sup>40</sup><https://gnta.ge/ge/%e1%83%95%e1%83%90%e1%83%a5%e1%83%aa%e1%83%98%e1%83%9c%e1%83%90%e1%83%aa%e1%83%98%e1%83%98%e1%83%a1-%e1%83%a1%e1%83%a2%e1%83%98%e1%83%9b%e1%83%a3%e1%83%9a%e1%83%98%e1%83%a0%e1%83%94%e1%83%91%e1%83%98/>

<sup>41</sup> <https://bm.ge/ka/article/regulaciebi-romlebic-zamtris-kurortebze-arsebul-sabagiroebze-imoqmedebs/93707>



corresponding figures were 91% for air and 7% for land arrivals, which is attributed to the closure of land borders from March 2020 until June 2021, emphasizing the role of air travel as a source of visitor inflows throughout the above-mentioned period and beyond. On the other hand, to compare with pre-pandemic level of Q3 2019, the proportion of visitors coming by land was equal to 21.5%, while air travelers amounted 76.5% of total visitors.

In line with global trends, domestic trips<sup>42</sup> rose in Q2 2021 compared to the corresponding periods in the previous two years, amounting to 4.2 million domestic visitors. This is 109.5% higher than the corresponding figure in Q2 2020, which can be explained by the imposed regulations on transportation within and between cities. Notably, the figure was 27.3 % higher when compared to Q2 2019. Moreover, further recovery is expected to be seen in Q3 2021 numbers.

### Estimated revenues by country in the third quarter of 2021

In the second analytical report, we estimated the average expenditure per visit by country of origin based on the expenditure data provided by the GNTA. By multiplying this number for each country by the number of visitors from that country, revenues by country in the third quarter of 2021 have been estimated. We estimate that expenditures by visitors to Georgia in the third quarter of 2021 amounted to GEL 917 million. The biggest shares of this expenditure were attributed to visitors from Gulf States (16%), followed by EU (14%) and Ukraine (12%).

The top 10 countries or countries/regions also included Russia, Turkey, Kazakhstan, Israel, Belarus, Armenia, and United States (in that order). Other countries contributed 14% of total expenditures in this period, including Azerbaijan, Iran, India, Philippines, and China.

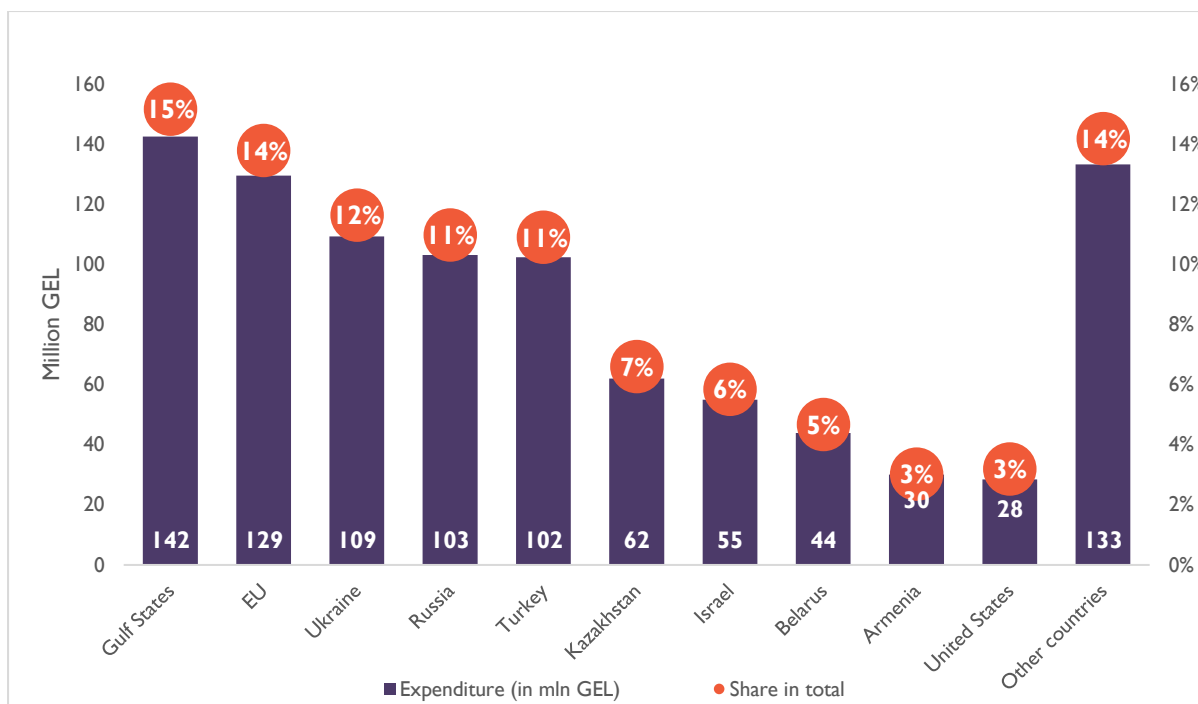
It must be noted that there has been a significant recovery in terms of number of visitors from some of the major inbound tourist markets of Georgia, contributing to the higher share of those countries in visitor expenditures. In particular, the number of visitors amounted more than 70% of their 2019 levels from Belarus (95%), Ukraine (94%), Kazakhstan (79%), and Gulf States (73%) in Q3 2021. However, the recovery figures of the number of visitors from the following countries remain relatively low – Russia (19%), Turkey (25%), Israel (37%) and EU (37%).

Chart 1.2 Estimated expenditures by countries in the third quarter of 2021 and their shares in total estimated expenditures

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<sup>42</sup> Detailed analysis of the number of domestic visits in Georgia in 2016-2020 is presented in the second analytical report, page 21





Source: Georgian National Tourism Administration, author's calculations

### Key macroeconomic indicators in Q1 2021

According to the analysis of FDI patterns in the hotels, restaurants, and cafes (HORECA) sector, the disinvestment level reached USD -2.4 million in Q2 2021, lowering the disinvestment level when compared to Q2 2020 (USD -6.1 mln). For comparison, the FDI in HORECA sector amounted 21.8 mln in the Q2 of 2019.

The analysis of GDP patterns in the HORECA sector reveals that it contributed GEL 558.9 million in Q2 2021, which is 4% higher compared to Q2 2019 (GEL 537.4 mln) and 80% higher compared to Q2 2020 (GEL 310.4 mln). The share of the HORECA sector's contribution to total GDP of Q2 2021 was 3.5%, compared to an average share over the course of 2014-2019 of 3.4%.

### Domestic tourism in 2021

According to World Tourism Organization domestic tourism is set to recover faster towards pre-pandemic levels than international travel in selected markets<sup>43</sup>. Considering that the COVID-19 has modified tourist attitudes towards traveling, it is worth analyzing the recovery trends and the potential alterations of domestic travelers' behavior on the onset of tourism recovery in Georgia.

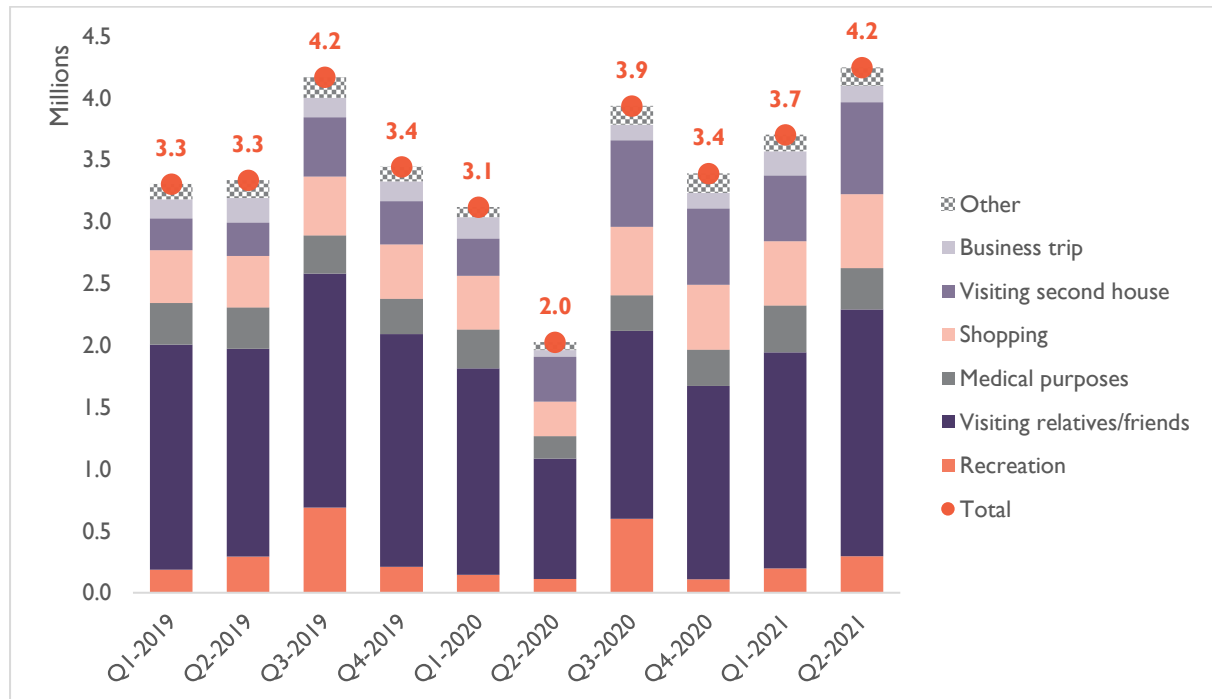
The observation of the total number of domestic visits before (2019) and throughout the pandemic revealed that since the end of 2020, the number of domestic visits not only reached pre-pandemic levels of corresponding periods but there has been a significant year-over-year increase. In the first quarter of 2021, the number of total visits amounted to 3.7 million, which was 18.8% and 12.1% higher compared to 2020 and 2019, correspondingly. At the same time, in the second quarter of 2021 the number of domestic visits increased even more and reached 4.2 mln, being 27% higher than the pre-pandemic level of the same period and more than two times the level of 2020.

There can also be seen some changes in the travel purpose structure of domestic visitors throughout the reporting period. However, "visiting relatives/friends" remained as the category with the highest

<sup>43</sup> <https://www.e-unwto.org/doi/epdf/10.18111/9789284422111>

share in total visits. Still, the category showed a significant year-over-year decline throughout 2020 attributed to travelers' fears of spreading the virus and the imposed lockdown measures, and in the first half of 2021 its' share reached 47% of total visits. Additionally, the share of "recreation" has shown a significant decrease after the third quarter of 2020 compared to the fourth quarter (12 percentage point decrease), partly explained by seasonality and partly by imposed restrictions in Q4. In 2021, there has been a slight increase in the share of recreation in total visits, reaching 7.0% in Q2 of 2021.

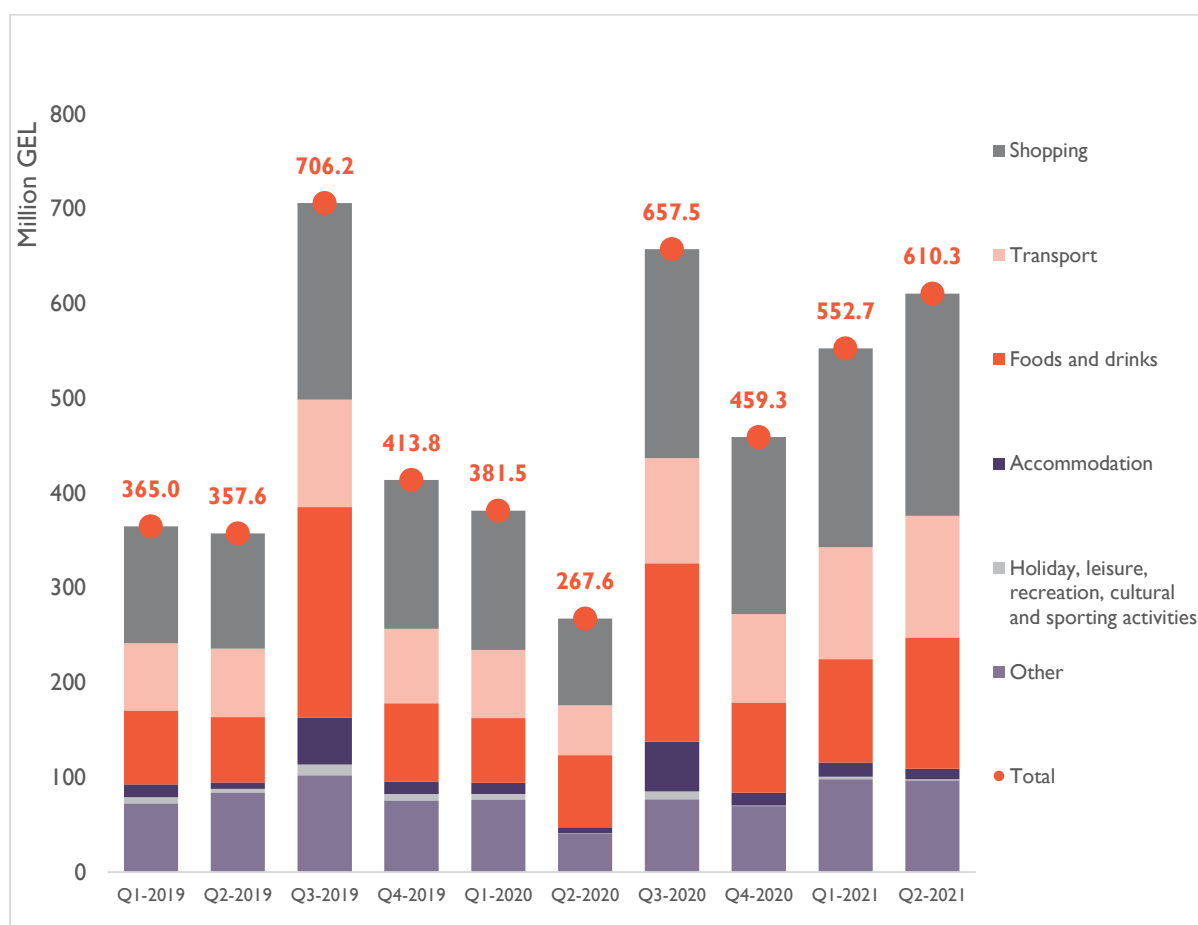
Chart 1.3 Total number of domestic visits and the shares of visits according to the main purpose of travel (2019-2021 Q2)



Source: National Statistics Office of Georgia

The expenses of domestic visitors throughout the reporting period show some variability. However, it must be noted that compared to 2019 and 2020 levels, the expenses throughout the recovery period of tourism (Q4 2020 - Q2 2021) has been significantly higher, which can partly be explained by the inflationary trends, considering that the top categories include shopping, foods and drinks, and transport in the total structure of expenses. Still, total expenditures of visitors in Q2 2021 amounted to GEL 610 million, which is impressively 70.7% higher than in the corresponding period of 2019, and 128.1% higher than in Q2 2020.

Chart I.4 Shares of categories in total expenses of domestic visitors, mln GEL (2019-2021 Q2)



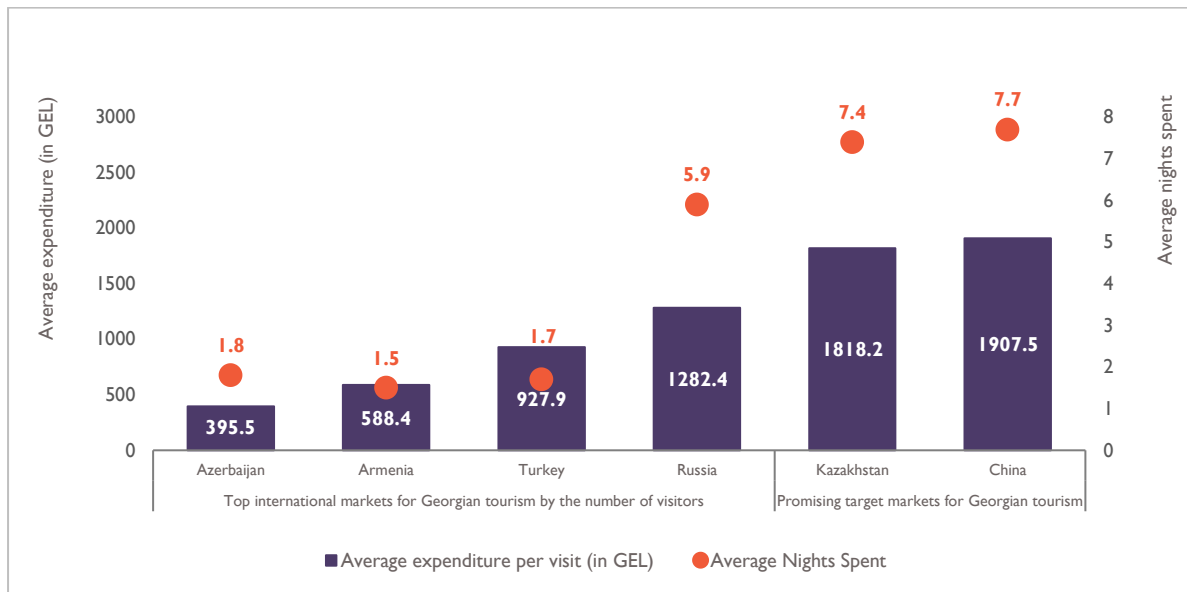
Source: National Statistics Office of Georgia

In addition, it must be mentioned that the pandemic changed the preferences of domestic travelers towards the utilization of tourist packages. In the first quarter of 2021, the expenses on tourist packages amounted to 6.8 mln GEL, which was almost 3 times larger than the corresponding value of 2020. Finally, it still can be concluded that in the case of Georgia domestic tourism acted as a buffer against the prolonged tourism recovery process.

### Emerging source markets for Georgia

In 2019, before the COVID-19 pandemic struck, total tourism accounted for 26.8% of the GDP of Georgia according to the WTTC. However, Georgia's tourism sector at that time was concentrated with 71.4% of all visitors to Georgia coming from its four neighboring countries: Azerbaijan (19.8%), Russia (19.0%), Armenia (17.7%), and Turkey (15.0%). The outbreak of the pandemic has heavily damaged tourism, however, the current crisis and changing behavior of tourists also presents some opportunities to redesign tourism policies to bring greater diversification to the industry. Visitors from the Gulf states, the USA, and some European countries tend to spend considerably more than the average visitor per visit and are already targeted by current marketing campaigns. However, China and Kazakhstan stand out as the markets with most potential in terms of expanding Georgia's tourism sector, yet both have been receiving limited attention.

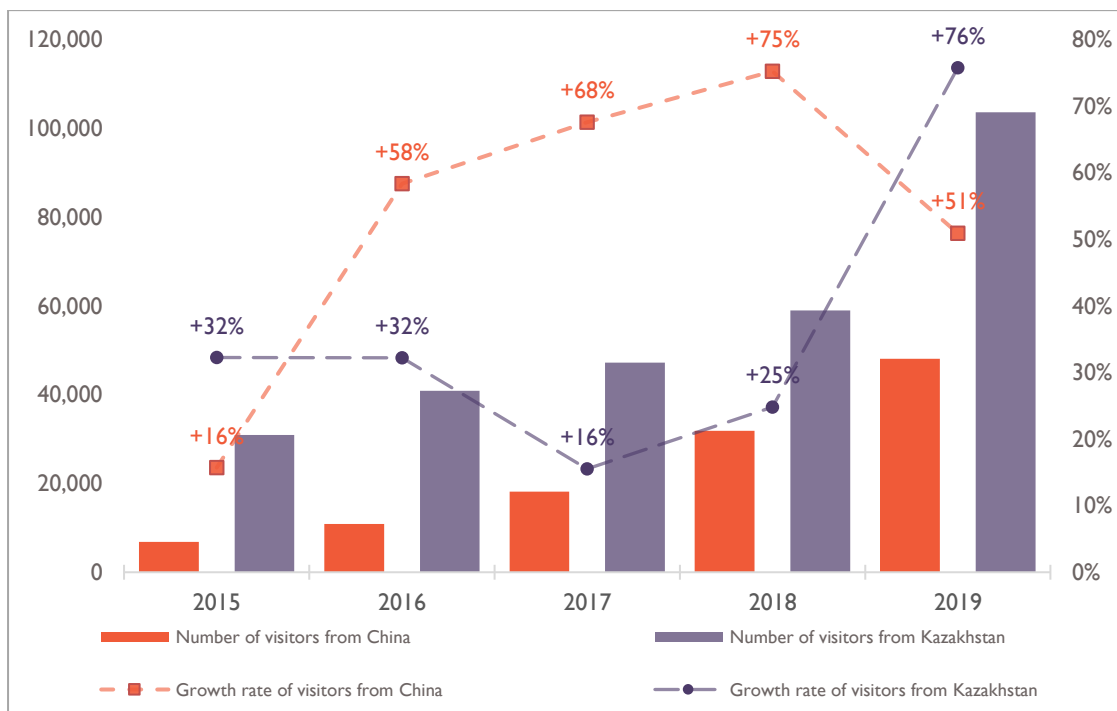
Chart I.5 Pre-pandemic (2019) level of average expenditures and average nights spent per visit by international visitors



Source: Georgian National Tourism Administration

In 2019, the average expenditure per visit of a Chinese visitor to Georgia was 1,908GEL, which means visitors from China spend nearly five times that of the average visitor from the largest source market, namely Azerbaijan (396GEL) and higher compared to all other traditional tourism markets of Georgia. Meanwhile, the average length of visit of Chinese visitors to Georgia was 7.7 nights in 2019, which is also longer than that of Georgia's traditional source markets. As for Kazakhstan, the average expenditure per visit for Kazakh visitors in 2019 was 1818GEL, while their average length of stay was 7.4 nights.

Chart I.6 Number of visitors from China and Kazakhstan in Georgia and its growth rate (2015-2019)



Source: Georgian National Tourism Administration

In previous years, the number of Kazakh visitors to Georgia had been persistently growing and reached 103,611 visitors in 2019, representing a leap of 75.7% compared to 2018. Moreover, there is significant potential for further development of the tourism relationship between Georgia and Kazakhstan courtesy of the recent introduction of regular and direct low-budget flights from three cities of Kazakhstan via FlyArystan, the easing of entry regulations, and through the general enhancement of economic cooperation between the two countries.

In 2019, the number of visitors from China reached 48,071, displaying a considerable 50.9% year-on-year increase. The majority of Chinese tourists are from low- or middle-income groups who are largely attracted to budget-friendly tourist destinations, such as Georgia. Cooperation between the Ministry of Economy and Sustainable Development of Georgia and China’s leading travel agencies, accompanied by regular flights being provided by China Southern Airlines, means the situation is promising for the post-pandemic development of tourism from China. Considering that China is one of Georgia’s largest trading partners, and as Georgia is viewed as part of the Chinese Belt and Road Initiative (BRI), there is great potential for developing business tourism with China as well.

### Trends in travel services

Travel services, provided mostly by travel agencies and tour operators, play a crucial role in the proper functioning of the tourism sector, as strong and professional travel services naturally boost the quality of tourism services offered.

Turnover of enterprises in travel services increased throughout 2014-2019, with an annual average growth rate of 20.2%, reaching in 2019. The annual average growth rate has been similar to that of the aggregated sector (administrative and support service activities). In 2020, the sector has been severely hit by the COVID-19 pandemic, decreasing its turnover by 73.8%. It is worth noting that the VC experienced a sharper drop than the aggregated sector.

Chart 1.7 Turnover of travel services and corresponding aggregated sector

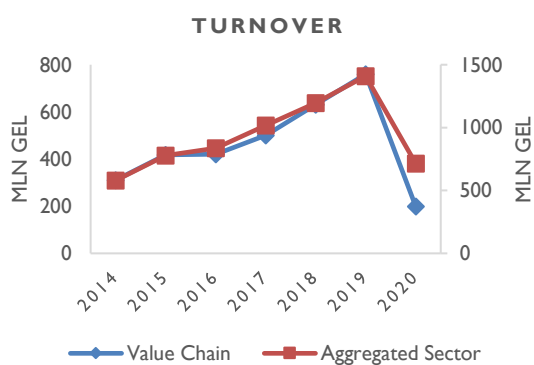
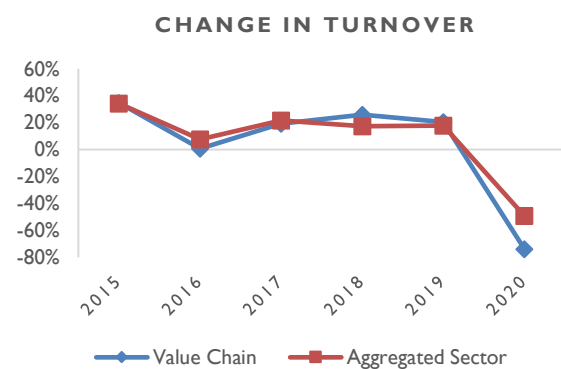


Chart 1.8 Change in turnover for travel services and corresponding aggregated sector



Source: National Statistics Office of Georgia

Value-added in travel services experienced strong growth over time, with an annual average growth rate of 25.4% for 2015-2019, as opposed to 15.6% for the aggregated sector. Like turnover, value-added of the sector also saw a huge hit in 2020, decreasing by 80.2%.

Chart 1.9 Value added of travel services and corresponding aggregated sector

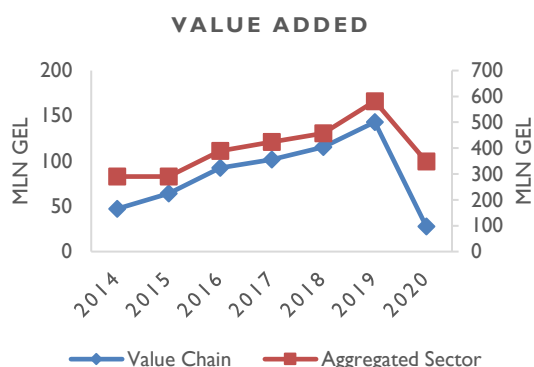
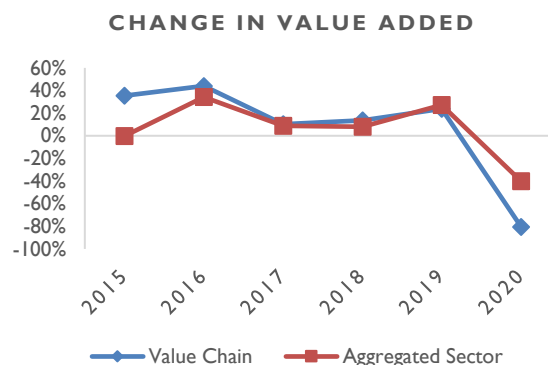


Chart 1.10 Change in value added for travel services and corresponding aggregated sector



Source: National Statistics Office of Georgia

The patterns for employment growth were similar to those of turnover, growing by 9.8% throughout 2015-2019 on average, as opposed to the 3.2% growth recorded in the aggregated sector. In 2020, employment decreased by 38.9%, while in aggregated sector the corresponding figure was 27.1%.

Chart 1.11 Employment of travel services and the corresponding aggregated sector

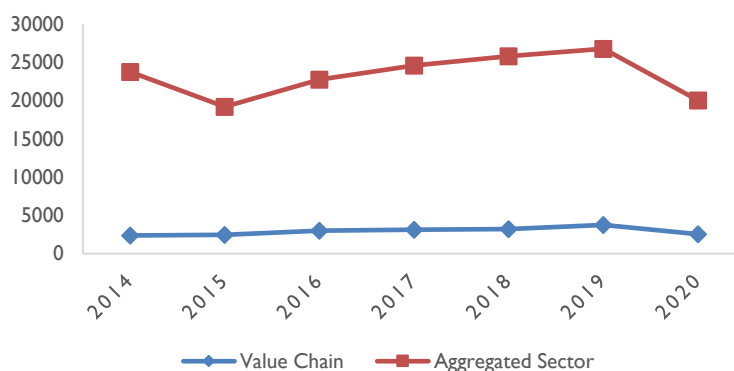
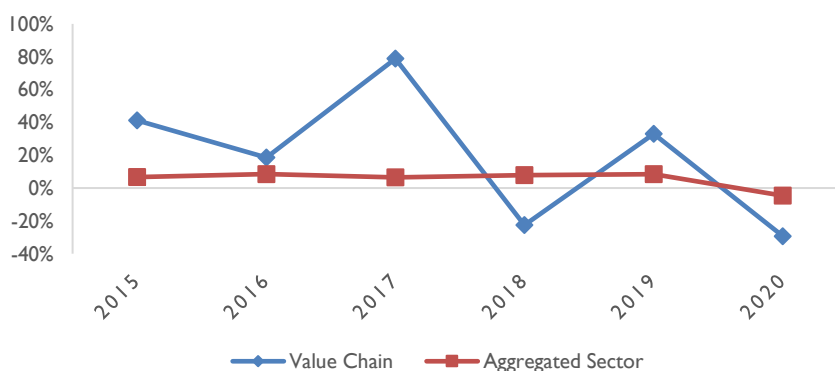


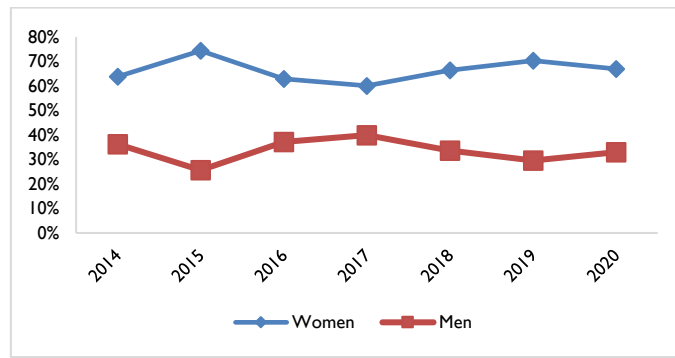
Chart 1.12 Change in employment for travel services and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Importantly, travel services employ significantly more women than men. On average, the share of women in total employment was 32.8 percentage points higher than the men's share throughout 2014-2020, standing at 70.4% in 2019 and at 67.0% in 2020.

Chart I.13 Share of women in total employment for travel services



Source: National Statistics Office of Georgia

The average monthly salary experienced an annual average growth of 14.2% throughout 2015-2019 for travel services. In absolute terms, the average monthly salary in travel services was GEL 1368.6 in 2019, which is GEL 504.4 higher than in the aggregated sector. In 2020, the average monthly salary within the VC dropped by 25.0%, nearly equaling the average monthly salary in aggregated sector.

Productivity, as measured by output divided by the number of employed people, revealed a strong upward trend in the analyzed period, before taking a sharp fall of 71.3% in 2020. Moreover, it has been significantly outperforming the aggregated sector before the pandemic, after which it falls to the levels lower than the latter.

Chart I.14 Average monthly salary for travel services and corresponding aggregated sector

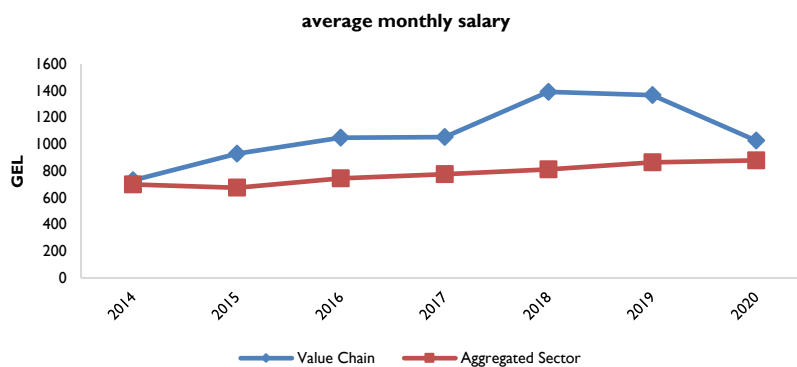
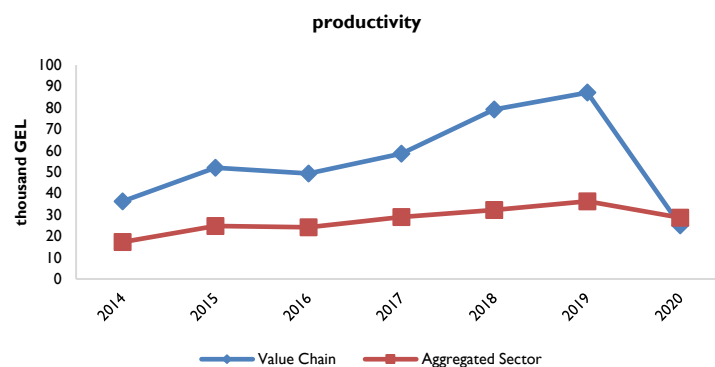


Chart I.15 Productivity for travel services and corresponding aggregated sector.



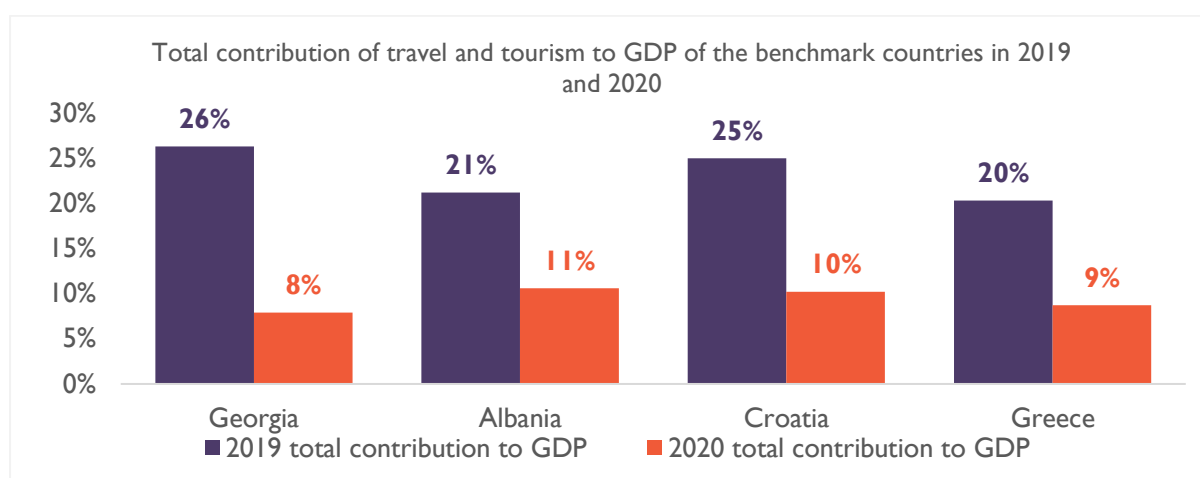
Source: National Statistics Office of Georgia

## International Benchmarking

In this and following reports, we will track the performance of the Georgian tourism sector in comparison with three selected benchmark countries: Albania, Croatia, and Greece<sup>44</sup>.

As each of the four selected countries have a large reliance on tourism in their economies, it is interesting to observe how the total contribution of tourism in GDP was affected by the pandemic, by comparing figures in 2019 and 2020. Each of them experienced a significant fall in GDP contribution in 2020, with Albania experiencing the least significant drop, even when the contribution halved. Georgia saw the sharpest decline, decreasing the contribution from 26.3% to 7.9%. Georgia was again most severely hit in terms of tourism's contribution in employment, however, Greece was the most resilient one in this respect.

Chart I.16 Total contribution of travel and tourism to GDP of the benchmark countries in 2019 and 2020



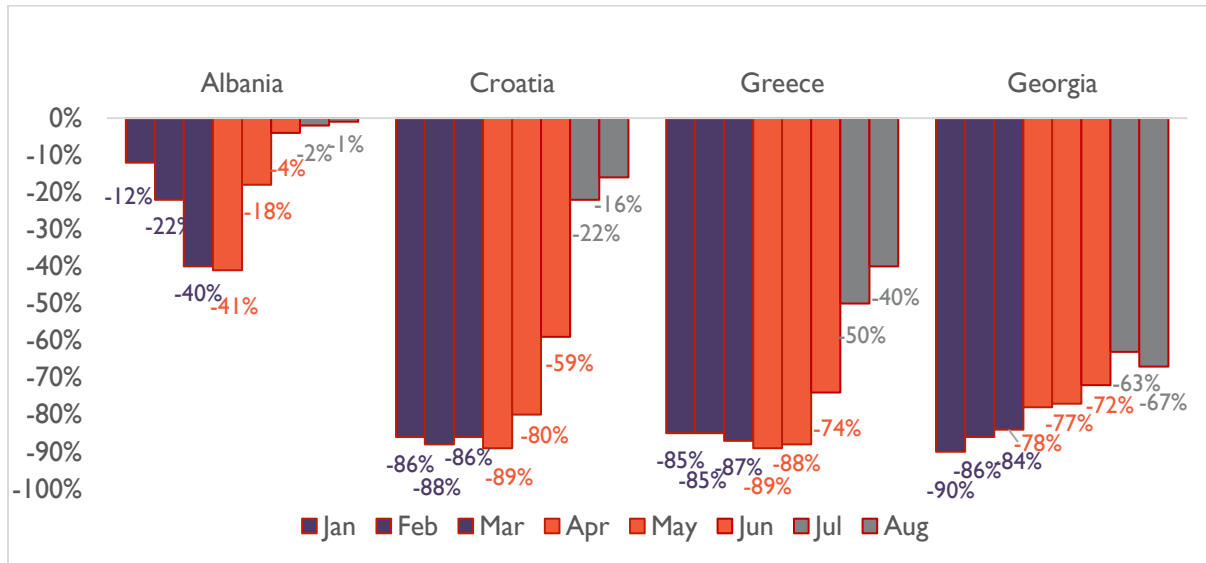
Source: WTTC

While in since May 2021 the recovery in number of visitors was evident in each of the four countries, Albania experienced the most impressive one, almost recovering to 2019 levels in June, July and August. While Croatia had harsh second quarter, it saw an impressive recovery to approximately 80% of 2019 levels in July and August. Greece followed the similar pattern, albeit the magnitude of the recovery was lower. Finally, while Georgia managed a continuous recovery, it managed to recover the least of its visitors when compared to 2019 levels.

<sup>44</sup> Please see the details about the selection process in second analytical report, page 23



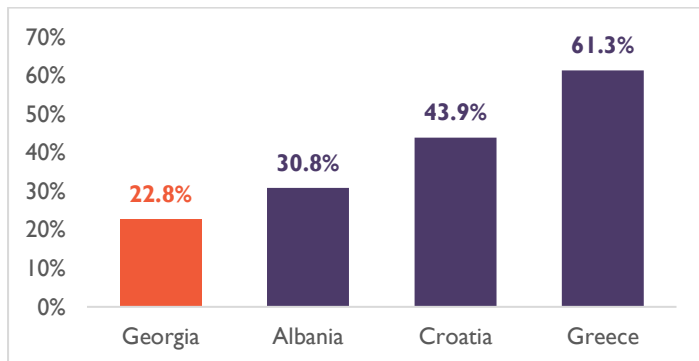
Chart I.17 Dynamics of the fall in the number of visitors in benchmark countries by the months of 2021



Source: UNWTO

It is interesting to observe vaccination status in benchmark countries. Greece has fully vaccinated more than 60% its population, followed by Croatia (43.9%) and Albania (30.8%). It is not a coincidence that Georgia, which had the least effective recovery among the four in terms of number of visitors, also has the lowest rate of fully vaccinated population, at 22.8%.

Chart I.18 % of population vaccinated in the benchmark countries as of October 31

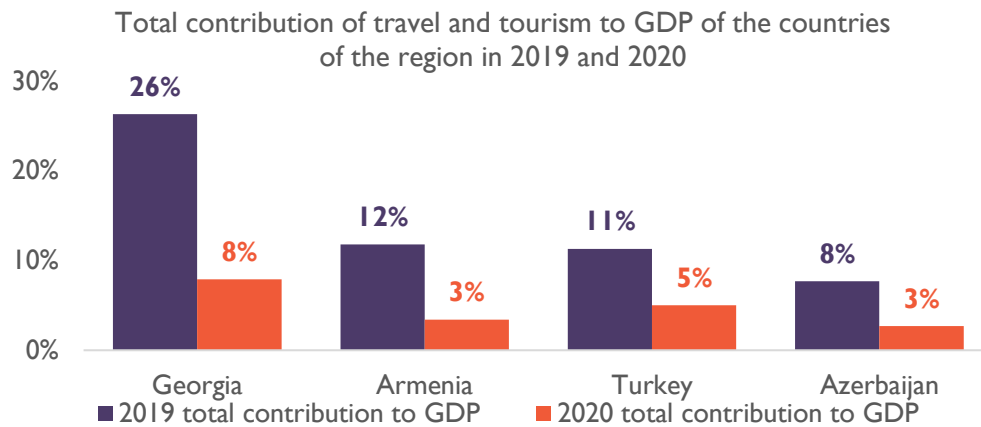


Source: Multilateral leaders task force on COVID-19

### Regional Benchmarking

Due to the structure of their respective economies, Georgian economy has suffered more than its neighbors in the South Caucasus region, due to the former's relatively high dependence on tourism. This is also manifested by the immense decrease in tourism contribution to GDP in magnitude (16 percentage points). Even if the magnitude was much lower for other three countries, tourism's distribution to GDP has more than halved in each of those countries in 2020.

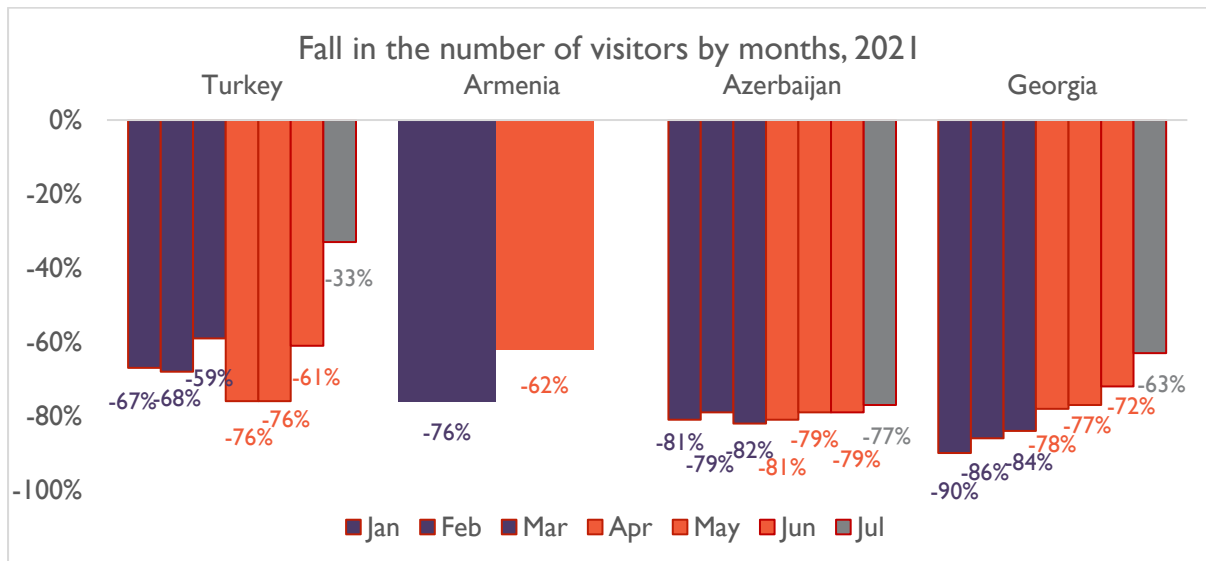
Chart I.19 Total contribution of travel and tourism to GDP of the countries of the region in 2019 and 2020



Source: WTTC

Within the regional context, Azerbaijan and Armenia have not been experiencing recovery of tourism, while in Turkey and Georgia the number of visitors has been getting closer and closer to 2019 levels each month. Georgia and Turkey fared similarly until July, when Turkey managed to recover two thirds of 2019 level in terms of visitors, being an attractive see destination for tourists, while Georgia managed to recover just 37% of that level.

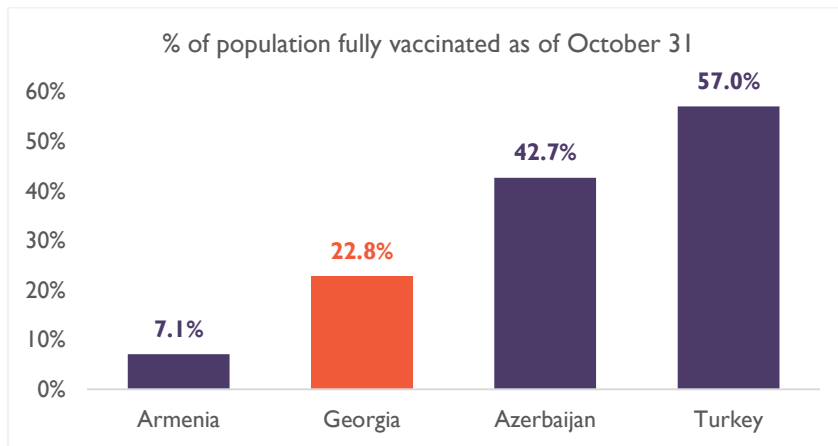
Chart I.20 Fall in the number of visitors in 2021 in the countries of the region



Source: UNWTO

High vaccination rate in Turkey has definitely aided the recovery process, while it has been hindered in Georgia. Relatively higher vaccination rate in Azerbaijan on the other hand, has not been translated to higher number of visitors, mainly due to employing strict policies regarding COVID-19. Armenia has the lowest number of vaccinated people in the region, having vaccinated just 7.1% of its population.

Chart I.21 % of population vaccinated in the countries of the region as of October 31



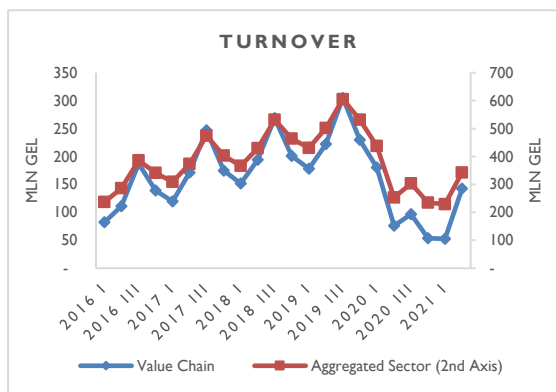
Source: Multilateral leaders task force on COVID-19

## ACCOMMODATION

### Value chain trends<sup>45</sup>

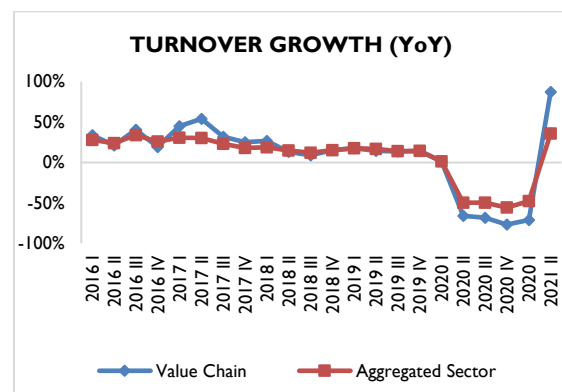
The quarterly analysis of turnover of the accommodation value chain and comparing it to the corresponding aggregated sector reveals that the value chain faced a massive hit in 2020 and Q1 of 2021 and showed the first signs of the strong rebound in Q2 2021. In Q2 2021, the turnover increased by 87.1% compared to Q2 2020, directly attributed to low base effect due to the lockdown in Q2 2020. When compared to Q2 2019 however, the VCs turnover declined by 35.8%. The VC has fared worse than the aggregated sector of accommodation facilities and food service facilities

Chart I.22 Turnover of the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

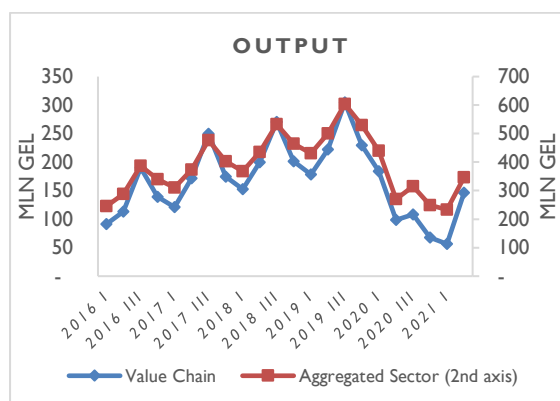
Chart I.23 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector



Output in the accommodation value chain has shared the dynamics of its turnover, having increased 48.5% in Q2 2021 compared to Q2 2020 and having declined by 34.2% compared to Q2 2019. As in the case of turnover, the aggregated sector registered declines of slightly less magnitude.

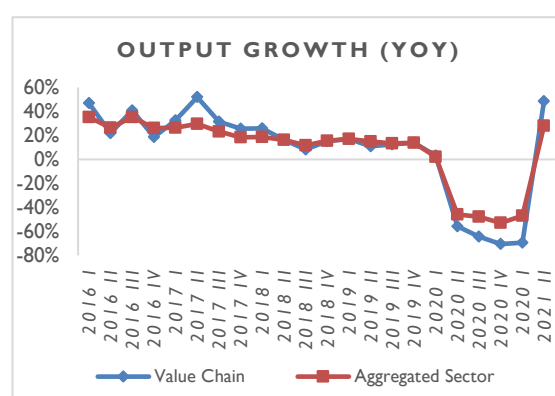
<sup>45</sup> In the first analytical report, we also analyzed Hotel Price Index for 3, 4 and 5-star hotels in Georgia over time. For details, please see page #34 in the first report

Chart I.24 Output of the accommodation value chain and the corresponding aggregated sector



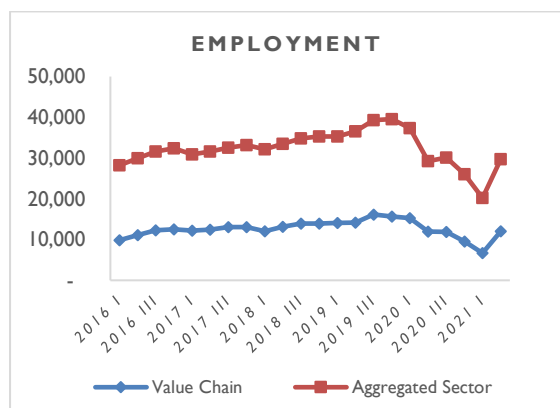
Source: National Statistics Office of Georgia

Chart I.25 Annual growth rate of output for the accommodation value chain and the aggregated sector



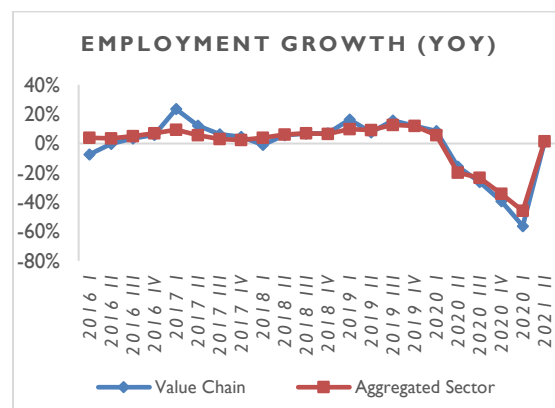
Employment in the accommodation value chain seemed to be more resilient to the shock in 2020 at first sight, compared to the abovementioned key indicators, having decreased by 15.6%, 26.2%, and 39.2% in Q2, Q3, and Q4 of 2020, respectively. The figures were slightly better for the aggregated sector<sup>46</sup>. In Q1 2021, average quarterly employment declined further - by 56.2% compared to Q1 2020, and by 52.4% compared to Q1 2019<sup>47</sup>. In Q2 2021, a strong rebound in VC's employment was evident in comparison with previous quarter, reaching 12 068 officially employed people (nearly twice more than in Q1 2021). However, when compared to Q2 2020, employment has grown by just 1.1% while in comparison with Q2 2019, has declined by 14.7%. Employment in the aggregate sector shared similar dynamics.

Chart I.26 Employment in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart I.27 Annual growth rate of employment in the accommodation value chain and its aggregated sector



<sup>46</sup> 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.

<sup>47</sup> It has to be noted that a substantial amount of value chain employment is unobserved, as many accommodation facilities are not officially registered; thus, the impact of the pandemic on the VC's employment is not fully reflected by the official statistics presented above.

The average monthly salary in the accommodation value chain experienced a decline in 2020, albeit, less substantial than other key indicators. The decline in the aggregated sector was less significant. In Q1 2021, average monthly salary showed first signs of growth, while in Q2 2021 it increased by 25.6% when compared to Q2 2020, and by 0.3% compared to Q2 2019. This increase could possibly be explained by raised costs due to the rising inflation, as reported by various respondents. Despite this growth in average monthly salaries, the total salary fund of the value-chain declined by 14.4% in Q2 of 2021 when compared to Q2 2019.

Productivity of the VC, as measured by output divided by the number of employed people, also suffered significantly in 2020 and Q1 2021, with the decline in the aggregated sector was less significant. In Q2 2021, productivity increased by 46.9% compared to Q2 2020, still being lower than Q2 2019 level (by 22.8%). The increase of the productivity was attributed to a higher increase of output compared to the increase in employment. Changes in the productivity of the aggregate sector had relatively lower magnitude.

Chart I.28 Average monthly salary in the accommodation value chain and the corresponding aggregated sector

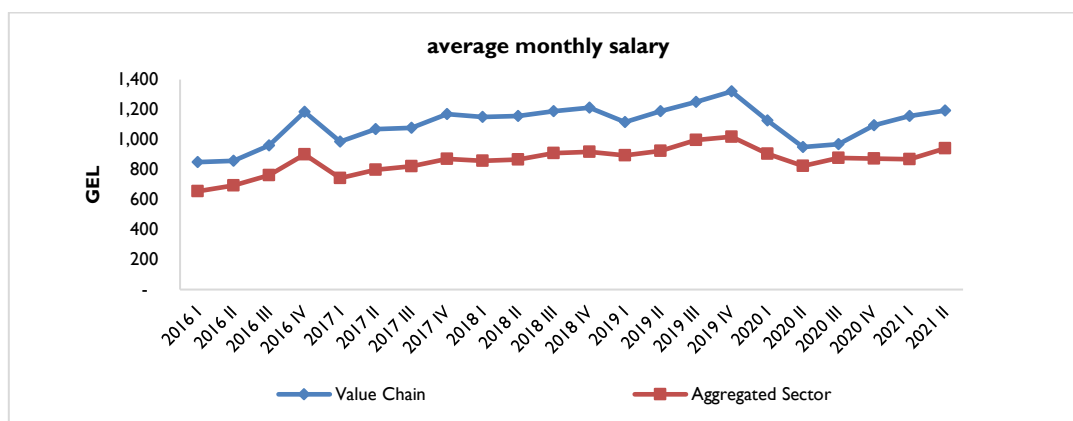
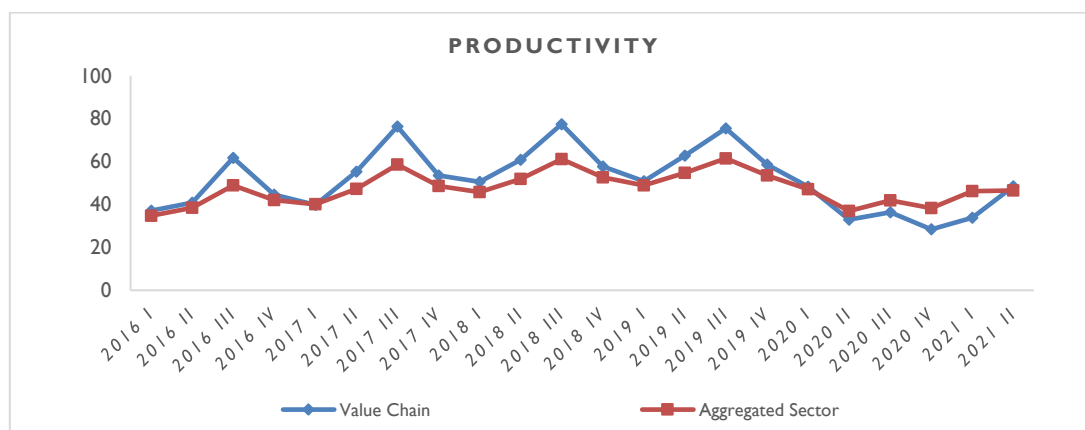


Chart I.29 Productivity in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

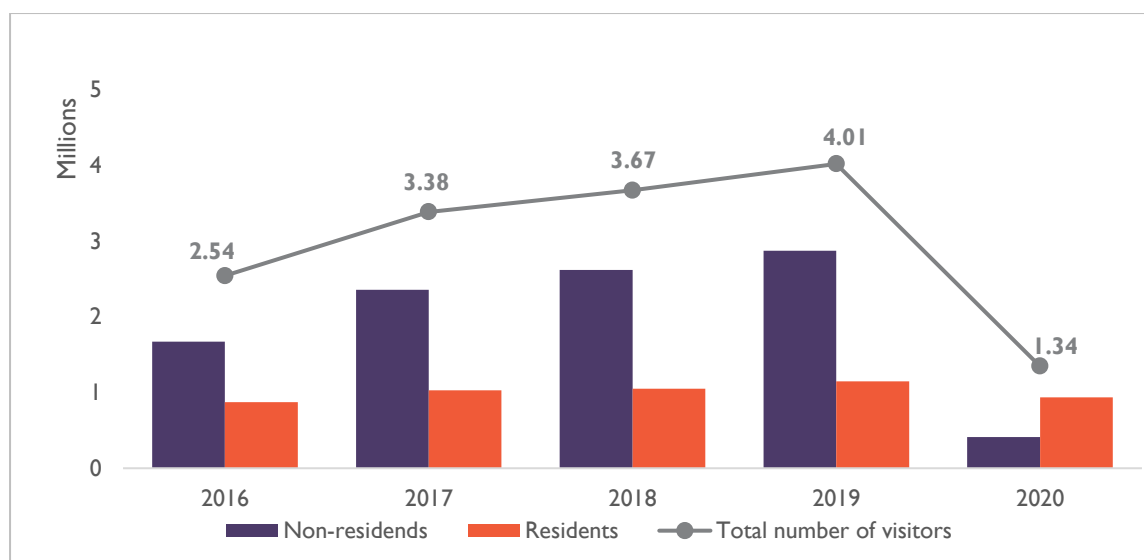
## Key indicators for hotels in 2020

The hotel industry is one of the most negatively impacted economic sectors by the COVID-19. Despite the tourism industry already entering a recovery phase, evaluation of the magnitude of the effect of the pandemic on hotel industry is crucial to estimate the period of the full recovery and develop relevant measures to ensure the sustainable recovery.

Throughout the 2016-2019 years, before the pandemic, the hotel industry has been growing steadily. In particular, the number of hotels and hotel-type enterprises has increased by 12.4%, the total area of hotels has shown a significant 35.7% increase, while the number of hotel employees increased by 31.7%. However, the emergence of COVID-19 dramatically distorted the positive dynamics of major industry indicators. In 2020 the number of hotels decreased by 37.3% compared to the previous year, while the total area of hotels decreased by 19.6% and the number of employees has also shown a considerable (33.8%) decline.

The number of hotel visitors has also been growing through 2016-2019 years reaching the maximum of the period (4.01 mln) in 2019, out of which the share of non-resident visitors was equal to 71.5%. Out of those, 35.3% and 15% of international visitors coming from CIS and EU countries, while the residents of Georgia amounted 28.5% of total visitors. In 2020 the total number of hotel visitors declined by 66.5% compared to 2019, amounting to only 39.5% of the average pre-pandemic level (2016-2019). The number of non-resident hotel visitors drastically decreased (85.7%) in 2020 compared to 2019, amounting to only 30.6% of total visitors. Out of which, 34.5% of visitors were from CIS countries and 8.9% from EU. In 2020 the number of residents of Georgia visiting hotels decreased by 18.5% and amounted to 69.4% of total visitors, showing the reversal of pre-pandemic dynamics of the shares of visitors according to their residency.

Chart I.30 Number of hotel visitors according to their residency (2016-2020)

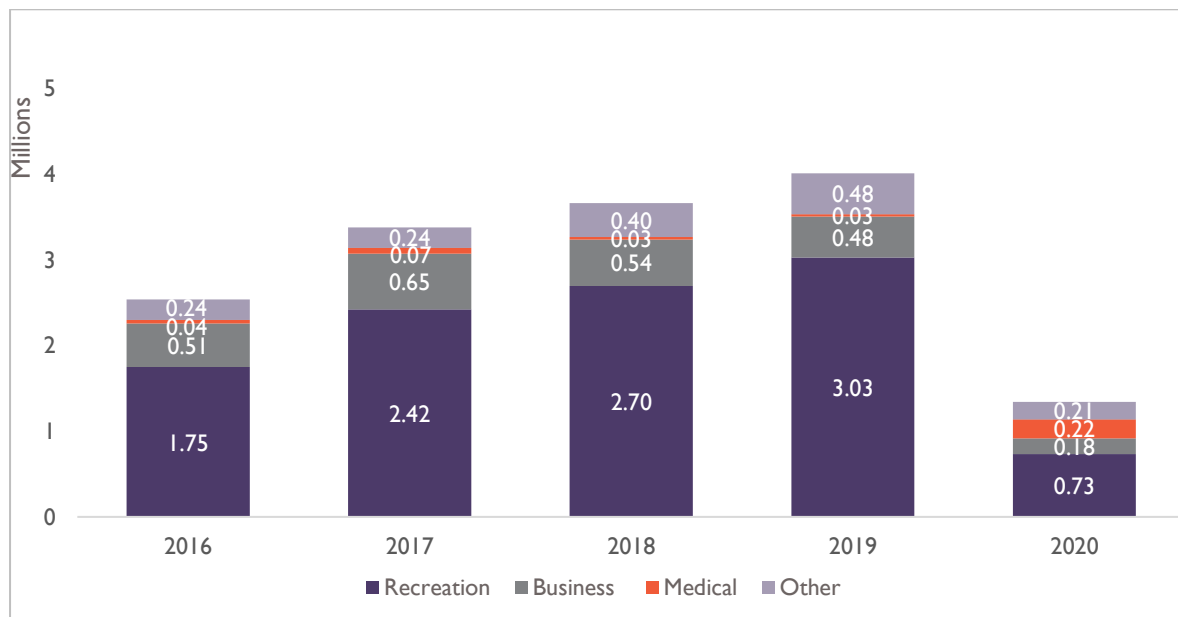


Source: National Statistics Office of Georgia

The pandemic has also modified the pattern of the reasons for hotel visits. Throughout the 2016-2019 years average share of hotel visits with medical purposes was equal to 1.3%, while in 2020 this figure increased to 16.2% of total hotel visits. It must be noted that 90.3% of hotel visits for medical reasons

were coming from the residents of Georgia, which can directly be explained by the utilization of hotels as quarantine zones for the potentially infected and the infected with COVID-19.

Chart 1.31 Number of hotel visitors and their reasons of visit (2016-2020)



Source: National Statistics Office of Georgia

Apart from that, recreation has remained to be the major reason for hotel visits throughout the reporting period. However, in 2020 out of all categories, the most prominent year-over-year decrease (75.8%) was reported in recreational visits and the major portion (62.9%) of visitors were the residents of Georgia, highlighting the role of domestic tourism for the hotel industry during the pandemic.

### Hotel price dynamics in Georgia

PMC Research Center conducts monthly research on accommodation prices based on [www.booking.com](http://www.booking.com) and publishes the Hotel Price Index, which serves as an indicator of average price changes in hotels<sup>48</sup> and guesthouses. Meanwhile, the Yearly Hotel Price Index shows how the average prices change compared to the corresponding months of the previous year.

The average prices<sup>49</sup> within each category peaked in the summer season (Jun-Sep) of 2018. Due to abrupt shocks in 2019 (Russian flight ban) and 2020 (the outbreak of the COVID-19 pandemic), prices have been experiencing a negative trend since June 2019. While the prices in 2020 and early 2021 are the lowest in the analyzed period. However, since May 2021 the prices within each category have been rising, highlighting the recovery of prices towards 2019 levels.

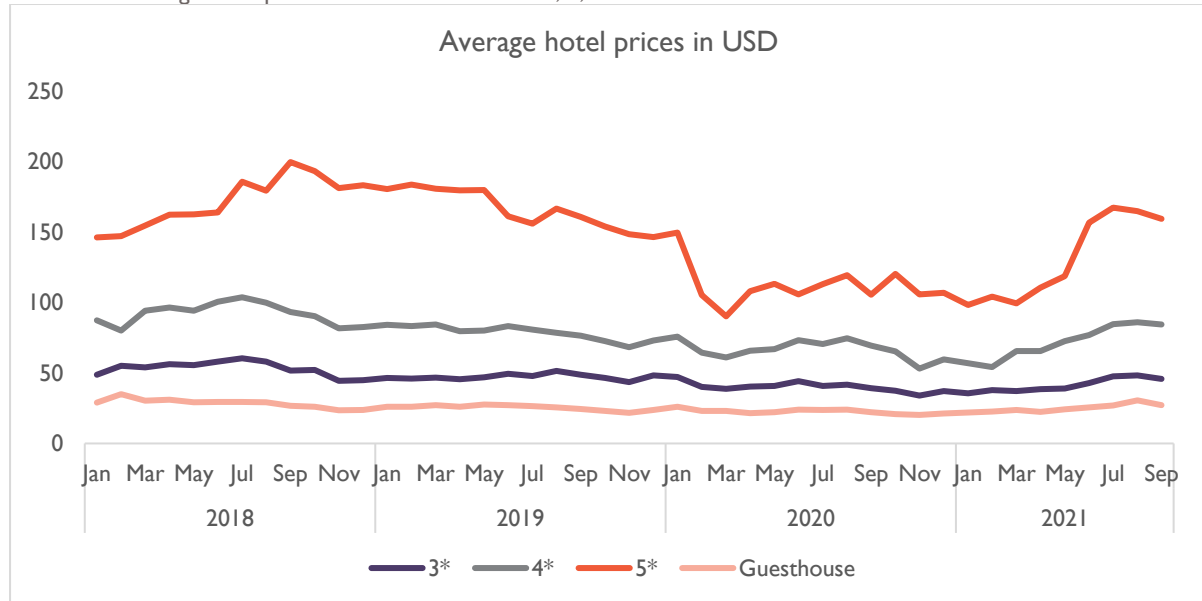
Looking category by category, 5-star hotels, which are the most reliant on international tourists, experienced the highest price volatility during the covered period. It must also be noted that the recovery of the prices towards pre-pandemic levels was most explicit for 5-star hotels from the second

<sup>48</sup> The study contains a random sample of 71% (312) of all 3, 4, and 5-star hotels and 25% (456 guesthouses) of all guesthouses registered on [www.booking.com](http://www.booking.com). The stars were assigned to the hotels due to the booking.com category, and does not correspond to international classification of hotels. The calculation of the Hotel Price Index is based on the recommendations given by the International Monetary Fund (IMF). The elementary aggregate price index is calculated according to the Jevons Index (Consumer Price Index Manual-Theory and Practice (2004), Practical Guide to Producing Consumer Price Indices (2009)).

<sup>49</sup> Price is calculated for 2-person room per night

quarter of 2021. On the other hand, prices for guesthouses were most stable during the analyzed period.

Chart I.32 Average hotel prices calculated in USD for 3, 4, and 5-star hotels



Source: PMC Research Center

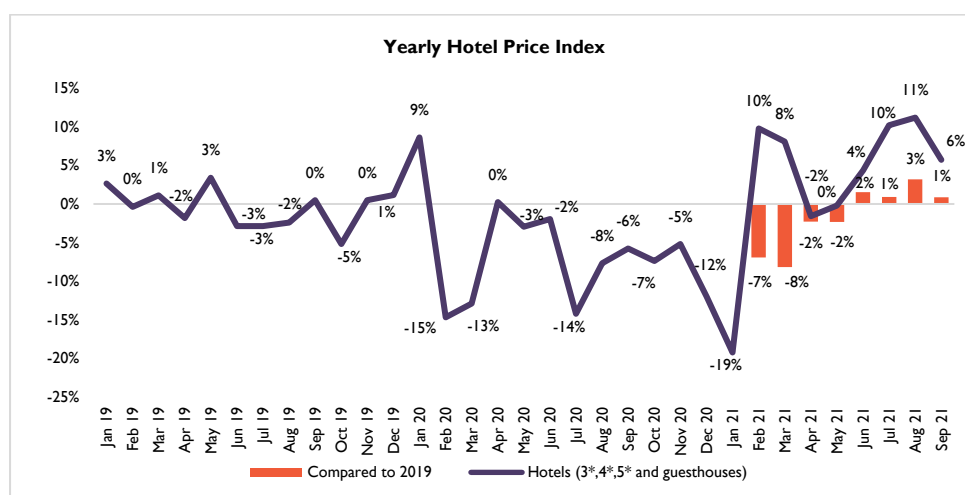
Apart from analyzing the average prices of hotels/guesthouses, PMC Research Center also calculates the Hotel Price Index (HPI) each month. The yearly HPI shows how the prices for hotels have changed compared to previous years, allowing for month-on-month comparison (e.g. June 2020 v. June 2021). As mentioned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

In January 2021, the yearly HPI was -19%, which was due to the lockdown being enforced at the time, as well as the high base effect (in January 2020 the prices were relatively high). Since February 2021, we have started to produce an alternative yearly HPI, which measures changes in 2021 in relation to 2019 instead of 2020, as we think that the 2019 prices are much more relevant when it comes to tracking the recovery of hotel prices.

Since June 2021, the HPI has been positive both in comparison to the corresponding month of 2020 and 2019 for the first time since January 2020.



Chart I.33 Yearly Hotel Price Index for 3, 4 and 5-star hotels



Source: PMC Research Center

## ADVENTURE TOURISM<sup>50</sup>

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

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

Many visitors interested in adventure tourism also tend to visit national parks, natural monuments, and protected areas of the country. Therefore, it is worth observing the evolution of the number of visitors to selected national parks, natural monuments, and managed reserves<sup>51</sup>.

In Q2 2021, based on the data provided by Agency of Protected Areas, Martvili Canyon and Tbilisi National Park led the way in number of visitors, with 16 926 and 16 250 visitors, respectively. Those were closely followed by Prometheus Cave and Kazbegi National Park. These top four protected areas were also top four visited sights before the pandemic; however, the number of visitors were significantly higher. For comparison, the number of visitors in Martvili Canyon in 2019 was 189 894.

It is worth noting that currently, Agency of Protected Area and GNTA, along with the other stakeholders, are engaged in a working group regarding the adaptation of United States Visitor Spending Effect Model Tool. The project is implemented by United States Department of Interior's International Technical Assistance Program and supported by the USAID.

### Overview of the existing challenges and opportunities

This section provides a qualitative study of the adventure tourism value chain based on the opinions and views shared by interviewed stakeholders from the private sector and business associations. Based on the ambiguity in the business environment caused by the COVID-19 pandemic, adventure

<sup>50</sup> Please see the detailed analysis of activities related to program's 3 priority VCs discussed below in the first analytical report, page #37

<sup>51</sup> In addition, adventure tourism included skiing and winter sports as well. Please, see the analysis of Georgia's mountain resorts in the first analytical report, page #39.

tourism stakeholders found it hard to make any specific predictions about changes in the value chain's key parameters.

The most crucial obstacles and existing opportunities of the value chain identified during the focus group and individual meetings are summarized below:

***A necessity for improving the role of value chain associations***

An interesting discussion was held on the topic of whether the role and functionality of sector associations have been increased during the COVID-19 pandemic (As a reminder, during a previous qualitative study, associations reported about increased demand for membership, which was mostly explained by an improved awareness among the tourism sector actors about the significance of associations). From the Mountain Guides Association's viewpoint, the sector associations did not evolve during the crisis. Their role has been highlighted only during the GoG's support programs for the private sector, as the association has been utilized for implementing the process and the members have realized its importance for the dialogue between the sectors. However, as highlighted, this temporal circumstance might still have a positive impact in this regard. Although the members still find it hard to pay membership fees today, there still is potential that the members stay in the association and understand that the union does have an influence and a meaning.

***Internationally certified guides – an opportunity for the VC development.***

As voiced by the adventure tourism stakeholders, mountain guides with internationally recognized certification are a significant prerequisite for leveling up the quality and potential of the VC. Besides, referring to our earlier studies, professional guides have reportedly entered the adventure tourism market in Georgia, with no restrictions nor any limits affecting their economic activities (due to the country's liberal economic and labor policy). Although such practice carries some undesirable influences, it is also believed to have a positive effect on improving overall competitiveness in the value chain by encouraging domestic guides to gain international status and substitute "imported" guides.

***Membership in the Tourism Industry Alliance:***

Important to mark the fact that although being offered by the founders, the Mountain Guides Association didn't become a member of the Georgian Tourism Industry Alliance. According to one of the founders, the reasoning behind such decision was based on several factors: Firstly, uniting in a new megastructure would not be effective for the organization since the association claims having a good representation already and is lobbying their goals actively; Secondly, priorities in the alliance are given to larger industrial components (such as hotels, gastronomic tourism, etc.), and taking such arrangement into account, along with the specifics of their field, the association did not see its role in the alliance. However, the alliance and the Mountain Guides Association do cooperate, including in the process of drafting the tourism law, and the latter is open for cooperation in any other direction as well.

***Engagement in discussions about the law on the tourism sector:***

Overall, the Mountain Guides Association is satisfied with the quality of their engagement in the drafting process. The association has been actively involved in the discussions of the Tourism Law from the beginning of the process, which have been organized by the USAID Economic Governance Program. According to the respondents, During the discussions, the question was raised whether the tourism companies should be regulated, on which the association had a position that the law should regulate the process of licensing the professions as it is a high-risk occupation, but not the businesses involved in adventure tourism. Currently, Adventure tourism has a separate chapter in the law, and it

is the Georgian Tourism Industry Alliance that is actively working on the framework, with whom the association has had a very active communication and already shared their recommendations.

***Post pandemic era – a possible opportunity for leveling up the quality in the tourism sector:***

In line with the emergence of street (so-called mass) tourism in Georgia, peaking before the pandemic in 2019, over time, the quality of goods and services in the tourism sector has been significantly declining. According to the interviewed respondents, in the post-pandemic period the country holds an opportunity to make substantial changes in tourism sector strategy, prioritizing the tourism sector value chains, aiming at more sustainable directions: experiential tourism, adventure tourism, eco-tourism, geo-tourism – that are considered to have significant potential when it comes to enhancing quality. Besides, as mentioned by the respondents in earlier studies, if Georgia can bring three main factors - the quality of services, security, and authentic values- up to an international standard, then international tourists, even from HVMS, will feel comfortable enough to visit the country. In line with the respondents' opinion, the current break from street tourism is an opportunity to rethink the tourism sector development strategy in the post-Covid-19 era.

***Country's international positioning:***

Referring to the opinions shared by some respondents from the sector associations, overall, the country's potential is underestimated. The international positioning of the country is still general and abstract and in need of making important amendments. According to the association members, primarily, such changes should be addressed to specific destinations rather than positioned and represented as the country in general. An example of Turkey was brought up, that uses destination marketing, promoting specific destinations and performing rather successfully. Consequently, a necessity of placing specific products, services, and packages in promotion strategy was revealed, instead of making a country's wide-ranging promotion. Such an approach is not effective for the modern world anymore – as opined.

***Scarcity of a workforce in the tourism sector:***

Yet again, this has been marked as one of the primary challenges, both in the capital city as well as in the regions and especially after re-opening. Besides, the stakeholders of adventure tourism are concerned about the tendency of the qualified personnel outflow from the country, associated with the negative expectations among employees towards the stability of the tourism sector in Georgia. According to the respondents, one of the short-term solutions to this problem could be offering higher salaries to the personnel so that the sector regains trust and becomes attractive. In the long run, business associations believe that it is necessary to develop vocational and academic education in the tourism field through integrating internationally accredited certification programs. In this regard, the Adventure Tourism School has already created 6 internationally accredited professions and planning to increase it to 15 in the coming years.

***Leveling up the quality of tourism services in the regions:***

According to the respondent's viewpoint, as the practice shows, the involvement of local inhabitants of difficult regions of Georgia in tourism business activities occurs to be very profitable and highly effective. The local hosts are having international tourists 'at their doorstep', visiting their own families and they get involved in social and cultural integration. Later on, such small entrepreneurs employ relatives and their friends and thus get more and more engaged in the business. Sharing international practices and hence improving the skills of such entrepreneurs in the region will further increase their effectiveness, and level up the quality of the services offered. For achieving this, Adventure Tourism School recommends the creation of tourism educational spots in the regions.

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

According to representatives from the Mountain Guides Association, the conceptual development of mountain tourism represents a great perspective in the tourism industry in Georgia. As highlighted by the respondents, in line with the experts' opinions in this field, the context of mountain tourism development should include a systemic development of four interconnected, key components: Huts, Routes, Guides, Rescuers - Huts, Routs, Guides, Rescue (HuRoGuRe). Many steps have been taken forward in this direction from different stakeholders: the GoG, the donor organizations, sector associations, however, the respondents emphasize the importance of consolidating and coordinating such initiatives.

## **CULTURAL TOURISM**

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

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

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

While Uplistsikhe and Vardzia remained the top museum-reserves to visit in 2021, the number of visitors has not been comparable to those of 2019. In Q2 2021 16 818 visitors visited Uplistsikhe and 11 831 visitors went to Vardzia. In total, 36,535 visitors explored historic Georgian museum-reserves. For illustration, in 2019 Uplistsikhe and Vardzia were visited by 312 and 173 thousand visitors, respectively.

Travelers interested in cultural tourism, apart from visiting museum-reserves, tend to visit museums. Based on the data from the Georgian National Museum, 6 001 visited the Giorgi Chitaia Ethnographic Museum, and 5 588 visitors explored the Simon Janashia Georgian National Museum in Tbilisi. The combined total of 25 326 visitors visited all museums managed by Georgian National Museum in Q2 2021. For comparison, this is just 22.0% of the number of visitors in these museums in Q2 2019.

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

This section unites stakeholders' opinions relating to the cultural tourism value chain operation which were gathered from individual and focus group meetings incorporating representatives from the private sector and business associations.

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

#### ***Underdeveloped services in the cultural tourism VC:***

According to a vast majority of interviewed respondents, the quality of services in the cultural tourism value chain is yet not satisfactory and stable. As highlighted, such services are directly correlated with the satisfaction, attitudes, and hence decisions made by the tourists. Therefore, an urgent need of leveling up such services was highlighted, as the combination of high-quality services with the unique museum-reserves of Georgia is an outstanding precondition for the efficient and rapid development of VC.

***New tariff policy and increased revenues of the Georgian museum-reserves:***

Referring to the latest figures shared by a respondent from the Georgian National Agency for Cultural Heritage Preservation during the individual interview, despite experiencing a decrease in the number of visitors, the revenues of Georgian museum-reserves in August (2021) almost equaled the value of the same period in 2019. This was caused by the decisions made by the agency before the pandemic, to increase service tariffs (ticket prices, guide services, and other services) by approximately 100%. According to the interviewed respondent, if the crisis had not taken place, the new plan envisaged an increase in revenues by 100% from GEL 3.4 million in 2019 to GEL 7 million in 2020. This would allow the agency to upgrade the infrastructure of museum-reserves, introducing multimedia visuals and new services, with an ultimate goal to increase the visitors' length of stay at museum-reserves of Georgia. In line with our respondent's opinion, the practice showed that although the ticket price doubled, it did not have a proportionate influence on the number of visits, implying that the visitors were ready and willing to pay an increased fee for this service.

***The need for the private sector's engagement in developing tourism infrastructure of museum-reserves:***

The value chain representatives emphasized an urgent need for intensified information campaigns, to step up private sector engagement and attract more investments. In their opinion, providing evidence-based information to targeted business actors about the tourism potential of specific museum-reserves (for instance Nokalakevi) could become the main stimulator for their involvement in tourism infrastructure development projects. Such projects may include the development of entertainment, gastronomic, accommodation, and logistics infrastructure. As mentioned above, such touristic infrastructure in several Georgian museums-reserves is still underdeveloped, which is the main reason why the tourists are less attracted to visiting them.

***Nokalakevi – a new opportunity of the cultural tourism value chain;***

As opined by the majority of interviewed respondents from the cultural tourism value chain, recently a new fast-growing direction has emerged- Nokalakevi Historical-Architectural museum-reserve in Senaki municipality, Samegrelo-Zemo Svaneti region. It is a fortress city village with a total area of 37 hectares. Although the rehabilitation works are still underway, recently the site showed a dramatic increase in the number of visitors. Nokalakevi was opened in 2020 when the agency started selling tickets and, according to them, the results exceeded all expectations and forecasts they had made earlier. However, as emphasized, the accompanying service enablers and tourism infrastructure (gastronomy, accommodation, entertainment, etc.) are underdeveloped and inconsistent with the increased flow of visitors at the site. Therefore, the private sectors' engagement in making investments in services development, was marked as vital. In contrast, such initiatives from the private sector in Uplistsikhe, for instance, have been quite frequent.

***The necessity to increase Musto's tourism potential;***

As opined by the stakeholders of the cultural tourism value chain, in general, promoting mountain cultural heritage sites is one of the most significant opportunities for attracting HVW tourists and popularizing and developing the cultural tourism value chain. For example, one of such unique sites of Georgia is the Mutso museum-reserve, an architectural complex, a fortress, on which the state has spent resources in recent years. In 2014, the Mutso rehabilitation project was initiated by the National Agency for Cultural Heritage Preservation of Georgia (NACHP) with the support of the GoG in collaboration with other State institutions and also supported through private funding. The project was aimed at re-migration of the mountain population. As a result of the project, 3-4 families have already returned to the Ardot Valley in the highlands. As highlighted, despite the initial success, Mutso

is still far from achieving the goals of the project, mostly due to yet being an inactive tourism destination in Georgia. Thus, according to a majority of respondents, more efforts are required from different stakeholders for actualizing the tourism potential of the internationally recognized site<sup>52</sup>.

***The potential of Enguri HPP as world's one of the most unique attractions;***

Enguri HPP is the country's exceptional industrial heritage site which also provides an excellent opportunity to turn it into a tourist zone. According to interviewed respondents, the GoG has recently prepared a strategic plan which analyzes a transformation of this unique architectural masterpiece into a touristic zone. The document also includes a plan for developing the region's tourism infrastructure along with the area around the Enguri Dam. The tourism infrastructure includes sightseeing grounds, a ropeway, a science and discovery center, an open concert space, and the world's tallest elevator to the dam.

However, stakeholders of the cultural tourism value chain are concerned that the country has practically lost 2 years due to the pandemic crisis. According to them, this period could have been used to attract international private investments and prepare for new potential projects on the Enguri Dam. The respondents see tremendous potential in this site due to its engineering fundamentals and scale, having no analogs in Georgia.

***Balneology - Reality against myths;***

When it comes to the country's international positioning in the post-covid period, the opinion about prioritizing wellness tourism and promoting spa and balneological resorts are common among the value chain stakeholders. However, according to some respondents, modern medicine is becoming more and more demanding for measuring the actual efficiency of balneological treatment. Therefore, they find it crucially important to conduct evidence-based long-run studies evaluating the actual benefits of balneological therapies to human health. Such studies may take up to 6 years and require sound investments, however, the respondents believe the country having in hand such evidence, can be key to attracting HVM tourists, as well as investments.

**GASTRONOMIC TOURISM**

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

**Overview of the existing challenges and opportunities**

A qualitative study on gastronomic tourism was conducted through conducting individual interviews and focus group meetings with the gastronomic tourism value chain stakeholders. The interviewed respondents' perceptions about the key challenges and opportunities of the value chain are summarized below:

***Scarcity of qualified labor force:***

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<sup>52</sup> Mutso fortress is a winner of the 2019 European Heritage Awards/Europa Nostra Awards, in two nominations: Restoration and a Public Choice Award.



Yet again, in the post-crisis period, complications relating to the recruitment of a workforce turn out to be a major influence on VC's performance. The private sector actors reported a shortage of over 50-60% of their personnel on average after the country is in the red list since August 2021. Although they continue their business activities, the question is whether they will manage to maintain the same quality of services in such circumstances. As emphasized, part of the employees has moved to the retail sector and prefer to have a relatively low-paying job than work in the volatile tourism sector. Besides, it is important to emphasize socially vulnerable people, who choose a very low but stable income versus higher payable jobs but with a fear of losing it one day. But as highlighted, the challenge is global and linked to the pandemic. Even in those countries where the vaccination process is successful, the recruiters face the same difficulties.

***The opportunity of founding students' recruitment agency clubs;***

In line with the judgments made by part of the interviewed respondents, not more than 2% of university graduates are occupied in the tourism sector. In their opinion, this is a major problem, and they suggest one of the ways for solving it: Founding students' recruitment agencies - an outsourced organization offering job opportunities to students. Mostly, such jobs are not permanent, rather the platform provides temporary recruitment opportunities. According to the respondents, an agency would unite students and give them incentives for working. Most importantly, young people will acquire meaningful practical experience and improve skills through such short-term occupations. According to the respondents, the agency is very relevant to the tourism sector. Accordingly, they recommend a set-up of such agencies in those institutions where tourism is being taught. Agencies with similar activities already exist internationally and perform quite successfully.

***The tendency of booking policy change;***

According to most interviewed respondents, recently the booking practice has been changed dramatically in accommodating industry, not only in Georgia, but globally as well. If earlier the bookings were confirmed 2-3 months in advance, today such confirmations are made 2-3 days prior. As highlighted, there also have been occasions when the group of people planned a visit on very short notice, and the host personnel was completely unprepared. Therefore, this occurs to be a significant challenge for the private sector actors, as they are unable to engage in medium-term business planning.

***Market discipline: Guesthouses and the shadow economy;***

According to the value chain stakeholders, one of the most significant problems is related to the economic activities of the guesthouses (or rural houses) with up to 6 rooms. As underlined, today 95% of such business actors operate under the black market. This means that the vast majority of such actors do not register their businesses and thus avoid paying utility costs imposed for the corporate clients, which is much higher than for individual households. The respondents opine that the regulator should intervene and equalize utility costs of the guesthouses to that of individual households, otherwise such shadow guesthouses will always exist. This problem has been exacerbated ever since the utility costs have risen sharply for corporate clients (since the January 3, 2021, natural gas and electricity tariffs for commercial customers, with minor exemptions, have increased by 28% and 50-70%, respectively). According to the respondents, a record about such an amendment should be made in the law on tourism.

***Private sector's concerns about the increased input costs;***

As revealed in the previous qualitative study, the vast majority of our respondents are still concerned about the rapid growth in input costs including utility expenses and operational costs. In particular, since the beginning of January 2021, gas and electricity tariffs for corporate customers have increased by 28% and 50-70%, respectively (with some minor exemptions). In addition, as the respondents argue,

input costs for intermediate goods and operational costs (due to compliance with pandemic regulations) have increased. According to them, such shifts have been especially damaging as they occurred during the crisis, and part of the business actors, especially smaller ones, could not withstand such circumstances and went bankrupt.

Most of the respondents link the challenge to a low level of dialogue between the public and private sectors. According to them, such dialogue is being held regularly between the parties, however, eventually, the positions and opinions of the private sector are not taken into account.

***Ambiguity in expectations linked to the epidemic situation:***

As claimed by several actors of the gastronomic value chain, they find it extremely hard to make medium-term decisions, with a fear that the next day, without prior notice, a new lockdown might occur. Such ambiguity significantly hinders their business activities, and the stakeholders still highlight the significance of having an anti-crisis plan with a protocol of what measures are to be taken by the Government in the event, for instance, that the daily infection rate exceeds a certain limit. Having such an agreed document in hand, the private sector could operate with more certainty and in turn, it would help the respective government units in planning too.

***Slow Covid-19 vaccine rollout in the regions:***

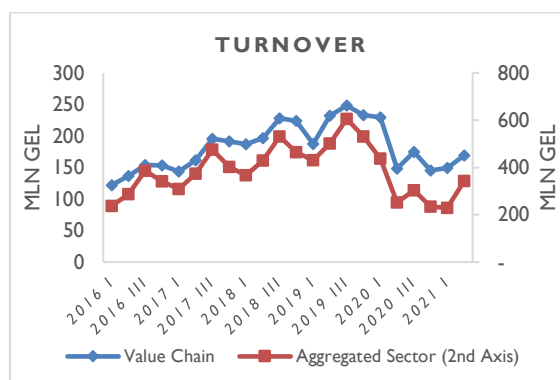
The rate of vaccination against COVID-19 among is still very low. As described by the respondents, the challenge is again linked to irrational fears among the employees of the value chain towards vaccination. The obstacle is especially severe in the regions. The private sector requests the relevant government units to become more active in speeding up the vaccination process as this occurs to be the only way to end the pandemic.

**Trends in food services**

The turnover of enterprises in the food services value chain faced a massive hit in 2020. In Q1 2021, the VCs turnover declined both compared to Q1 2020 and to Q1 of 2019, due to movement restrictions in place in January and February. In Q2 2021, the VCs turnover recovered with reopening of the economy. However, with restrictions such as curfew still in place, the recovery was not strong enough to return the VC to 2019 levels. Namely, turnover of the food services VC increased by 14.1% compared to Q2 2020 and declined by 27.1% compared to Q2 2019. While the aggregate sector showed stronger recovery compared to Q2 2020 (35.8%), it fared worse when compared with Q2 2019 (-31.6%), explained by the fact that the aggregate sector of accommodation and food services was more heavily impacted by the pandemic than the food services VC alone. It is also worth noting that Q2 2021 marks the first positive growth rate for the VC since Q2 2020.

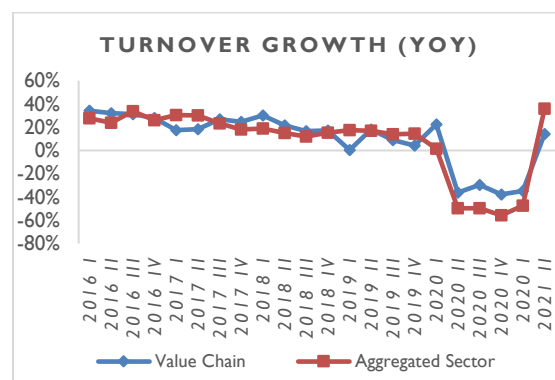


Chart I.34 Turnover of the food services value chain and the corresponding aggregated sector



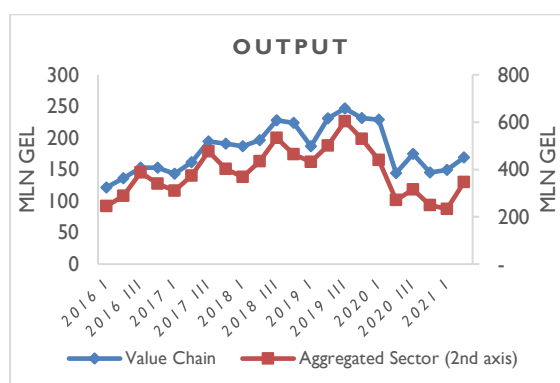
Source: National Statistics Office of Georgia

Chart I.35 Annual growth rate of turnover for the food services value chain and the aggregated sector



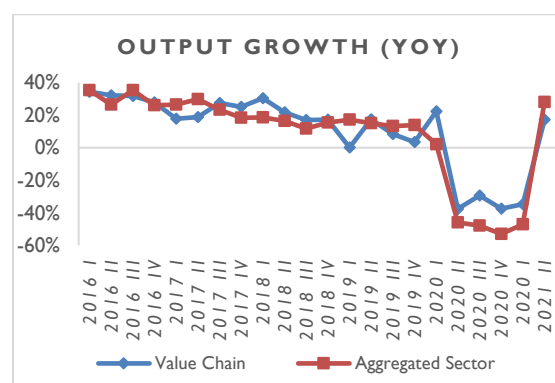
Output in the food services value chain output mirrored the dynamics of the value chain's turnover in 2020 and 2021, having grown by 17.2% in Q2 2021 compared to Q2 2020 and having declined by 26.8% compared to Q2 2019. As in the case of turnover, the aggregated sector registered higher YoY growth and of higher decline when compared to Q2 2019.

Chart I.36 Output of the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart I.37 Annual growth rate of output for the food services value chain and the aggregated sector



Employment in food services value chain declined significantly in 2020, and the figures were worse for the aggregated sector. In Q1 2021, the decline continued. In Q2 of 2021 however, a strong uptick in employment was observable compared to the previous quarter. Number of officially employed people in the VC amounted to 15 419 people, which is 3.8% higher than in Q2 2020, albeit it is 14.4% lower when compared to Q2 2019<sup>53</sup>.

<sup>53</sup> 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.38 Employment in the food services value chain and the corresponding aggregated sector

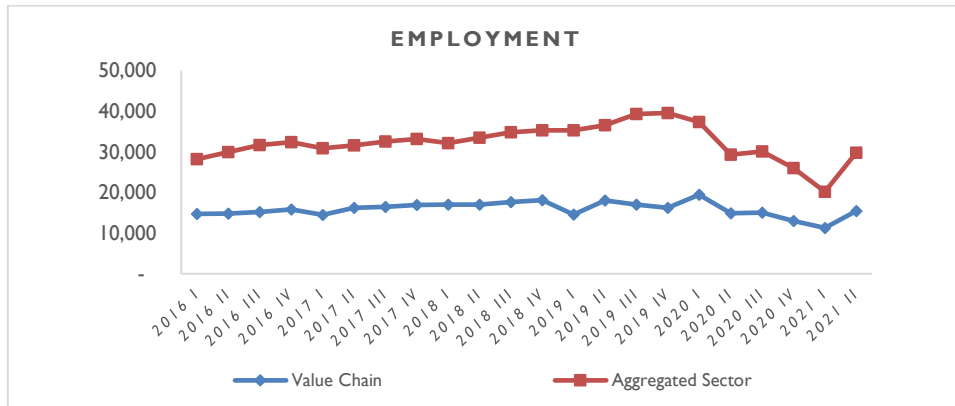
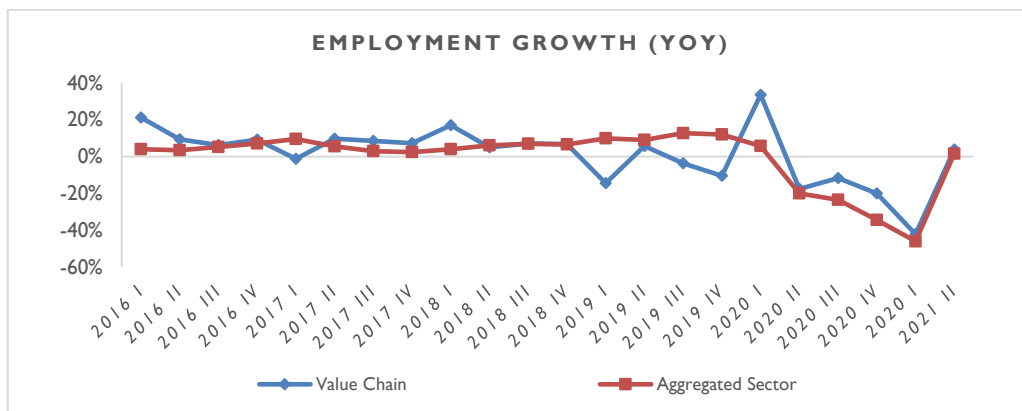


Chart I.39 Annual growth rate of employment in the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

In 2020 and Q1 2021, the decline of the average monthly salary in the food services value chain was less substantial than other key indicators. In Q2 2021, the average salary in the VC started increasing, by 12.6% compared to Q2 2020, and by 3.1% compared to Q2 2019. The increase in the aggregated sector was similar. Importantly total salary fund of the value chain increased by 16.9% in Q2 2021 compared to Q2 2020 but declined 11.7% when compared to Q2 2019.

In 2020, productivity of the VC, as measured by output divided by the number of employed people of suffered significantly. In Q1 2021 productivity increased as the number of employed people declined. In Q2 2021, productivity of the sector declined compared to the previous quarter, which can be directly attributed to increased employment in Q2. When compared to Q2 2020, productivity has increased by 12.9%, while having declined by 14.5% compared to Q2 2019.

Chart I.40 Employment in the food services value chain and the corresponding aggregated sector

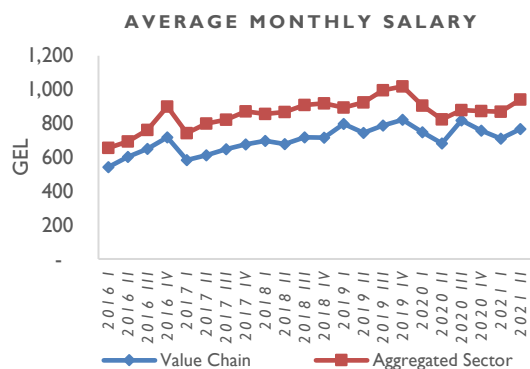
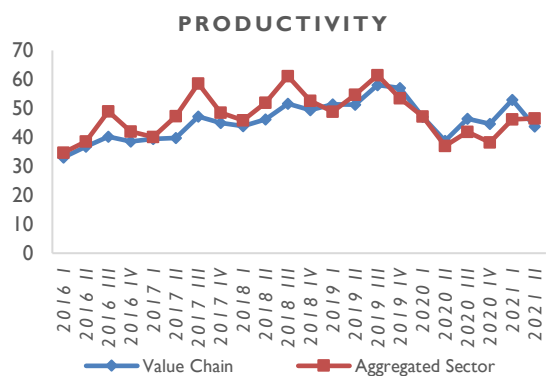


Chart I.41 Annual growth rate of employment in the food services and the corresponding aggregated sector



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.

With the restrictions on events easing in Q2 of 2021, the VC has seen the first signs of the recovery. Each of the surveyed firms which have not halted operations have reported a strong growth in terms of all, turnover, employment, and average gross monthly salary, when compared to Q2 of 2020. Albeit this growth can directly be attributed to the base effect. In terms of volume, each of the surveyed enterprises reported their turnover to be under GEL 100,000 in Q2 2021, which is a significant decline compared to pre-pandemic levels. Moreover, about 40% of surveyed firms have reported to have suspended their operations in catering.

Thus, the number of firms operating in the catering VC have decreased as some operators decided to not reopen their catering divisions even after eased restrictions in Q2 2021. Still, for those that have remained open, first signs of the recovery are already visible.

## 2. CREATIVE INDUSTRIES

### SECTOR SUMMARY

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

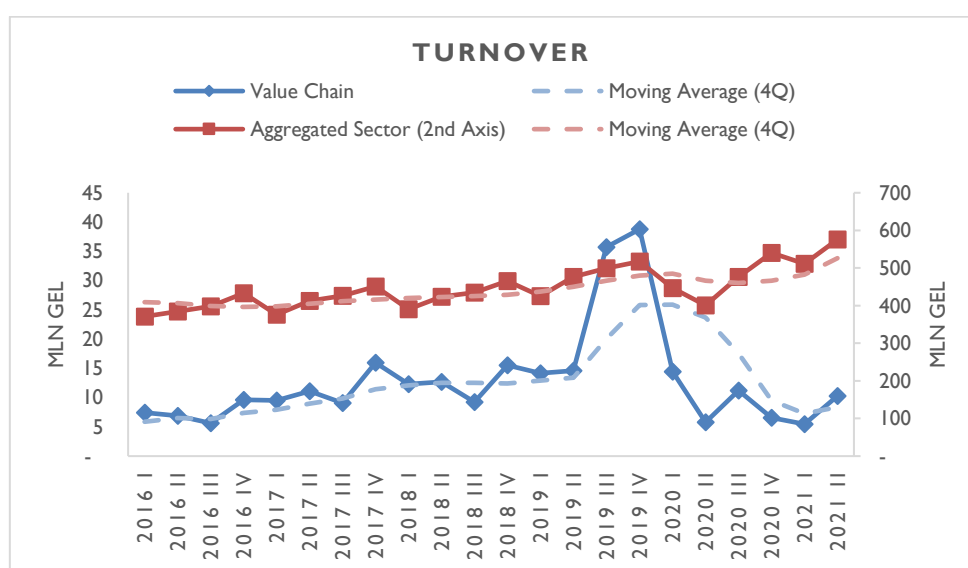
After being heavily hit by COVID-19, the media content production and post-production value chain has started its recovery from record-low numbers, recording its first growth in Q2 2021 after the start of the pandemic by experiencing turnover growth of 77.2% compared to Q2 2020, with low base having a huge contribution in this growth. The VC's turnover also expanding when compared to the previous quarter. However, the VC's key indicators including employment, average salary and productivity are yet to recover to 2019 levels. Employment in the VC has been particularly hit, not being able to recover to even Q2 2020 level.

The artisan VC has also seen the first signs of recovery in Q2 2021, with more than half of the firms reporting increased turnover. However, full-fledged recovery is still not in sight, as substantial part of the VC has completely halted operations even with tourism reopening in Q2 2021, and the increases in turnover for the firms have been modest, even when compared to Q2 of 2020.

### MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

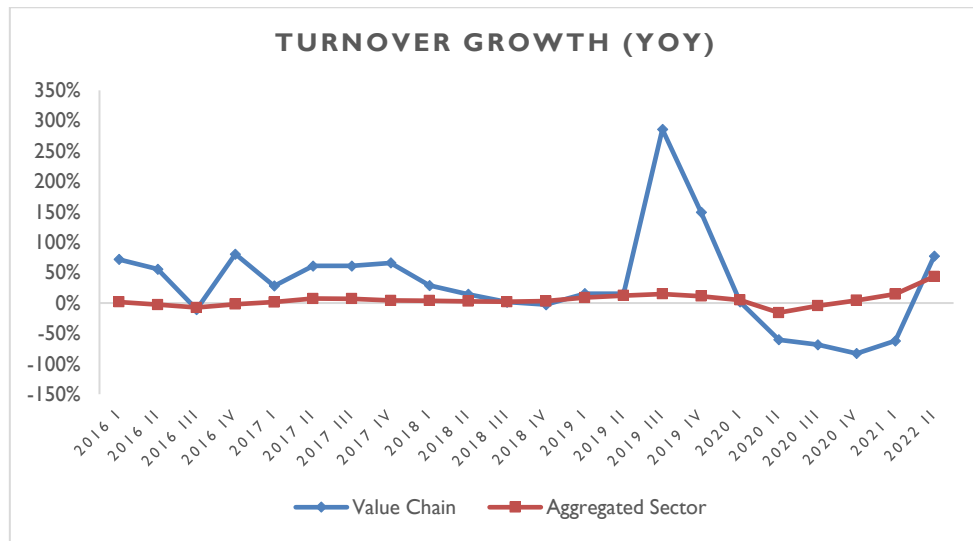
Media content production and post-production used to be one of the fastest growing value chains in Georgia, especially compared to its aggregated sector – information and communication. However, due to the pandemic, it experienced a rough transition to a sharp contraction in 2020. Other value chains, including some from the creative industries, managed to adjust their business models to the harsh conditions and managed to somewhat recover accordingly in the later parts of the pandemic. In 2021, the pandemic is still ongoing, and the conditions of the media content and post-production value chain showed the first signs of recovery in Q2 of 2021.

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



Source: National Statistics Office of Georgia

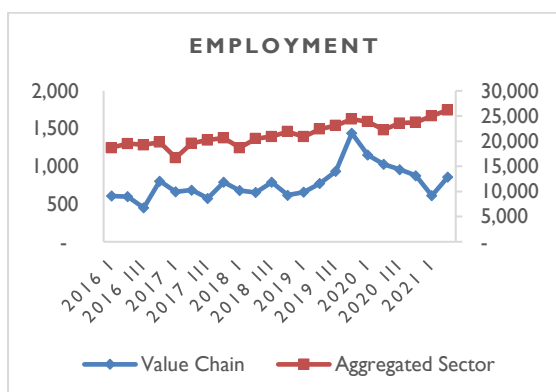
Chart 2.2 Changes in turnover for the media content production and post-production and the corresponding aggregated sector



Source: National Statistics Office of Georgia

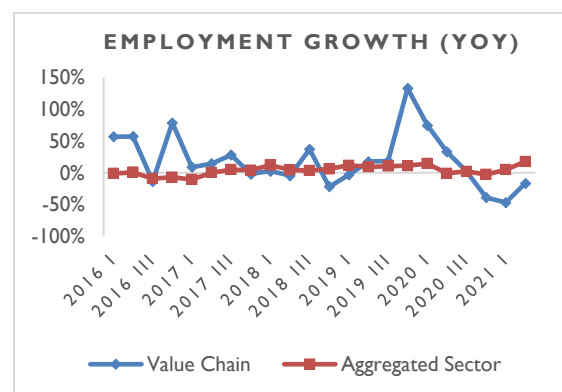
Media content production and post-production had been one of the fastest growing value chains in Georgia, however, has been hit hard by the pandemic. After lifting major pandemic-related restrictions in Q2 of 2021, the VC has showed the first signs of the recovery. Namely, turnover of the VC in Q2 2021 amounted to 10.3 mln GEL, which is almost twice the amount of the previous quarter. When compared to Q2 of 2020, the growth rate of turnover was 77.2%. Notably, Q2 2021 was the first quarter since the start of the pandemic in which the VC showed YoY growth. However, this growth largely attributed to base effect, as comparison is made to the quarter with complete lockdown. When compared to Q2 of 2019, the VC's turnover has recovered by 70.5%. For comparison, the same indicator amounted to just 38.6% in Q1 of 2021. The aggregate sector, information and communications, has also shown positive dynamics in Q2 of 2021, however, its growth lagged behind the VC's growth. This is highly attributed to relatively higher resilience of the aggregated sector to the pandemic, thus, a lower base effect in growth.

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



Source: National Statistics Office of Georgia

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



The number of people employed in media content production and post-production value chain was at an all-time high at the 4<sup>th</sup> quarter of 2019, employing 1440 laborers. After this, a gradual fall quarter after quarter was evident, with employment reaching its lowest value in Q1 2021 (612 laborers). In Q2, a strong recovery compared to the previous quarter was observable, with number of laborers in the VC increasing to 859. Still, the YoY growth rate for employment has been negative for last three quarters, with employment in the VC in Q2 2021 declining even compared to the Q2 2020 (-16.5%). This can be explained by hesitance of the companies to let go of their employees at the early stage of the pandemic. Conversely, the aggregate value chain has been expanding its number of laborers since Q3 2020, with a 17.8% YoY growth in Q2 of 2021.

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

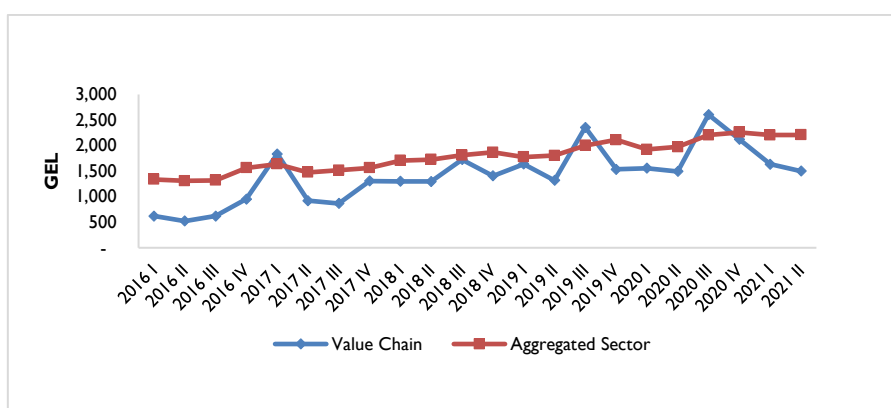
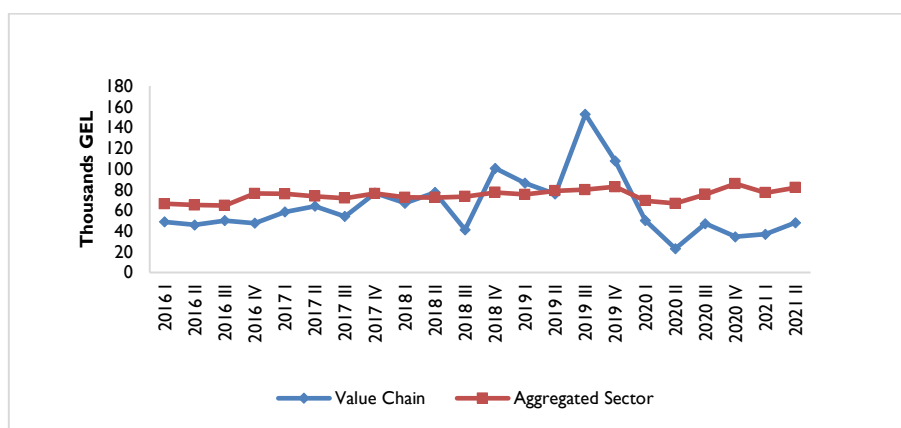


Chart 2.6 Productivity in the media content and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Despite relative recovery in terms of employment, the average monthly salary in the media production and post-production value chain has continued to decline QoQ, reaching 1502 GEL in Q2 2021. However, this is slightly (0.6%) higher than average monthly salary in Q2 2020, and 14.0% higher than average monthly salary in Q2 2019. As for the aggregate sector, it has consistently outperformed the VC in terms of salaries over the years, with just 3 exceptions (Q1 2017, Q3 2019, Q3 2020). It is worth noting that average salary of both, the VC and the aggregate sector were not heavily impacted by the pandemic.

Productivity of the media production and post-production value chain has been significantly affected by the COVID-19 pandemic. In fact, since Q1 2020, productivity of the VC has been consistently lower

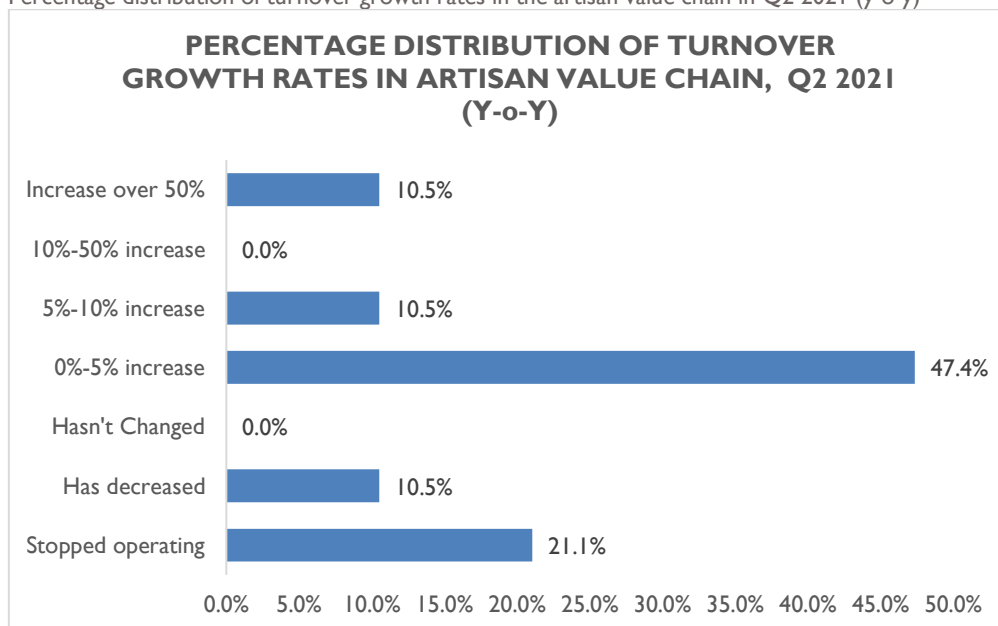
than that of the aggregate sector. Reaching its lowest point in the analyzed period in Q2 2020, productivity has recovered in Q3 2020, dipping again in Q4 2020. In Q1 2021 however, productivity saw a slight increase, and another increase in Q2 of 2021 followed. Namely, the VC's productivity increased by 108.8% YoY, however, has remained 36.6% lower when compared to Q2 of 2019. The pace in the pattern of the recovery in the following quarters will determine when the VC returns to its pre-pandemic level of productivity.

## ARTISAN

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

As mentioned in the previous reports, during the pandemic the artisan VC has been hit the hardest, threatening to completely halt the activities of most of the businesses in the field. High freight costs, insufficient advertisement and lack of foreign customers have been the main issues for most of the artisan representatives. With the rebound of tourism in Georgia in Q2 of 2021, the harsh conditions were eased for the abovementioned businesses, and as the survey showed the majority of all the surveyed entrepreneurs and companies have increased their revenues compared to Q2 2020, However, this increase has been modest, with 47.4% of surveyed businesses increasing their turnover by just 0-5%. Still, only 10.5% of the surveyed firms indicated a YoY decline in turnover, but 21.1% of all surveyed firms indicated that they have stopped operating at all.

Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain in Q2 2021 (y-o-y)



Source: Author's Calculations

As the majority of the businesses are sole entrepreneurs; therefore, it is not surprising that 88.2% of the surveyed entities reported that their turnover in the second quarter of 2021 amounted to less than GEL 100,000, and 11.8% reported turnover of GEL 100,001-500,000. When comparing the number of employed in the VC in Q2 2021 to Q2 2020, most of the surveyed businesses (72.2%) indicate no change in this regard, while 11.1% indicate growth in workforce and 16.7% indicate decline. The workforce is still dominated by female labor force: more than 85.7% employed in the abovementioned businesses were women. Lastly, two thirds of the businesses reported that the wages



year-over-year have not changed, while 11.1% had to cut the salaries, and 22.2% had increased the salaries.

In sum, the overall performance of the artisan VC in the second quarter of 2021 can be described as the first signs of the recovery, with more than half of the firms increasing their turnover. However, full-fledged recovery is still not in sight, as substantial part of the VC has suspended their operations even with tourism reopening in Q2 of 2021, and the increases in turnover for the firms have been modest, even when compared to Q2 of 2020

### 3. LIGHT MANUFACTURING

#### SECTOR SUMMARY

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

The following section provides a detailed economic analysis of the furniture, packaging, and construction materials value chains based on quarterly and annual 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 all value chains in this sector demonstrated positive nominal growth (YoY) in Q2 2021 compared to Q2 2020, with the highest growth observed in the construction materials value chain (78.9%). Employment has also increased (YoY) in every value chain, with highest growth observed in packaging (62.2%). The highest number of hired employees as of Q2 2021 was registered in the construction materials value chain, while the lowest was observed in furniture value chain. Improved performance (YoY) should be partly attributed to the base effect as for most of Q2 2020 Georgia experienced a quite strict Covid-19 lockdown measures.

The average monthly salary for Q2 2021 ranged between GEL 911 (in the furniture VC) and GEL 1430 (in construction materials VC). Similarly, the furniture VC has been characterized by the lowest productivity<sup>54</sup> (GEL 73,790), and the highest productivity was identified in the packaging value chain (GEL 174,000).

Survey results for the PPE value chain and the wooden toys business activity suggest that while majority (78%) of PPE manufacturers report increased turnover in Q2 2021, compared to Q2 2020, 56% of firms producing wooden toys have experienced lower turnover in 2021. As for employment, 56% of PPE value chain and 78% of wooden toys manufacturers reported no change in their number of employees in Q2 2021, compared to Q2 2020.

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<sup>54</sup> Quarterly output per hired employee, annualized.

## 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):

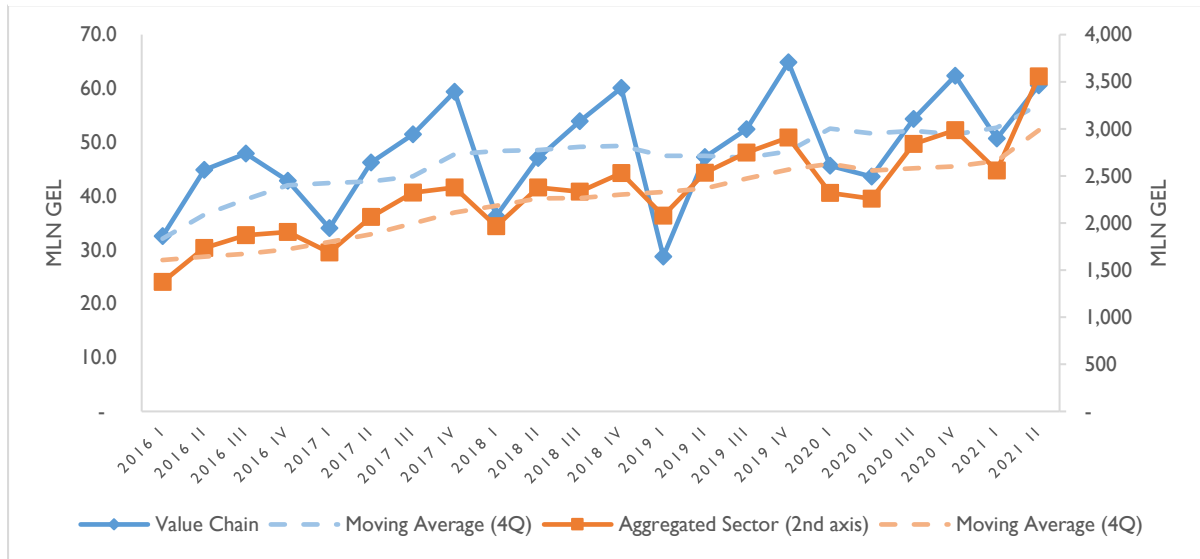
Table 3.1 Economic activities included in furniture value chain

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 planning of wood	16.1	Sawmilling and planning of wood	Inputs of Furniture
16.21	Manufacture of veneer sheets and wood-based panels	16.2 <sup>55</sup>	Manufacture of products of wood, cork, straw and plaiting materials	
16.22	Manufacture of assembled parquet floors			
16.29	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials			

Even though, turbulence, caused by the spread of Covid-19 has continued in the second quarter of 2021, Q2 2021 has been characterized by the rapid economic growth. Henceforth, turnover for furniture VC has grown to 60.5 million GEL that is approximately 38.8% (YoY) growth compared to Q2 2020 (GEL 43.6 million). Turnover for the aggregated sector has exceeded the pattern of furniture VC and increased by 57.5% (YoY) in Q2 2021 compared to the same period of 2020, reaching GEL 3.5 billion. (Chart 3.1 and 3.2).

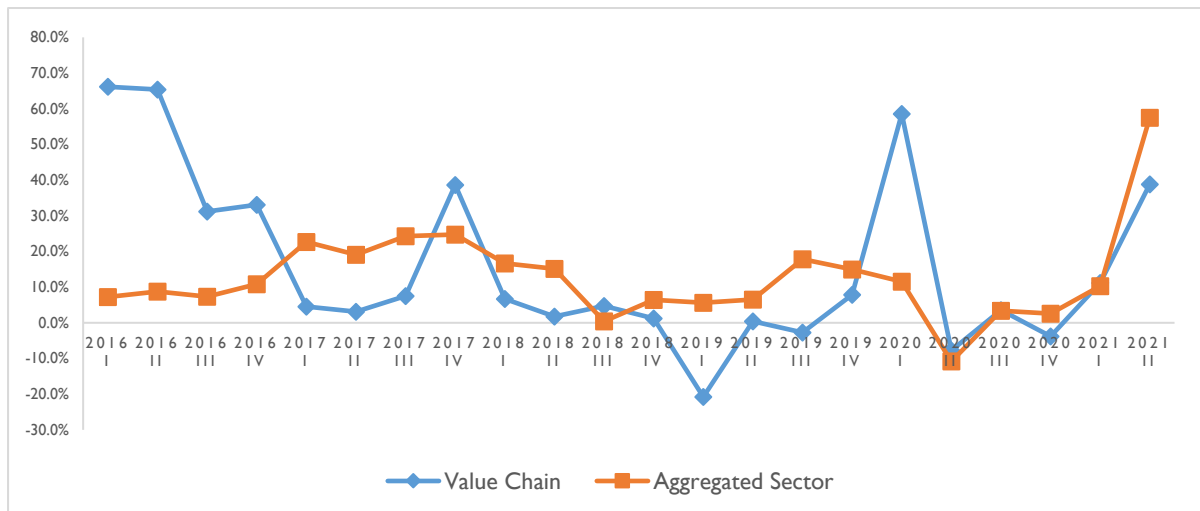
<sup>55</sup> 16.2 group also includes the following activities: 16.23 Manufacture of other builders’ carpentry and joinery; and 16.24 Manufacture of wooden containers.

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



Source: National Statistics Office of Georgia

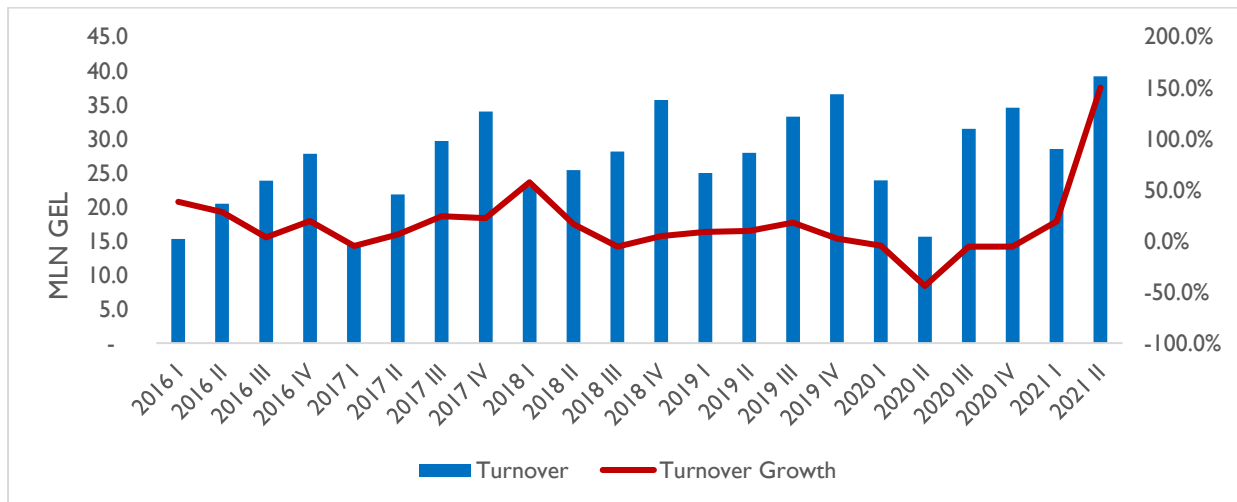
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

After continuous YoY decline in turnover of the furniture VC inputs until Q2 2020, the growth has renewed in Q3 2020 and continued in Q2 2021 as well (Chart 3.3). Due to rapidly improved economic environment, turnover has surged upward, and it currently stands at GEL 39.2 million (150.3% growth (YoY) compared to Q2 2020).

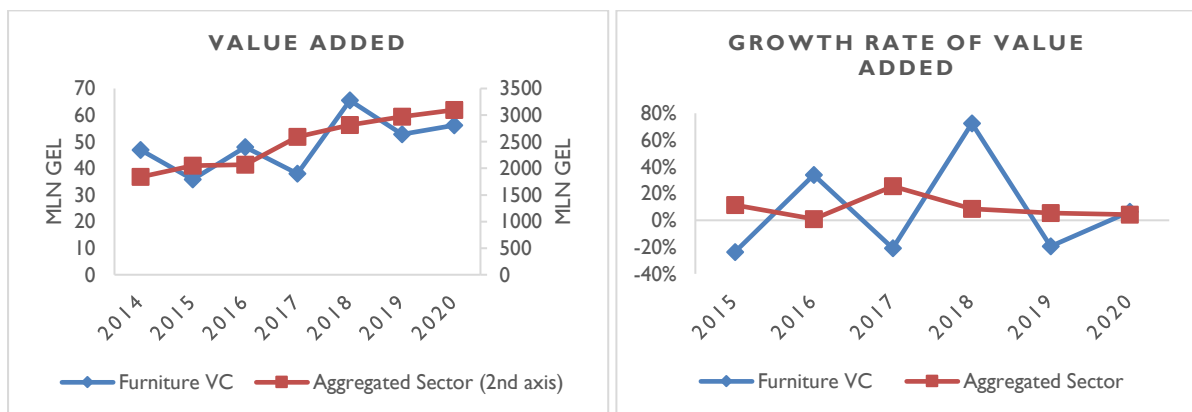
Chart 3.3 Turnover of the furniture value chain inputs and its growth rate



Source: National Statistics Office of Georgia

Value-added<sup>56</sup> generated in the furniture value chain in recent years has been quite unstable, compared to the value-added generated by the manufacturing sector in total (Chart 3.4). As statistics show, value added for the furniture VC has grown by 6% in 2020 compared to 2019, reaching GEL 56.2 million. Similarly, value added for the aggregated sector increased moderately by 4% and constituted GEL 3.1 billion.

Chart 3.4 Value added and its growth in the furniture VC and the corresponding aggregated sector



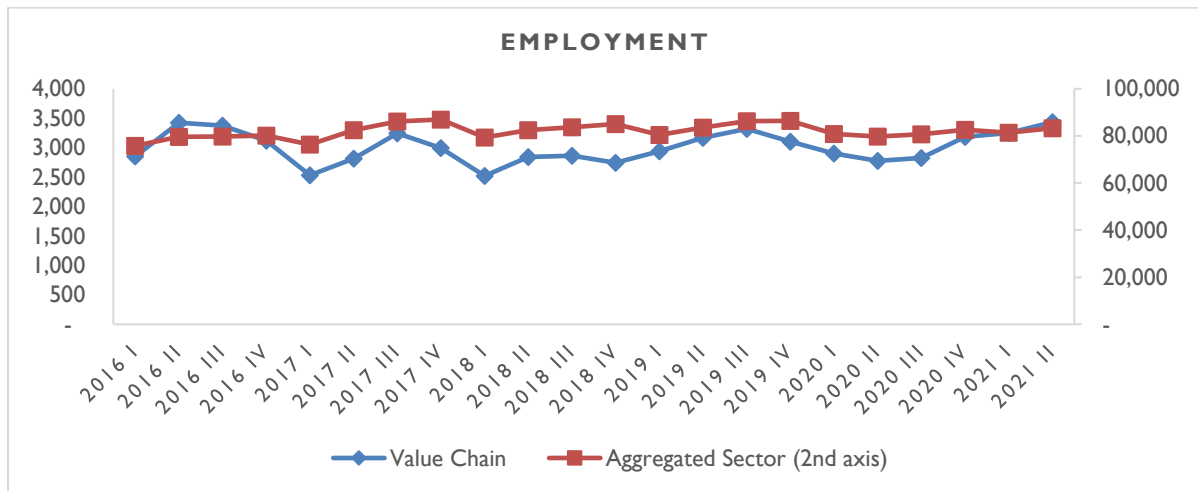
Source: National Statistics Office of Georgia

After the turmoil on the market in 2020, increasing trend of employment in the furniture VC has continued in Q2 2021, both compared to Q2 2020 (23.7%, YoY) and Q1 2021. Similar positive trends are observed in the aggregated sector, where the employment has increased slightly in Q2 2021 (4.5% YoY) compared to Q2 2020 (Chart 3.5 and 3.6).

Share of women in employment has continued an increasing trend in 2020 and improved from 23% to 26%, compared to 2019.

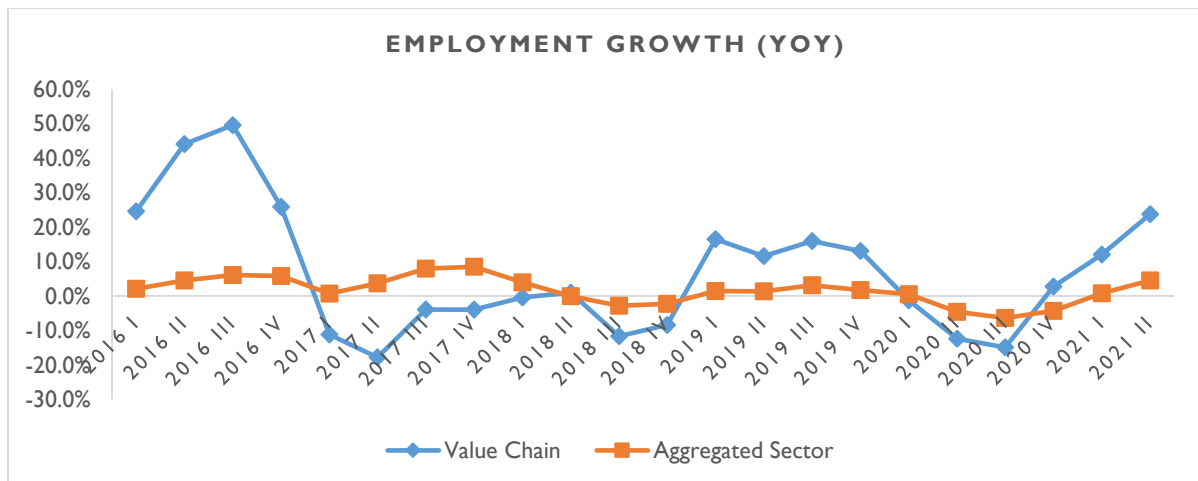
<sup>56</sup> Due to the unavailability of quarterly value-added data, the report presents the latest available annual data.

Chart 3.5 Employment of the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

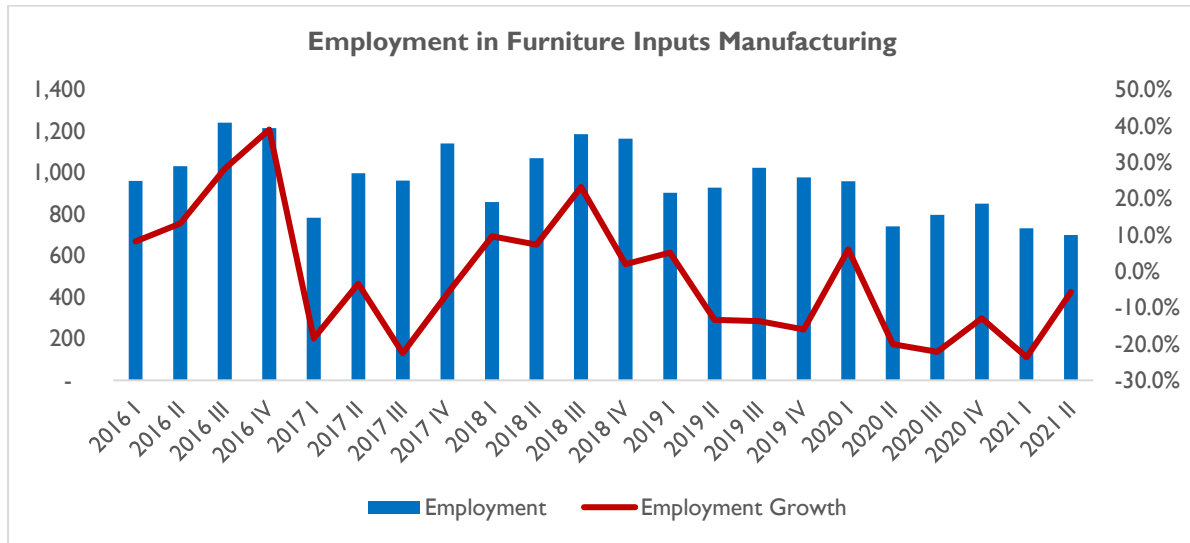
Chart 3.6 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Employment in the furniture inputs value chain was decreasing (YoY) for the most part of 2020 and in Q1 2021 (Chart 3.7). The number of hired individuals declined again in Q2 2021 by 5.7%, compared to Q2 2020 and reached 700.

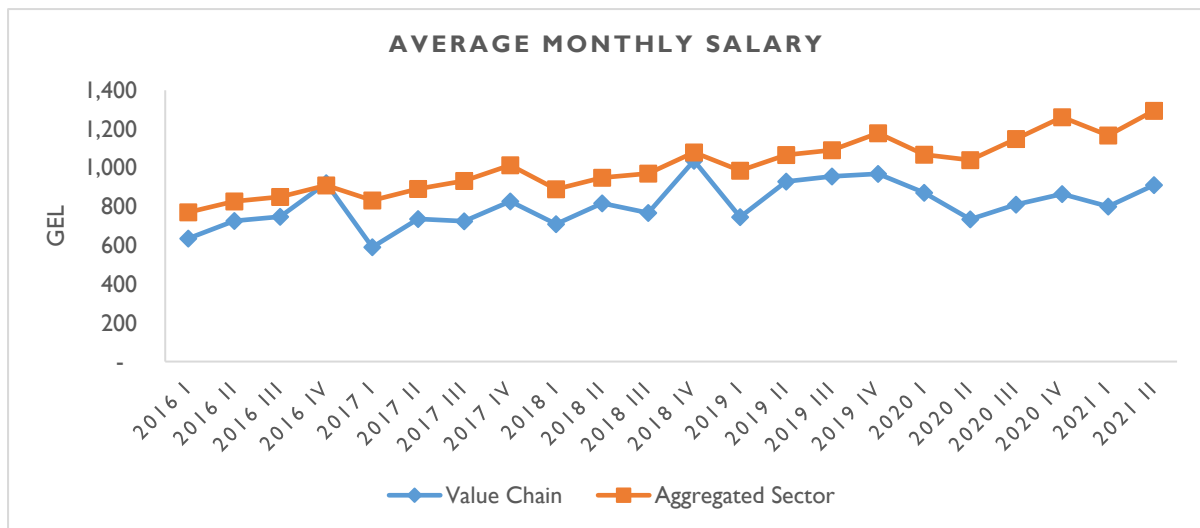
Chart 3.7 Employment and YoY growth rate of employment in furniture inputs manufacturing



Source: National Statistics Office of Georgia

After the YoY decrease in average monthly salary of the furniture value chain in Q I 2020, the indicator increased in Q2 2021 by 24.0% YoY and amounted to GEL 911. As for the aggregated sector, the average salary amounted to GEL 1,295 in Q2 2021, which represents a 25% increase compared to Q2 2020 (Chart 3.8).

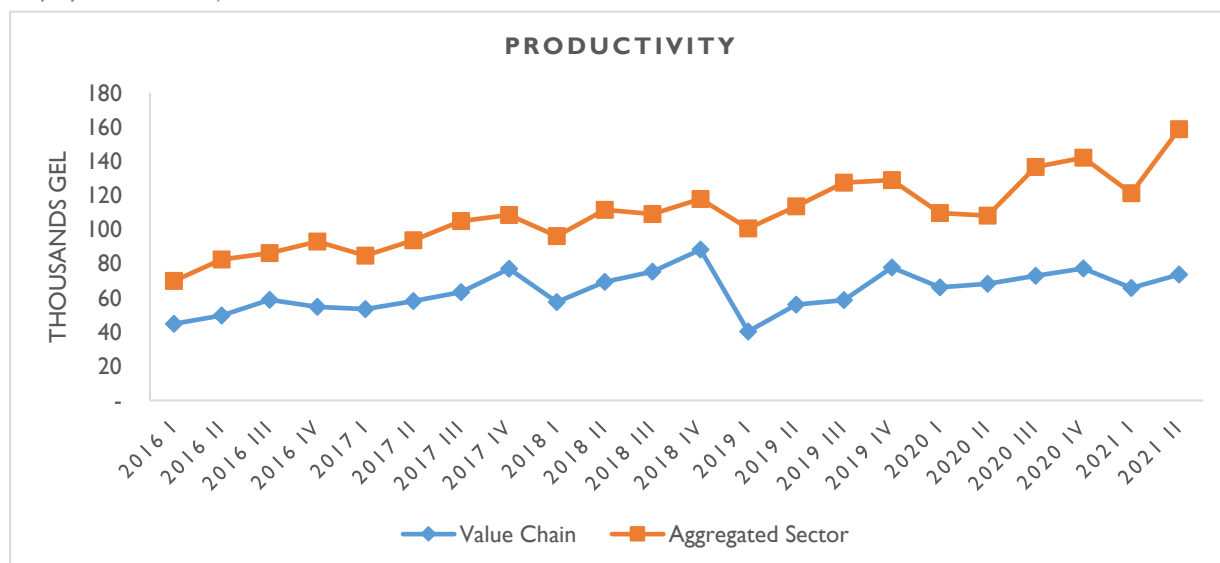
Chart 3.8 Average monthly salary in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Similar to average monthly salary, productivity for the furniture value chain increased in Q2 2021 (8%, YoY) and reached GEL 73 790. As for the aggregated sector, productivity increased significantly (47% YoY) and amounted to GEL 159 000 (Chart 3.9).

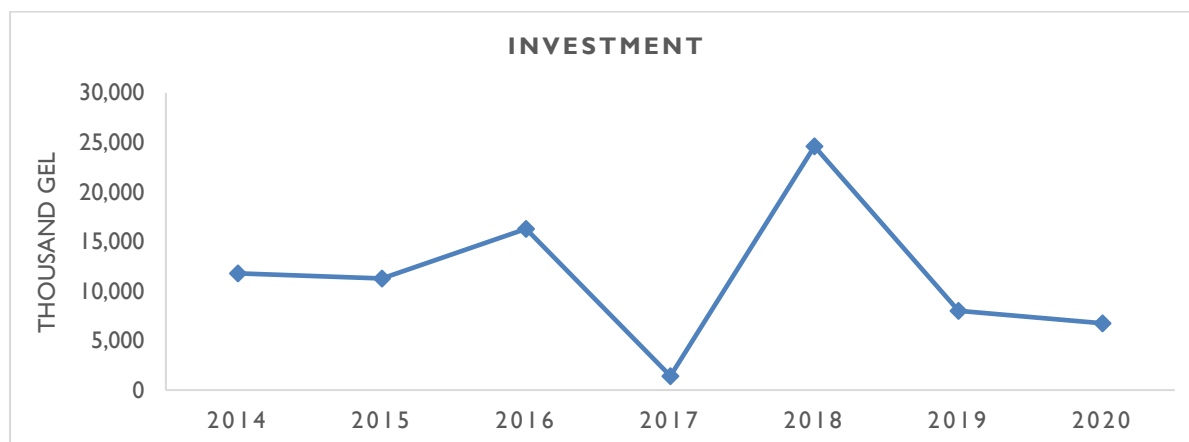
Chart 3.9 Productivity in the furniture value chain and the corresponding aggregate sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Investments<sup>57</sup> in fixed assets and inventories in the furniture value chain have been quite volatile in recent years. As shown in Chart 3.10., investment has declined in 2020 by 15.8%, going down to GEL 6.7 million.

Chart 3.10 Investment in fixed assets and inventories in the Furniture VC



Source: National Statistics Office of Georgia

Based on the observed trade tendencies in the furniture value chain, Georgia's imports of both furniture output and furniture inputs increased in Q2 2021, reaching USD 16.9 million and USD 19.6 million, respectively. These represent 61.5% and 49% rise compared to Q2 2020, respectively (Charts 3.11 and 3.12).

<sup>57</sup> Due to the unavailability of quarterly investment data for Q2 2020, the report presents the latest available data for 2020.



Chart 3.11 Georgian Imports of Furniture

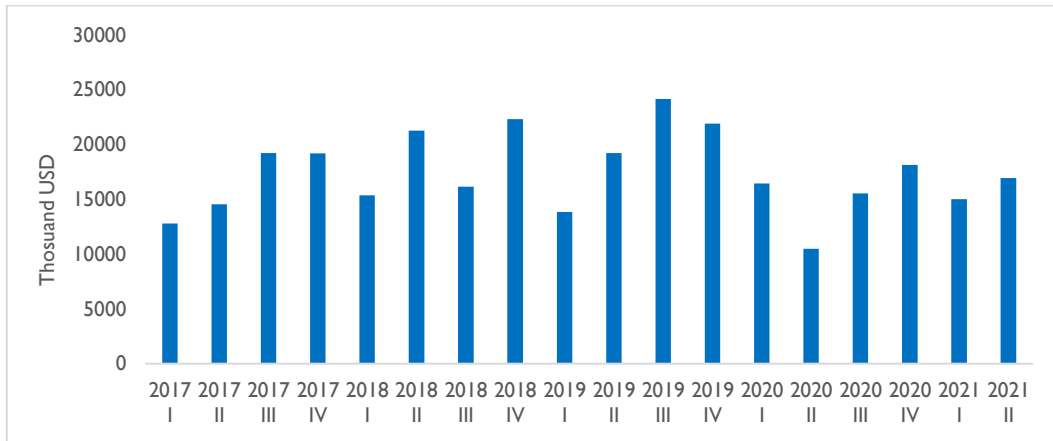
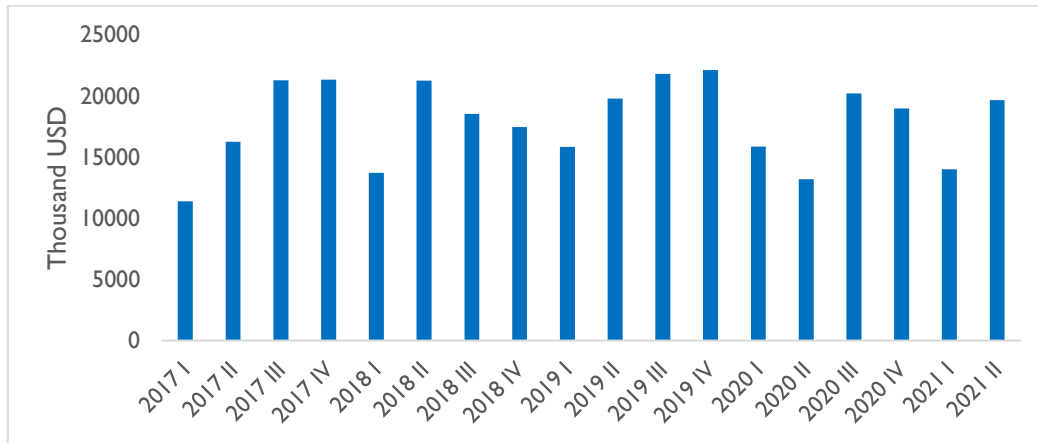


Chart 3.12 Georgian Imports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.13 and Chart 3.14 below show the top importing countries of furniture and its inputs for the last 12 months. In the case of furniture import, the main trade partners for Georgia were Turkey (38%) and China (17%). Meanwhile, the main importing partners for furniture inputs during July 2020 - June 2021 were Turkey (49%), Russia (11%), and China (9%).

Chart 3.14 Georgian Imports of Furniture Inputs by Trade partners (July 2020 – June 2021)

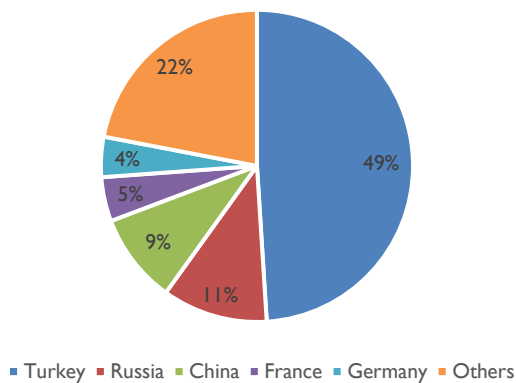
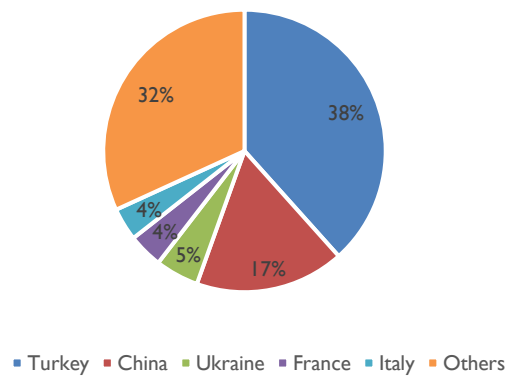


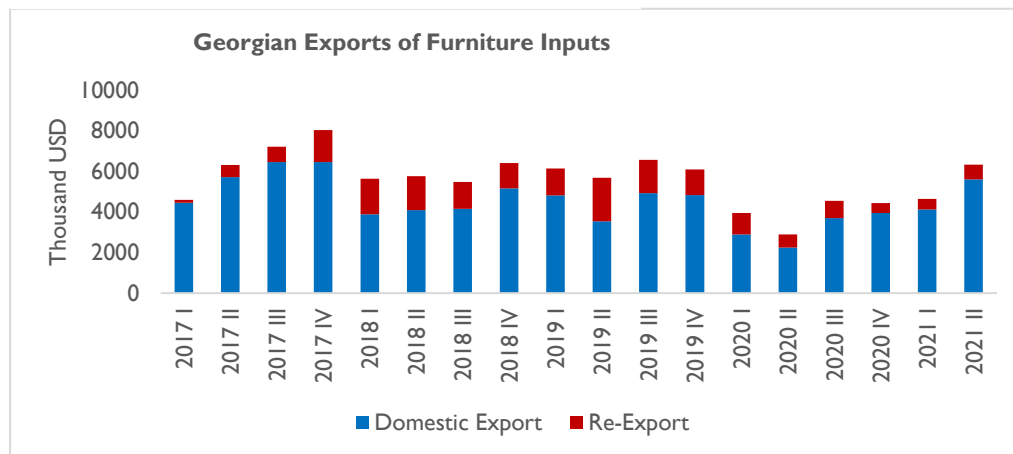
Chart 3.13 Georgian Imports of Furniture by Trade partners (July 2020 – June 2021)



Source: National Statistics Office of Georgia

In Q2 2021, both re-exports and domestic exports of furniture inputs expanded significantly. In Q2 2021, domestic exports and re-exports amounted to USD 5.6 million and USD 713 thousand, meaning increase of 150.7% and 10.3%, respectively, compared to Q2 2020.

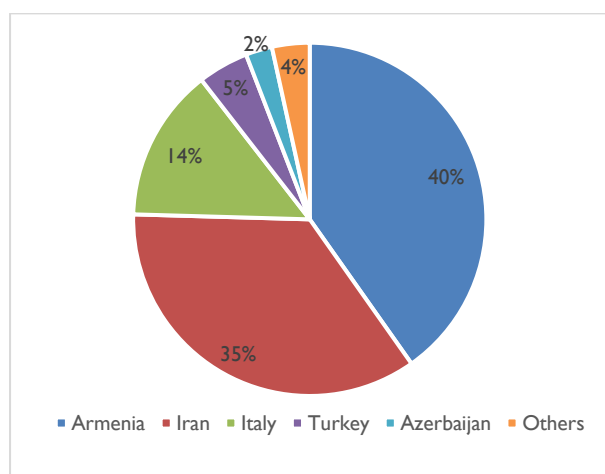
Chart 3.15 Dynamics of Georgian Exports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.16 shows the top exporting markets for Georgian furniture inputs for the last 12 months. Armenia (40%) and Iran (35%) are the leading export destinations, followed by Italy (14%), Turkey (5%), and Azerbaijan (2%).

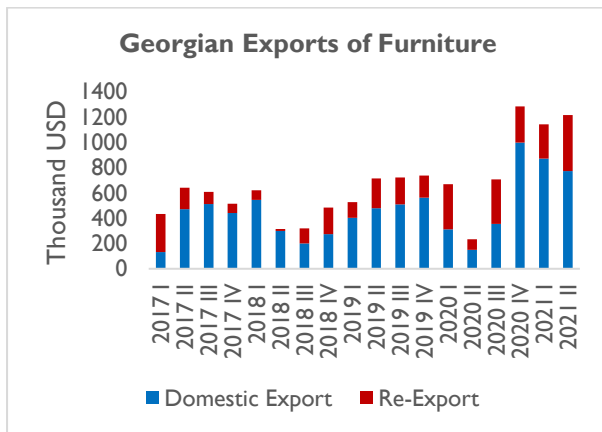
Chart 3.16 Georgian Domestic Exports of Furniture Inputs by Trade Partner (July 2020 – June 2021)



Source: National Statistics Office of Georgia

Even though Georgian exports of furniture experienced a sharp decline in Q2 2020, the loosening of restrictive measures contributed positively to growth of domestic exports, which peaked in Q4 2020. In Q2 2021, domestic exports (414%, YoY), as well re-exports (442%, YoY) increased significantly compared to the same quarter of the previous year (Chart 3.17).

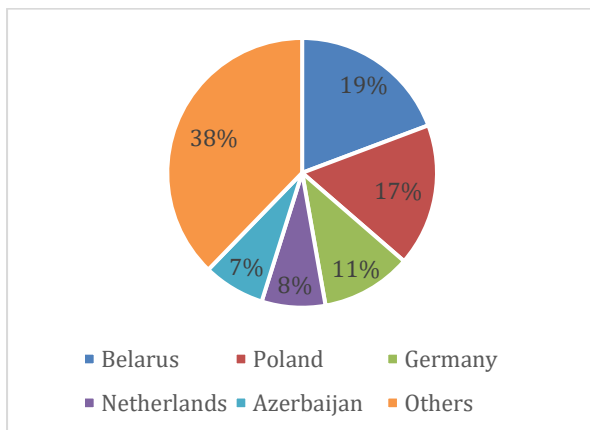
Chart 3.17 Georgian Exports of Furniture



Source: National Statistics Office of Georgia

Chart 3.18 shows the top trading partner countries in the last 12 months for Georgia’s domestic exports<sup>58</sup> of furniture output. The major export destinations during July 2020 – June 2021 were Belarus (38%) and Poland (17%), followed by Germany (11%), Netherlands (8%) and Azerbaijan (7%).

Chart 3.18 Georgian Domestic Exports of Furniture by Trade Partner (July 2020 – June 2021)



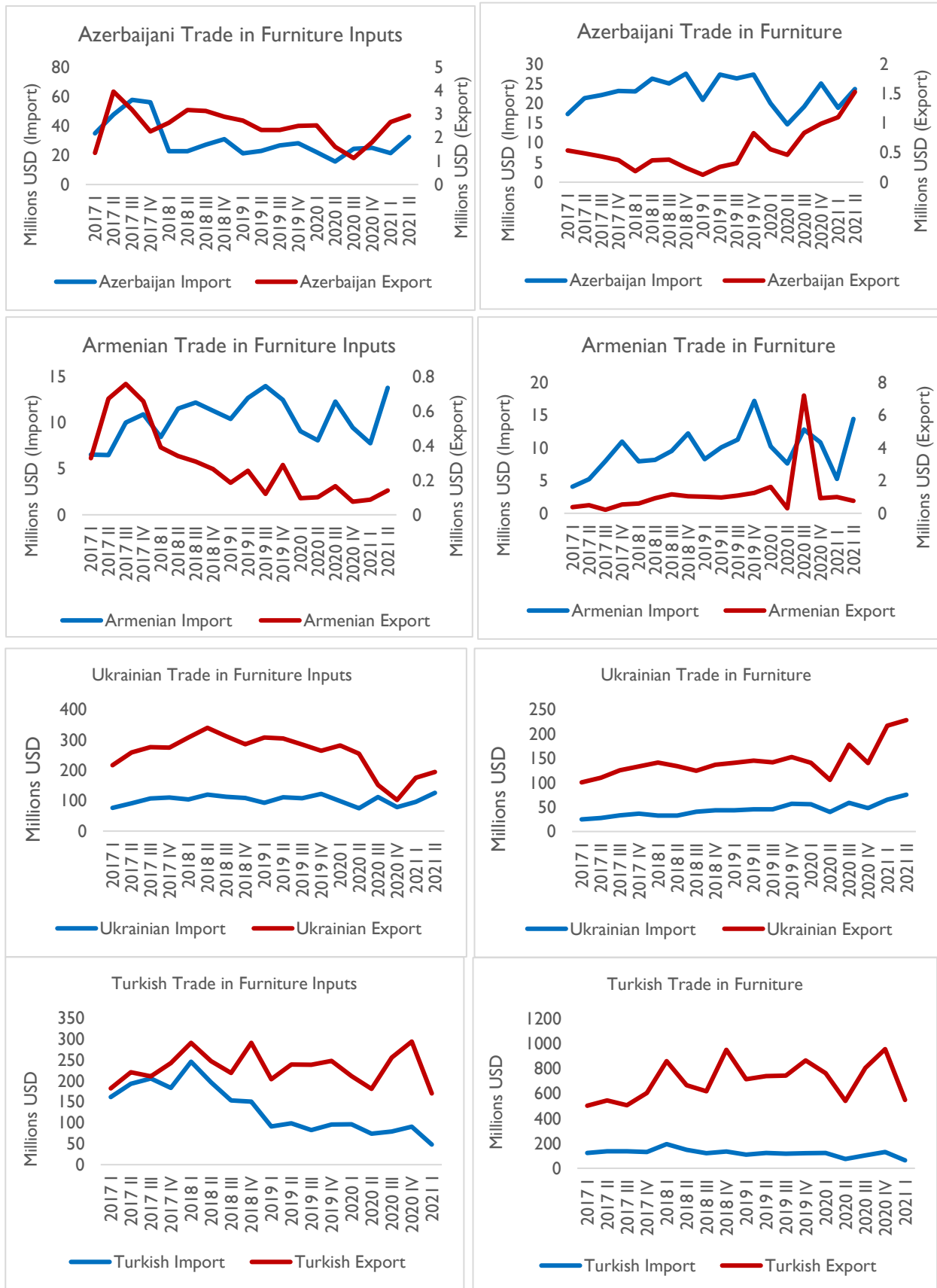
Source: National Statistics Office of Georgia

To analyze regional trade flows, the following countries are considered in the following section: Armenia, Azerbaijan, Turkey, and Ukraine. Exports of furniture have increased for Ukraine, Armenia, and Azerbaijan in Q2 2021 compared to Q2 2020. Likewise, import of furniture expanded in Ukraine, Armenia, and Azerbaijan.

Exports of furniture inputs decreased for Ukraine and increased for Armenia and Azerbaijan in Q2 2021. Contrastingly, imports increased Ukraine, Azerbaijan, and Armenia.

<sup>58</sup> Domestic exports are defined as goods that are manufactured in Georgia as well as commodities of foreign origin that have been changed, enhanced in value or further improved in condition within the territory of Georgia.

Chart 3.19 Regional trade patterns in the furniture value chain



Source: UN Comtrade<sup>59</sup>

## CONSTRUCTION MATERIALS

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

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

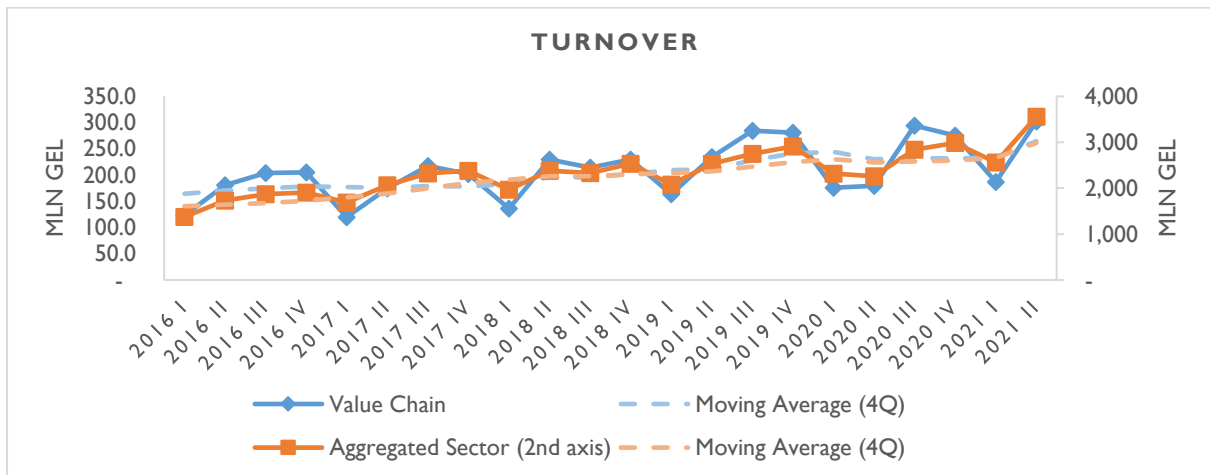
Table 3.2 Economic activities included in the construction materials value chain

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

Charts 3.20 and 3.21 present the dynamics of turnover and its annual growth for the construction materials value chain. The turnover in Q2 2021 increased compared to Q1 2021 and amounted to GEL 364 million. Following the rebound in the economic growth, turnover has increased compared to Q2 2020 as well (78.9% YoY). The turnover of the aggregated sector also increased in Q2 2021 compared to the same period of the previous year (57.5% YoY).

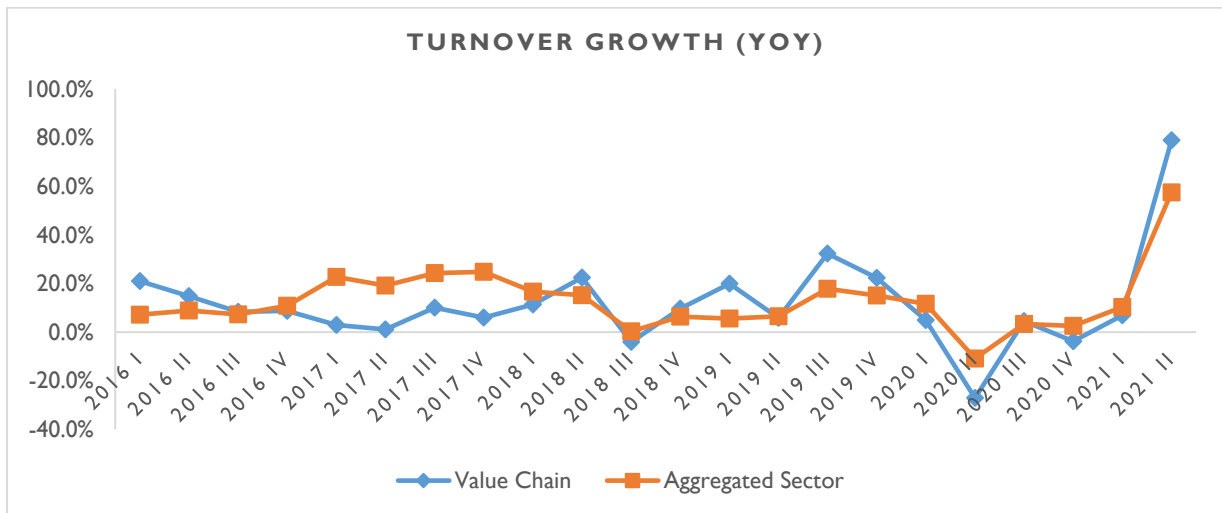
<sup>59</sup> Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

Chart 3.20 Turnover of the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

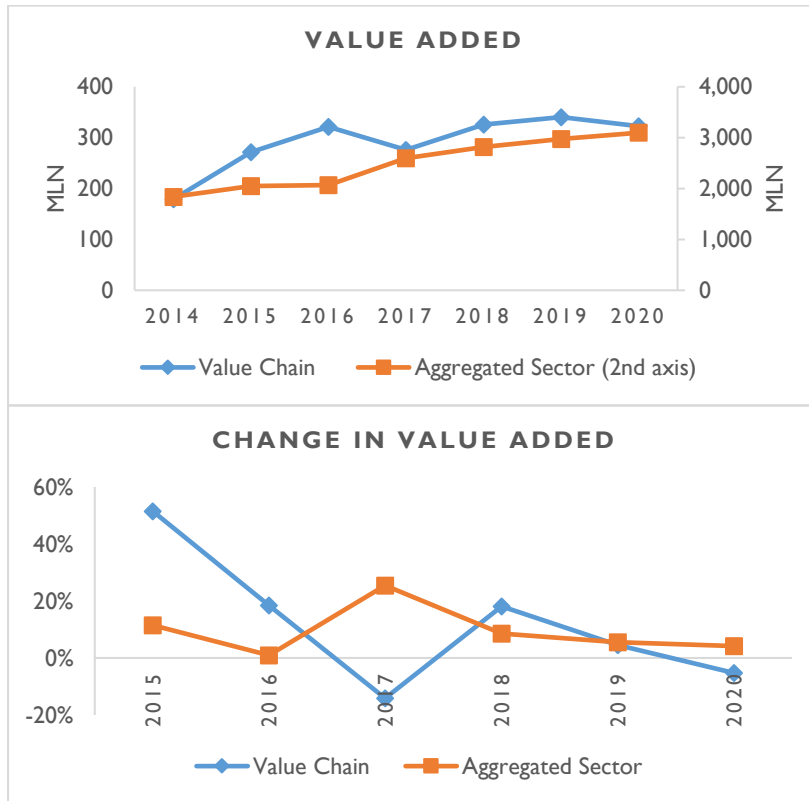
Chart 3.21 YoY growth rate of turnover for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

According to Chart 3.22, value added in construction materials VC has decreased in 2020 compared to 2019 by 5%, reaching GEL 322 million. On the other hand, value added in the aggregated sector has grown by 4%, constituting GEL 3.1 billion.

Chart 3.22 Value added and its growth in the construction materials VC

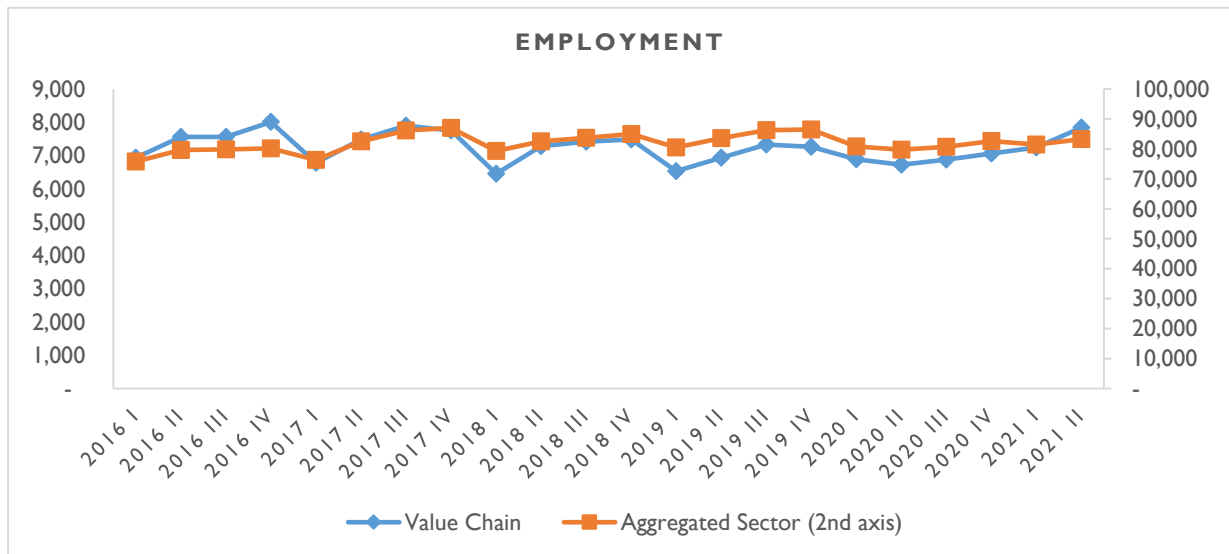


Source: National Statistics Office of Georgia

Charts 3.23 and 3.24 present the number of hired employees and its growth rate in the construction materials value chain and the respective aggregated sector. According to the data, in Q2 2021, the number of hired employees has increased in the value chain, compared to Q2 2020 (15.7% YoY) and amounted to 8,858 people. A similar trend has been observed in the aggregated sector as employment rose in Q2 2021, compared to Q2 2020 (4.5% YoY).

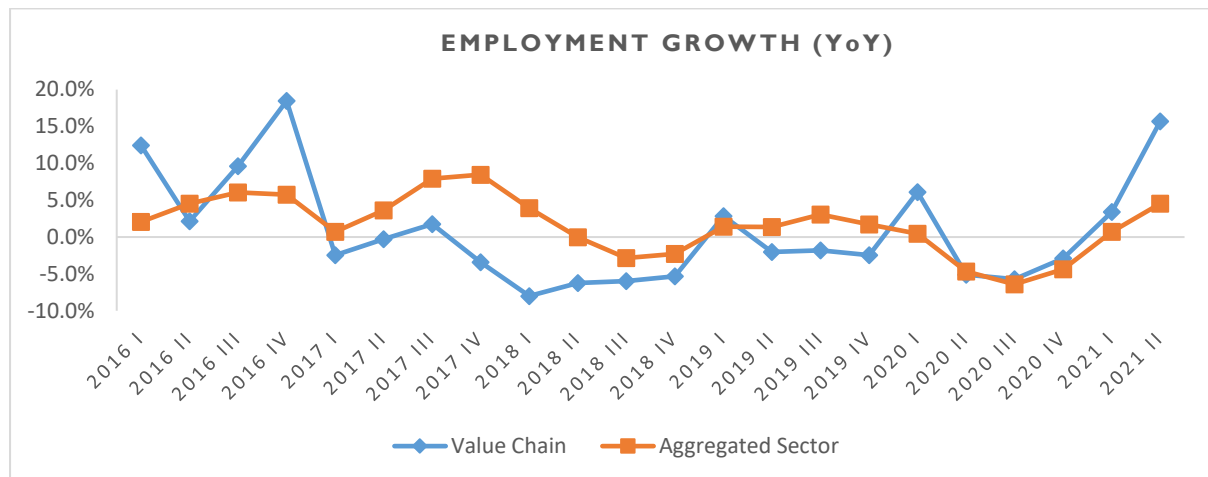
As for the share of women in total hired employment, it declined from 13% in 2019 to 11% in 2020.

Chart 3.23 Employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

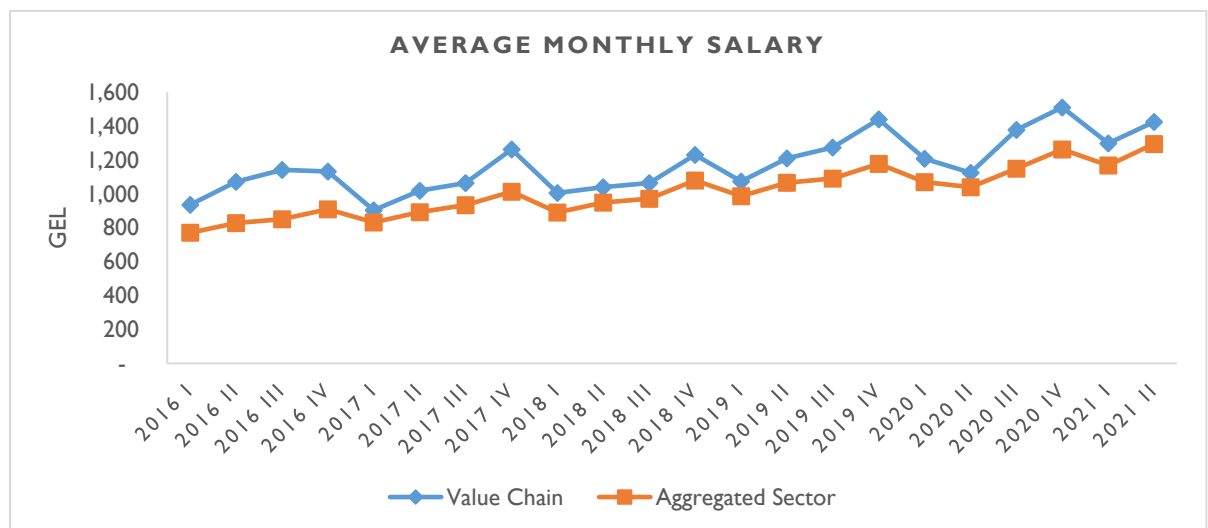
Chart 3.24 YoY growth rate of employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the construction materials value chain increased to GEL 1,425 in Q2 2021, compared to GEL 1,298 in Q1 2021, and is significantly above the Q2 2020 level (26.6% increase YoY). The aggregated sector presented a lower average monthly salary in Q2 2021 (GEL 1,295), compared to the value chain (Chart 3.25).

Chart 3.25 Average monthly salary in the construction materials value chain and the corresponding aggregated sector

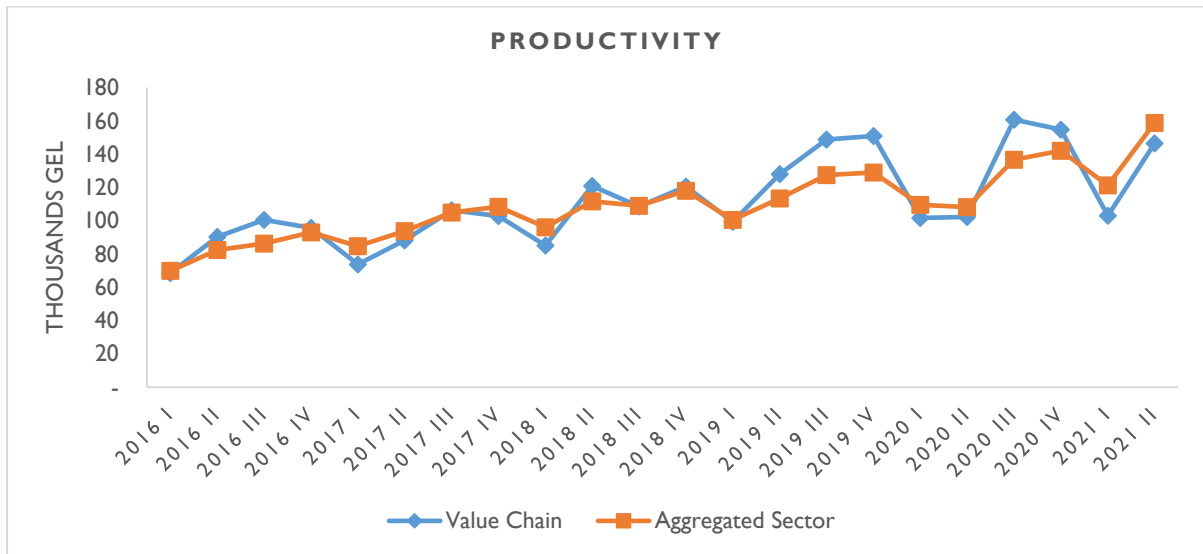


Source: National Statistics Office of Georgia

As Chart 3.26 shows, labor productivity in the construction materials value chain increased (43.3% YoY) in Q2 2021 as opposed to Q2 2020 and amounted to GEL 146,550. Productivity for the aggregated sector also increased compared to Q2 2020, recording higher YoY growth of 46.9%.



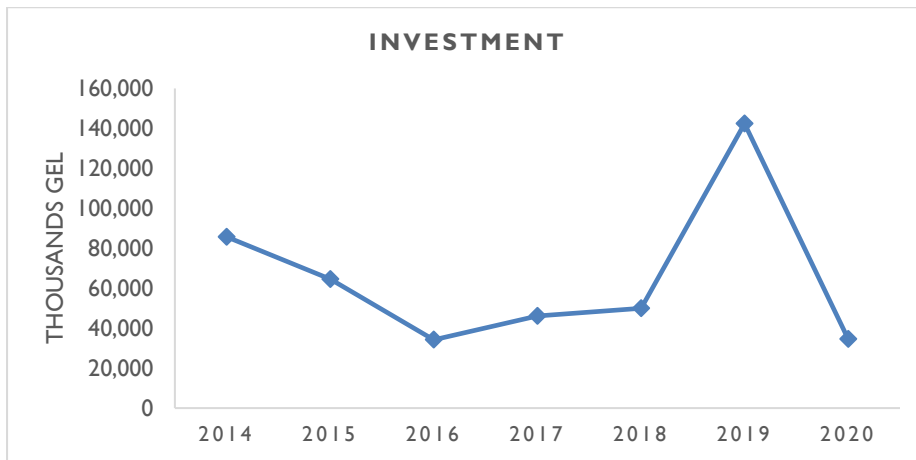
Chart 3.26 Productivity in the construction material value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Total investments in fixed assets and inventories in the construction materials VC deteriorated in 2020 by 75.7% and constituted GEL 34.5 million.

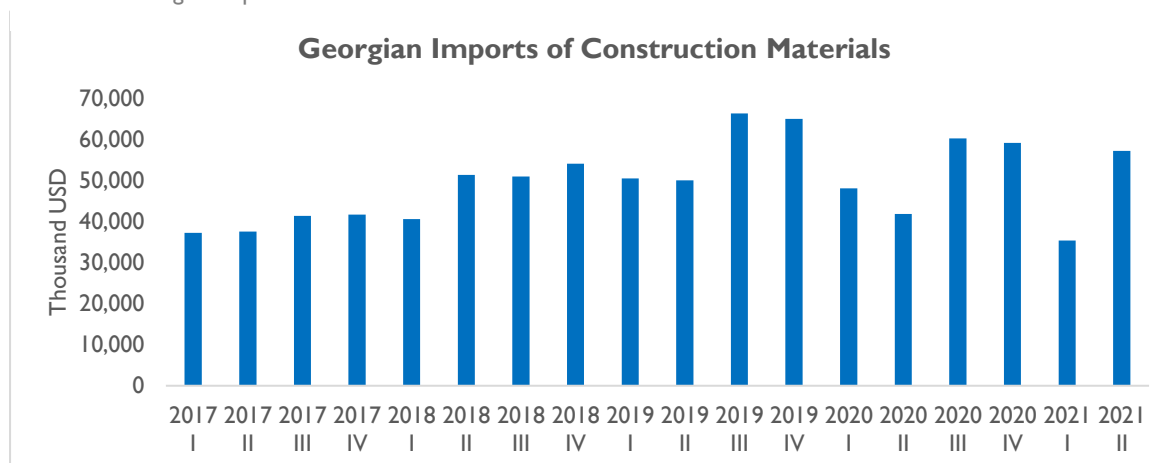
Chart 3.27 Investment in Construction Materials VC



Source: National Statistics Office of Georgia

In the following charts, the trade dynamics of the construction materials value chain is presented. Chart 3.28 depicts the figures regarding Georgian imports of construction materials. The value of imports increased in Q2 2021 compared to Q2 2020 by 36.6% (by 61.6% compared to Q1 2021) and amounted to USD 57.1 million. The expansion of imports follows the rebound in the growth of Georgian economy in the second quarter of 2021.

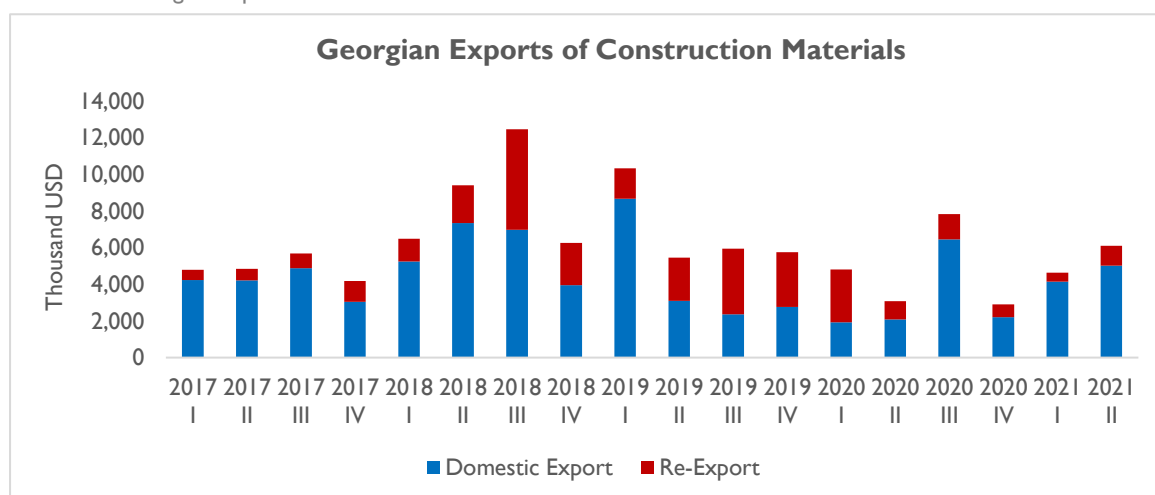
Chart 3.28 Georgian Imports of Construction Materials



Source: National Statistics Office of Georgia

Georgian domestic exports of construction materials increased significantly in Q2 2021 (140% YoY) and reached USD 5 million, while re-exports grew by 9% YoY, amounting to USD 1.1 million (Chart 3.29). Due to the rebound in overall economic growth, the values of domestic exports in Q2 2021 exceeded values in Q1 2021.

Chart 3.29 Georgian Exports of Construction Materials



Source: National Statistics Office of Georgia

Charts 3.30 and 3.31 below present Georgia’s top trading partner countries for construction materials in the last 12 months. The main destinations for domestic exports during July 2020 – June 2021 were Armenia (54%), France (29%), Azerbaijan (14%), Russia (2%), and Kazakhstan (1%) (Chart 3.31). Meanwhile, the main trade partners for imports were Turkey (35%), Russia (23%), Armenia (13%), China (6%), and Iran (4%) (Chart 3.30).

Chart 3.30 Georgian imports of construction materials by trade partner (July 2020 – June 2021)

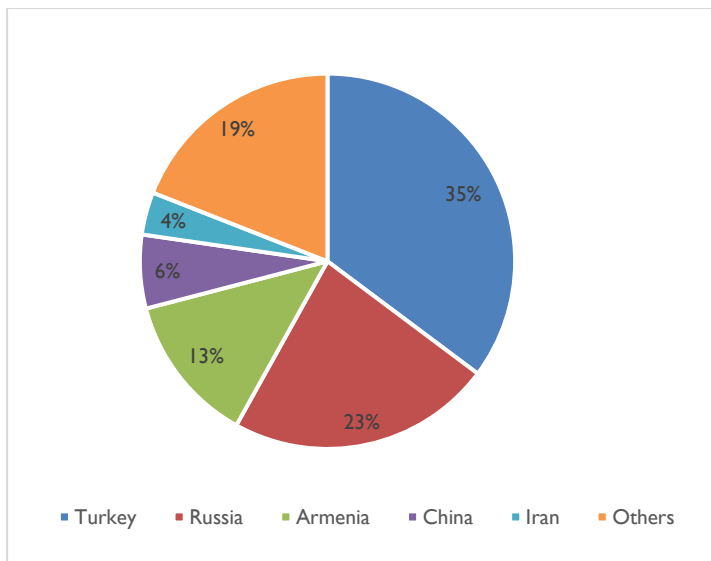
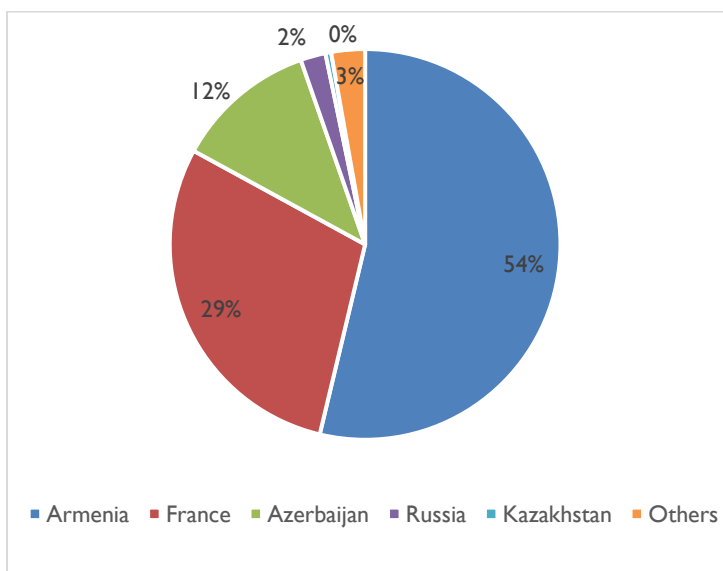


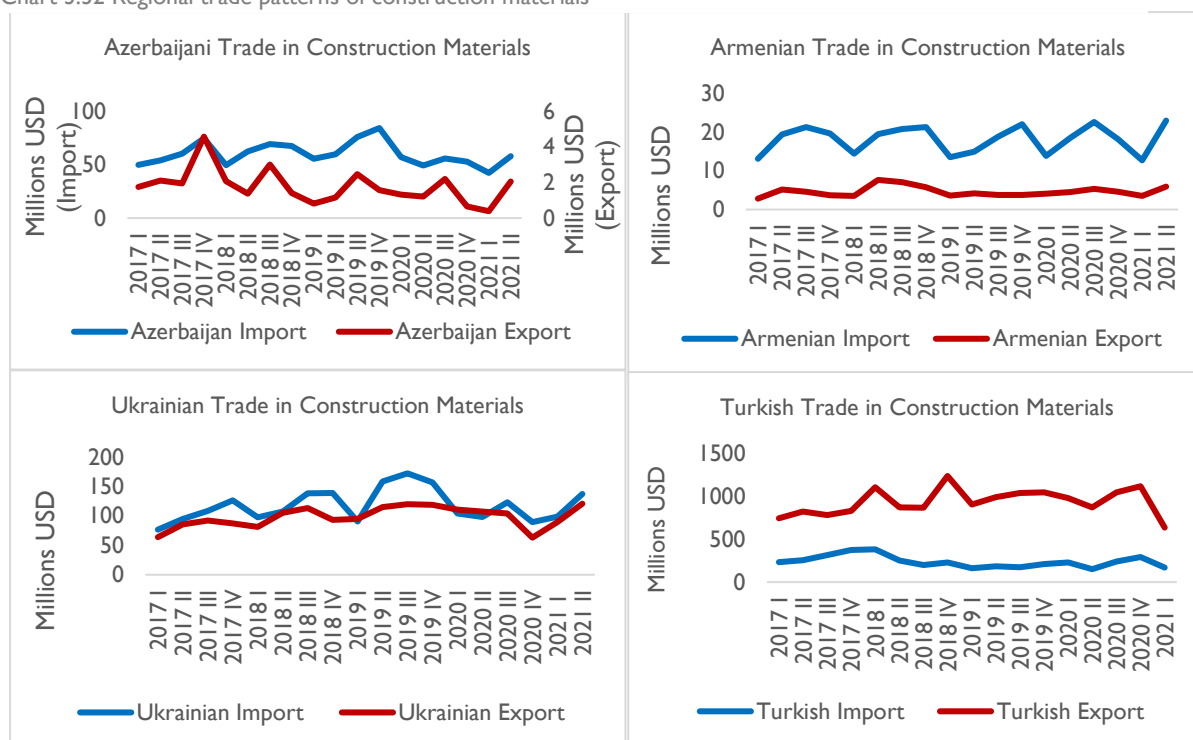
Chart 3.31 Georgian domestic exports of construction materials by trade partner (July 2020 – June 2021)



Source: National Statistics Office of Georgia

Below (Chart 3.32), we overview the construction materials value chain’s regional trade patterns for Armenia, Azerbaijan, Turkey, and Ukraine. Exports displayed an increase for Ukraine, Azerbaijan, and Armenia in Q2 2021, compared to Q2 2020. Imports have followed the same pattern for Azerbaijan, Armenia, and Ukraine for Q2 2021, compared to Q2 2020.

Chart 3.32 Regional trade patterns of construction materials



Source: UN Comtrade<sup>60</sup>

## 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

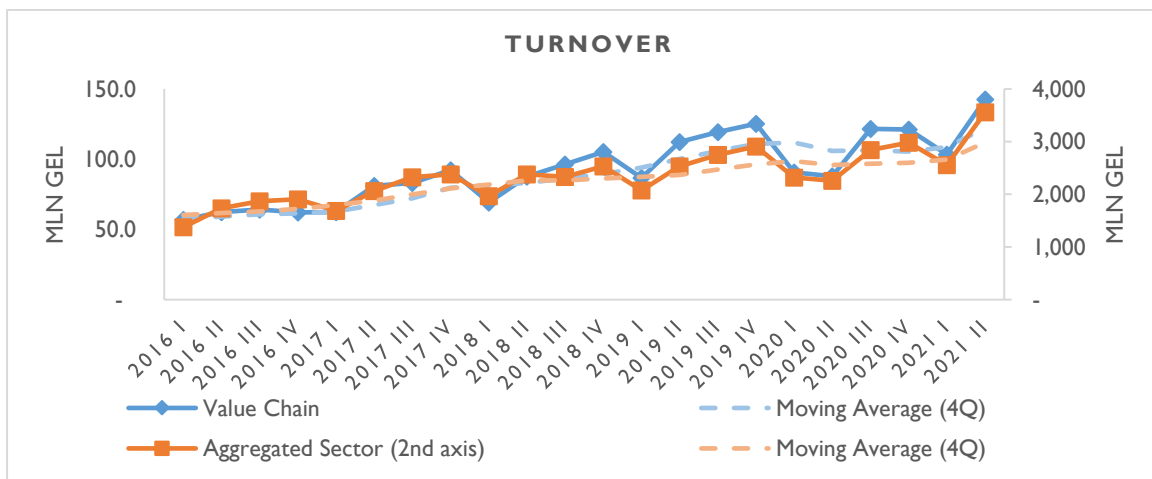
NACE	Description	NACE	Description	NACE	Description
<b>Preferred</b>		<b>Available at annual frequency</b>		<b>Available at quarterly frequency</b>	
16.24	Manufacture of wooden containers	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard		Manufacture of articles of paper and paperboard

<sup>60</sup> Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard	17.2 <sup>61</sup>	
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	Not used in the analysis due to data availability only at a very high-level aggregation			

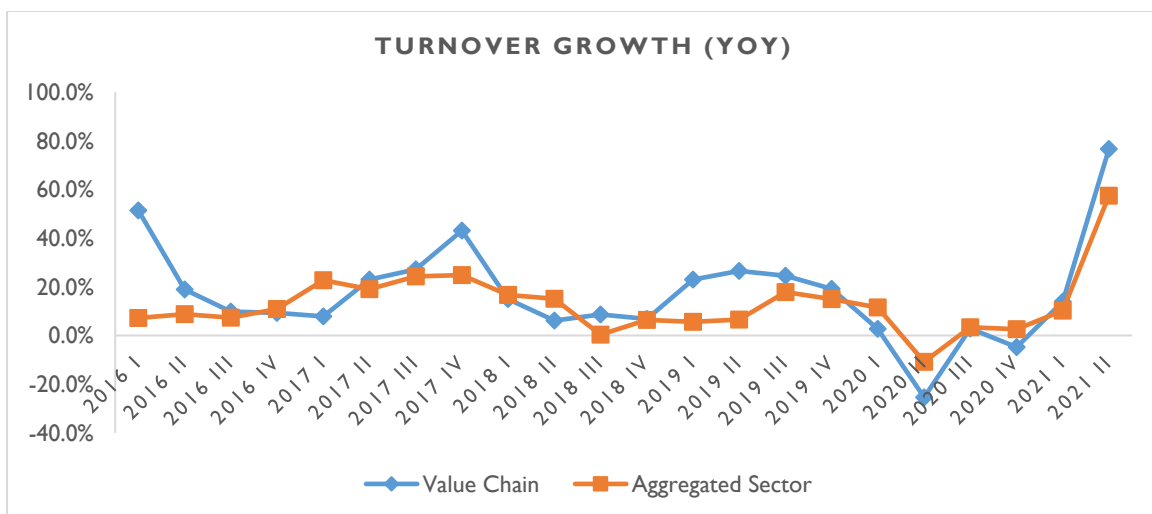
In line with accelerated recovery of the economy, turnover in the packaging value chain amounted to GEL 173.6 million in Q2 2021, which represents 76.7% YoY growth. It should be mentioned that the packaging materials value chain recorded higher YoY growth compared to the respective aggregated sector of manufacturing (57.5% increase, YoY) (Chart 3.33 and Chart 3.34).

Chart 3.33 Turnover of the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

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

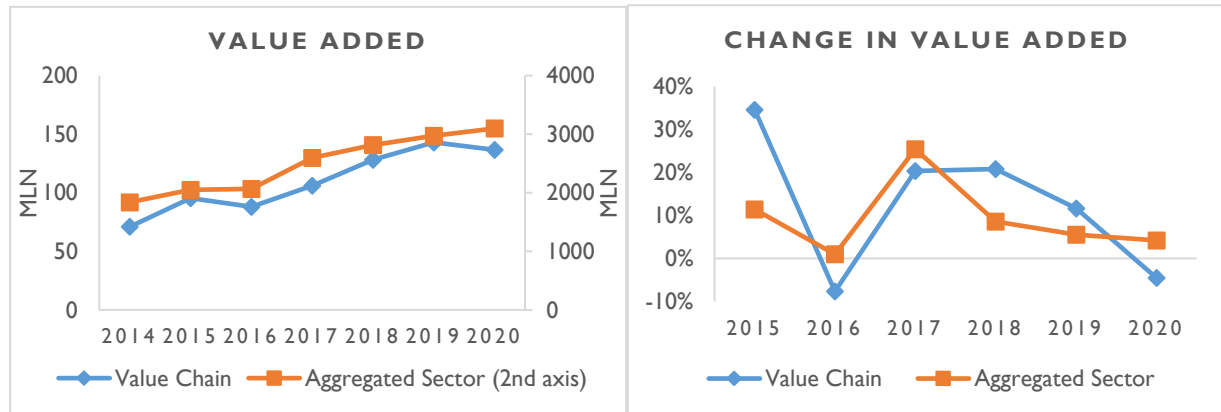


Source: National Statistics Office of Georgia

<sup>61</sup> This group also includes: 17.22 Manufacture of household and sanitary goods and of toilet requisites; 17.23 Manufacture of paper stationery; and 17.24 Manufacture of wallpaper.

Value-added (available only at an annual frequency) of the packaging value chain kept rising throughout 2014-2019 and its dynamics were largely similar to that of the aggregated sector. However, in 2020 the value-added of the packaging value chain amounted to GEL 136 million that is 5% reduction compared to 2019. On the other hand, value added in the aggregated sector has grown by 4%, reaching GEL 3.1 billion.

Chart 3.35 Value Added and its growth in Packaging VC

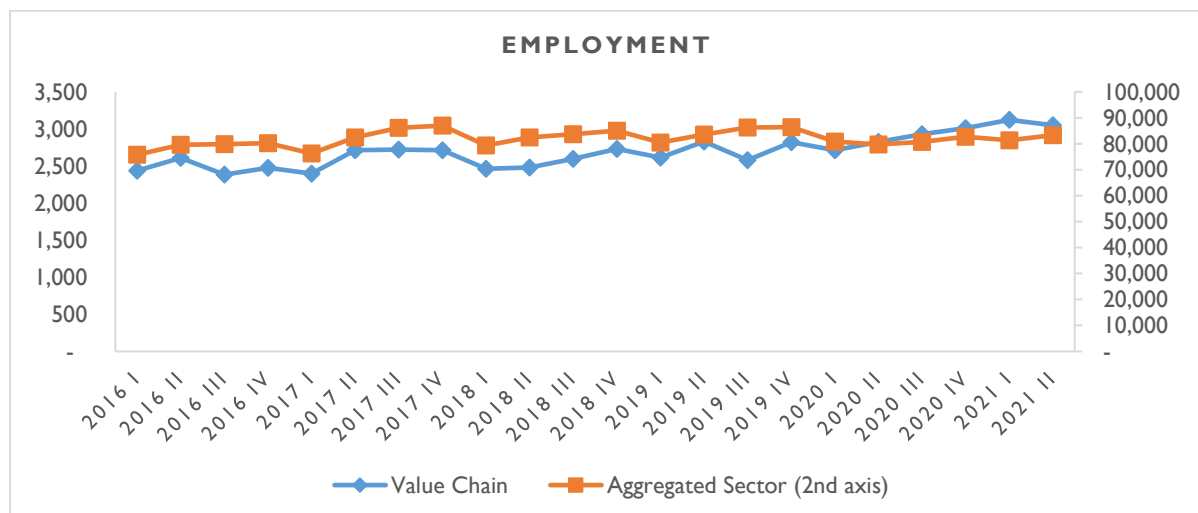


Source: National Statistics Office of Georgia

Employment in packaging VC has been rising throughout 2020. A negative change (QoQ) has been observed in Q2 2021 compared to Q1 2021, however the annual growth rate of employment has reached 7.9%, compared to Q2 2020 and the employment constituted 3,051 hired individuals. Similar YoY trend has been observed in the aggregated sector where employment has reached 83,295 people, constituting 4.5% YoY growth.

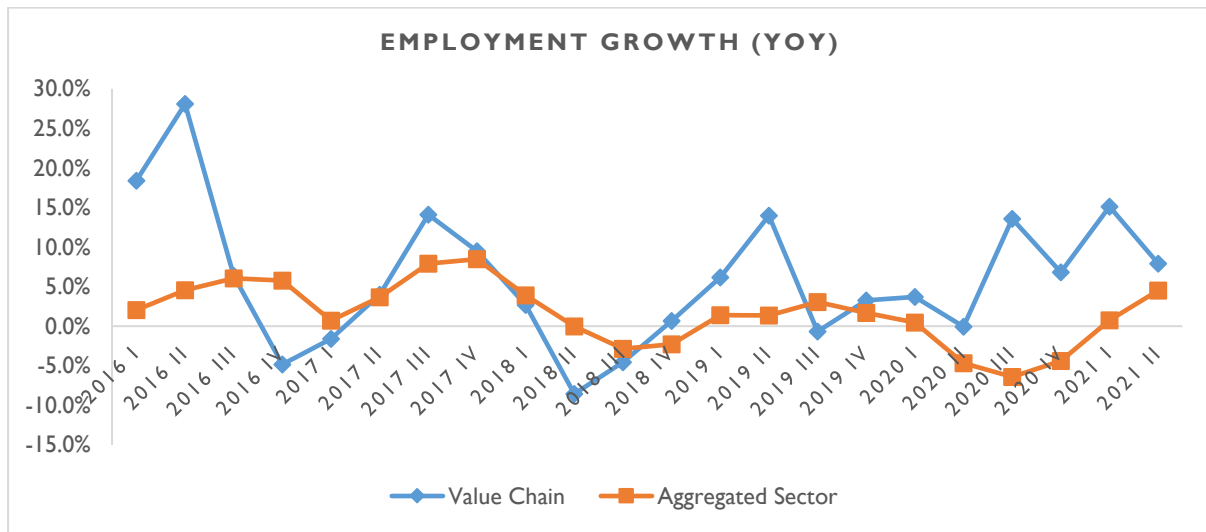
Share of women in hired individuals of the packaging VC has reached 27% that is a slight increase compared to 2019 (26%).

Chart 3.36 Employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

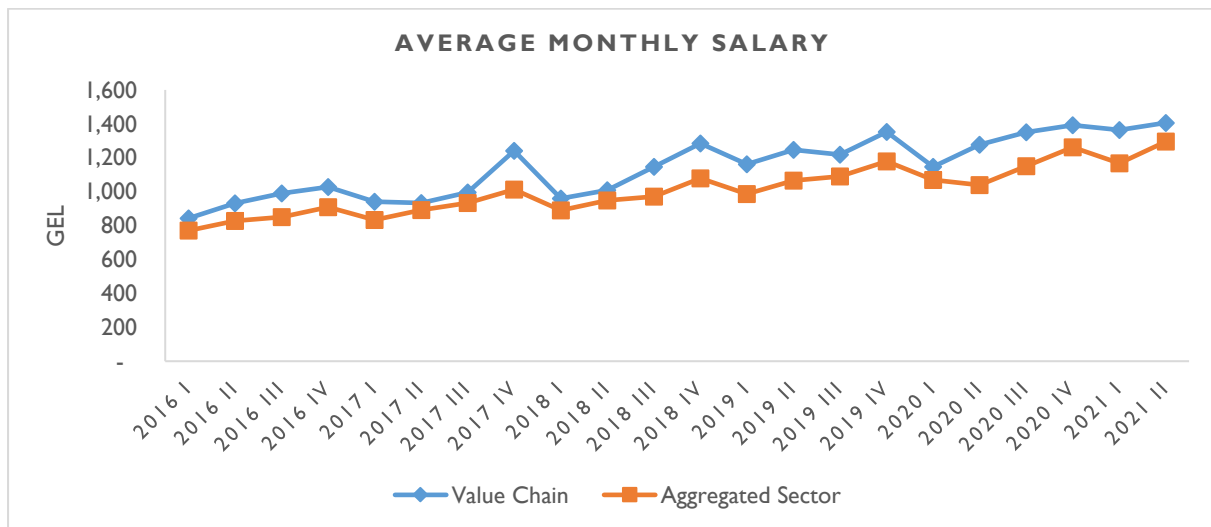
Chart 3.37 YoY growth rate of employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the packaging value chain increased significantly in Q2 2021, compared to Q2 2020 and reached GEL 1,406, which is higher than the average salary of the respective aggregated sector (GEL 1,295) (Chart 3.38).

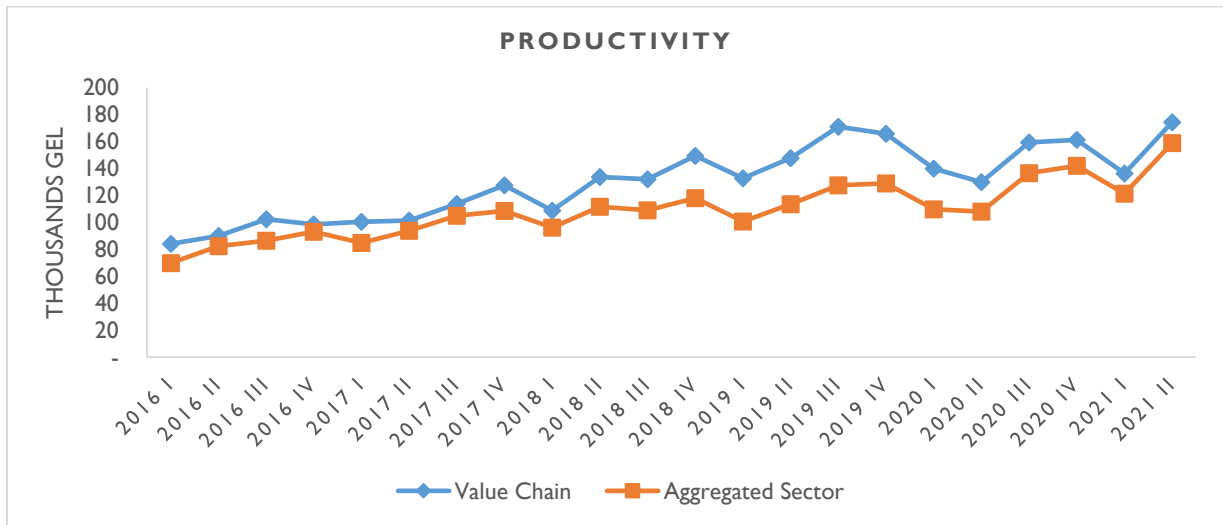
Chart 3.38 Average monthly salary in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.39 demonstrates the dynamics of productivity for both the packaging value chain and the aggregated sector. Productivity for the packaging value chain increased significantly (34.3% YoY) in Q2 2021 compared to Q2 2020 and settled at GEL 174 440. While productivity for the aggregated sector increased by 46.9% compared to the previous year, productivity in the packaging value chain still exceeds that of the aggregated sector (GEL 159 000).

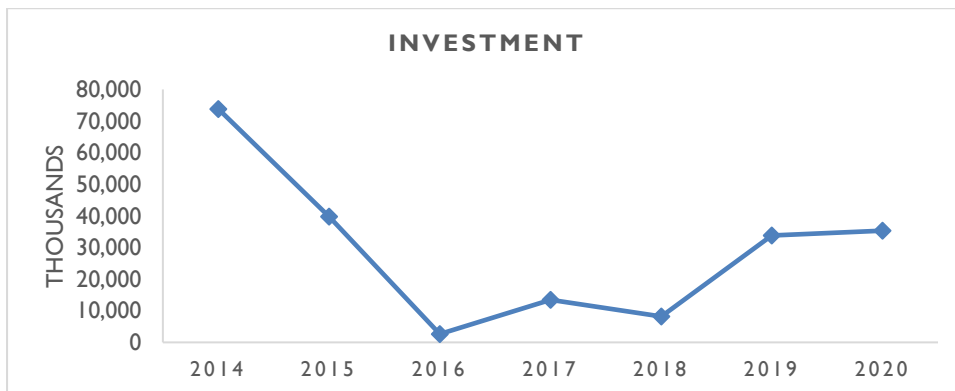
Chart 3.39 Productivity in the packaging value chain and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Investment has continued steady path after 2019 and despite the economic crisis increased slightly in 2020 (4.3%), reaching GEL 35.3 million.

Chart 3.40 Investment in the Packaging VC

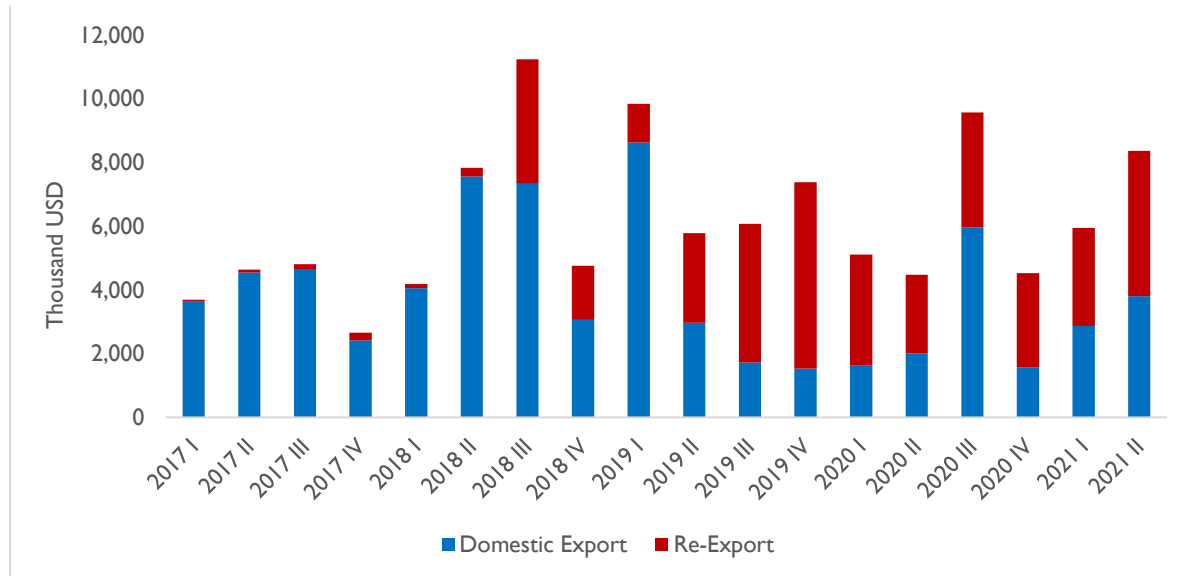


Source: National Statistics Office of Georgia

Charts below provide the analysis of trade tendencies of packaging materials. In the second quarter of 2021, both Georgian domestic export and re-export has increased compared to Q2 2020, amounting to USD 3.7 million and USD 4.6 million, respectively (Chart 3.41).



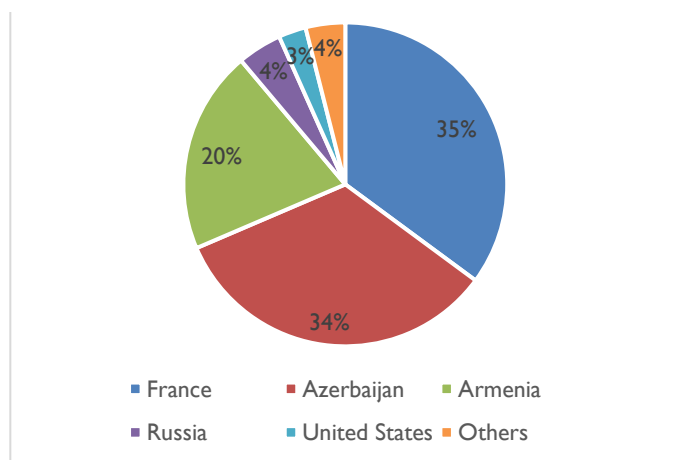
Chart 3.41 Georgian Exports of Packaging Goods 2017-2020



Source: National Statistics Office of Georgia

Of the total exported volume, 35% of Georgian packaging goods were shipped to France, 34% to Azerbaijan and 20% to Armenia (Chart 3.42). Top three trade partners in exports were followed by Russia (4%), and the US (3%).

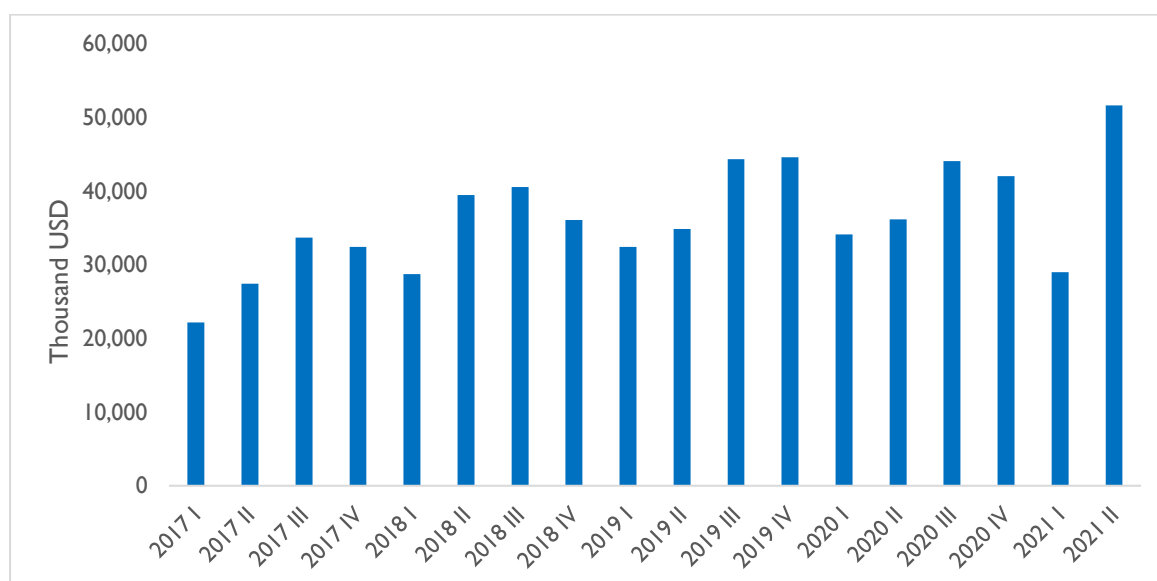
Chart 3.42 Georgia's Domestic Exports of Packaging Goods by Trade Partner (July 2020 - June 2021)



Source: National Statistics Office of Georgia

Georgian imports of packaging goods increased in Q2 2021 (42.8% YoY), compared to Q2 2020 and amounted to USD 51.6 million (Chart 3.43).

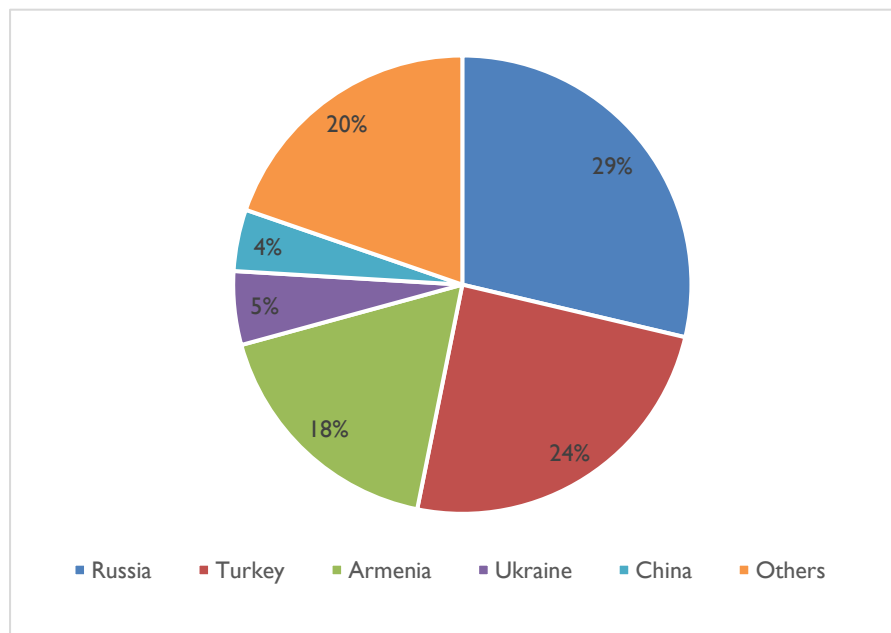
Chart 3.43 Georgian Imports of Packaging Goods 2017-2020



Source: National Statistics Office of Georgia

The profile of trade partners for Georgian packaging goods imports in the last 12 months was more diversified than for exports. 71% of packaging good imported in Georgia in the previous year were produced in Russia (29%), Turkey (24%), and Armenia (18%), while 5% of imports were shipped to Georgia from Ukraine and 4% from China (Chart 3.44).

Chart 3.44 Georgian Imports of Packaging Goods by Trade Partner (July 2020 - June 2021)



Source: National Statistics Office of Georgia

Trade flows of Georgia’s regional partners were also analyzed. The results show that both exports and imports of packaging commodities increased for Ukraine, Armenia, and Azerbaijan in Q2 2021 compared to Q2 2020 (Chart 3.45).

Chart 3.45 Regional trade dynamics in the packaging value chain



Source: UN Comtrade<sup>62</sup>

<sup>62</sup> Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

## PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

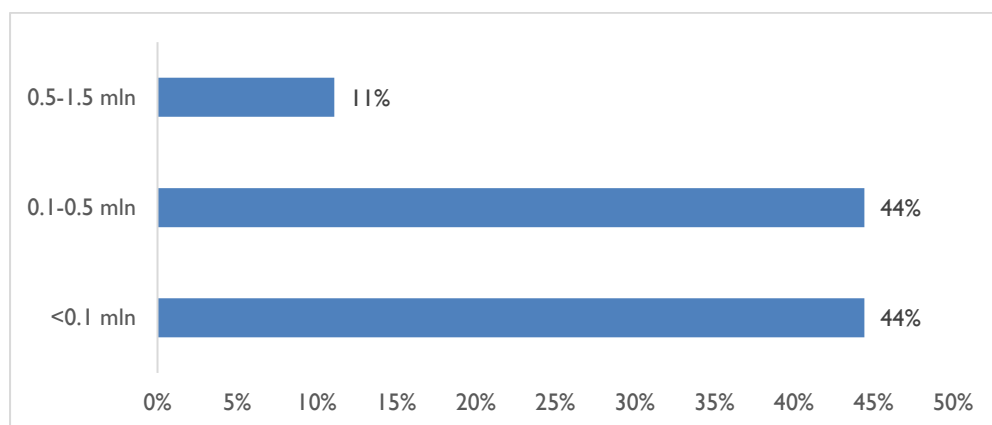
### Quantitative Survey Results

Due to data limitations, the key business indicators describing the development in this business activity were obtained through a quantitative survey. The sample of respondents constituted 9 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 Q2 2021 ranged from less than GEL 0.1 million to GEL 1.5 million (Chart 3.46). Most of the companies depicted a moderate turnover level (44% of the companies had a turnover within GEL 0.1-0.5 million, 44% had less than GEL 0.1 million).

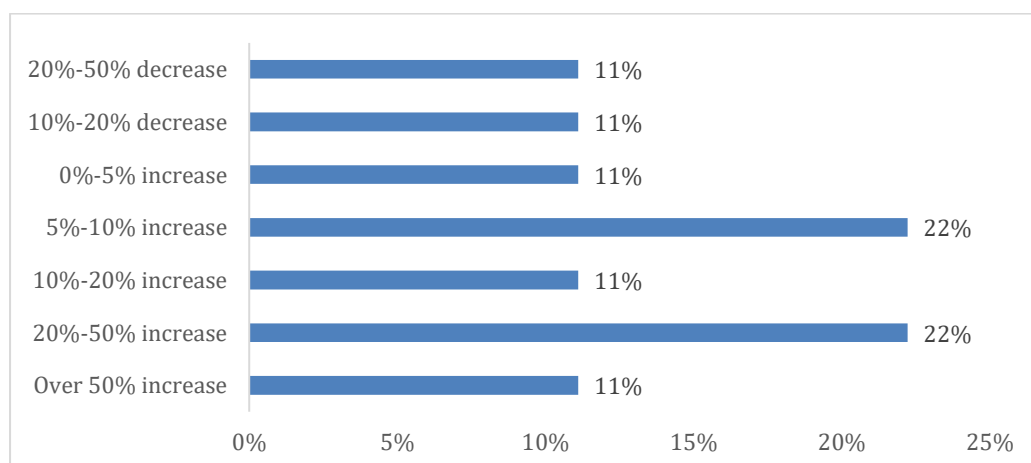
Chart 3.46 Distribution of PPE Companies by Turnover Range, 2021 Q2 (Gel)



Source: Authors' calculations

Most of the companies (78%) reported that their turnover increased in the second quarter of 2021 compared to the same period of 2020. Rest of the companies (22%) reported a decline in turnover.

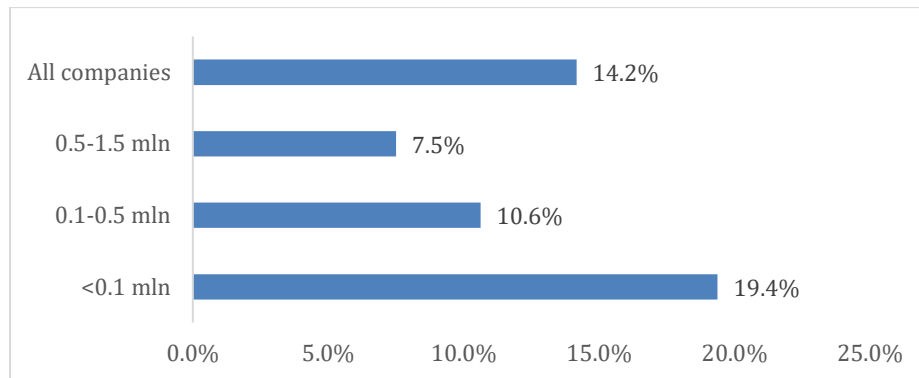
Chart 3.47 Percentage Distribution of Turnover Growth Rates in the PPE Value Chain, 2021 Q2 (Y-o-Y)



Source: Authors' calculations

In Q2 2021, turnover has increased by 14.2 (YoY) on average. Large companies have experienced a moderate growth of 7.5% (YoY), while the companies with turnover below GEL 0.1 million had significant positive trend (19.4% increase, YoY) (Chart 3.48).

Chart 3.48 Distribution of PPE Companies Growth Rates by Turnover Range, 2021 Q1 (Y-o-Y)

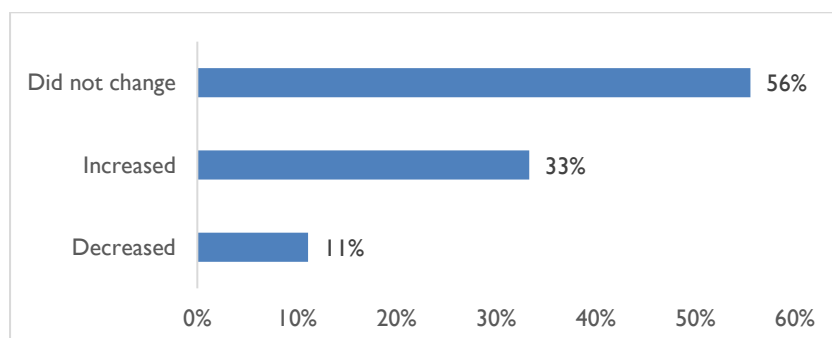


Source: Authors' calculations

The number of employed persons in surveyed PPE companies varied from 5 to 60, with the median number of 17 employed persons. Women accounted for 90% of employed individuals, while the share of young people (under 30 years old) made up almost 4% of the total employees of surveyed companies.

Meanwhile, the majority of companies (56%) indicated no change in the number of employees compared to Q2 2020 (Chart 3.49). The average salary equaled GEL 867.

Chart 3.49 Change in Employment, 2021 Q1 (Y-o-Y)



Source: Authors' calculations

The charts below outline Georgian, regional, and global trade patterns of PPE. The categorization of these goods and applicable HS codes were developed based on the HS classification reference for COVID-19 medical supplies prepared by the World Customs Organization and the World Health Organization<sup>63</sup>, HS code classification of PPE based on EU market survey 2004<sup>64</sup>, Commission Implementing Regulation (EU) 2020/402<sup>65</sup> and Order №01-36/№89 of the Ministry of Finance of Georgia on defining the list of goods intended for medical purposes, the supply and/or import of which is exempt from VAT.<sup>66</sup>

Chart 3.50 below presents the value of Georgian PPE imports for the period of 2017-2021 along with its top trade partners during July 2020 – June 2021. Georgia's import of PPE increased in Q2 2021 by

<sup>63</sup> HS classification reference for Covid-19 medical supplies 2<sup>nd</sup> Edition. WCO.WHO (2020)

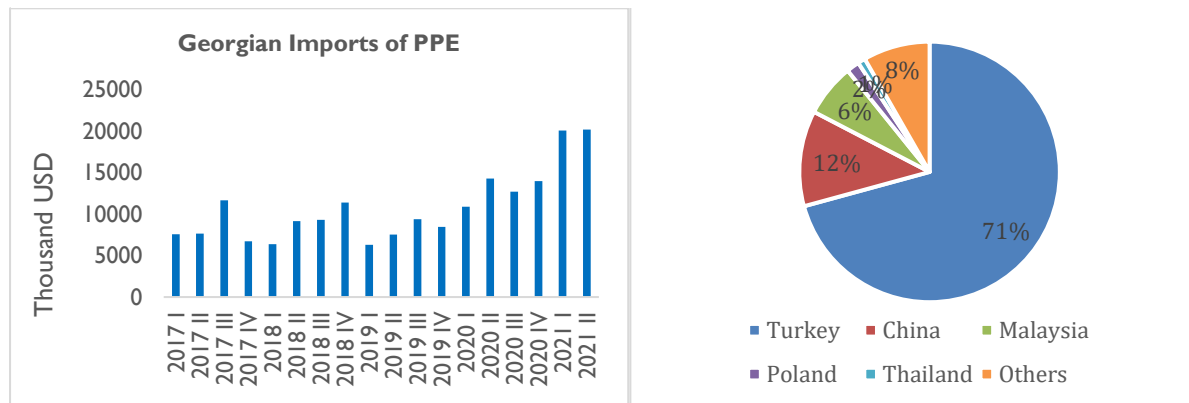
<sup>64</sup> [http://www.exportapymes.com/documentos/productos/Ci1033\\_survey\\_personal\\_protection.pdf](http://www.exportapymes.com/documentos/productos/Ci1033_survey_personal_protection.pdf)

<sup>65</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0402>

<sup>66</sup> <https://matsne.gov.ge/ka/document/view/4841418?publication=0>

41.2% compared to Q2 2020 and by 0.6% compared to Q1 2021, reaching USD 20 million. This increase compared to the previous year could be attributed to an increase in PPE demand during the COVID-19 pandemic. In terms of the equipment's origin, most PPE was imported from Turkey (71%), China (12%), and Malaysia (6%). Imports from other countries constituted 8% of total imports.

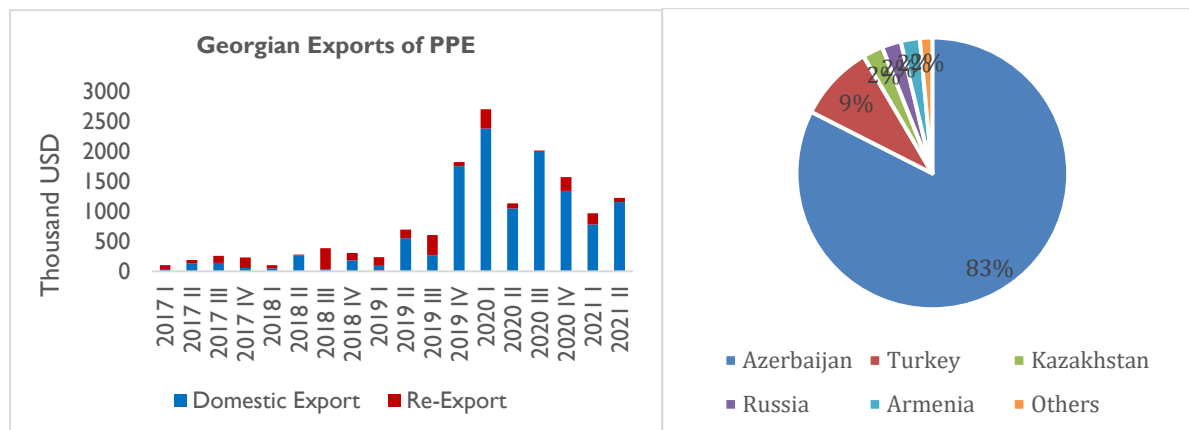
Chart 3.50 Georgia's Imports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE import (July 2020 – June 2021)



Source: Geostat; UN Comtrade

Chart 3.51 presents dynamics of Georgian exports and its top trading partners in this regard. Domestic exports of PPE equipment increased by 10.1% in Q2 2021 compared to Q2 2020, and by 47.8% compared to Q1 2021. During July 2020 – June 2021, the majority of Georgian PPE goods were exported to Azerbaijan (83%), Turkey (9%), Kazakhstan (2%), Russia (2%), and Armenia (2%).

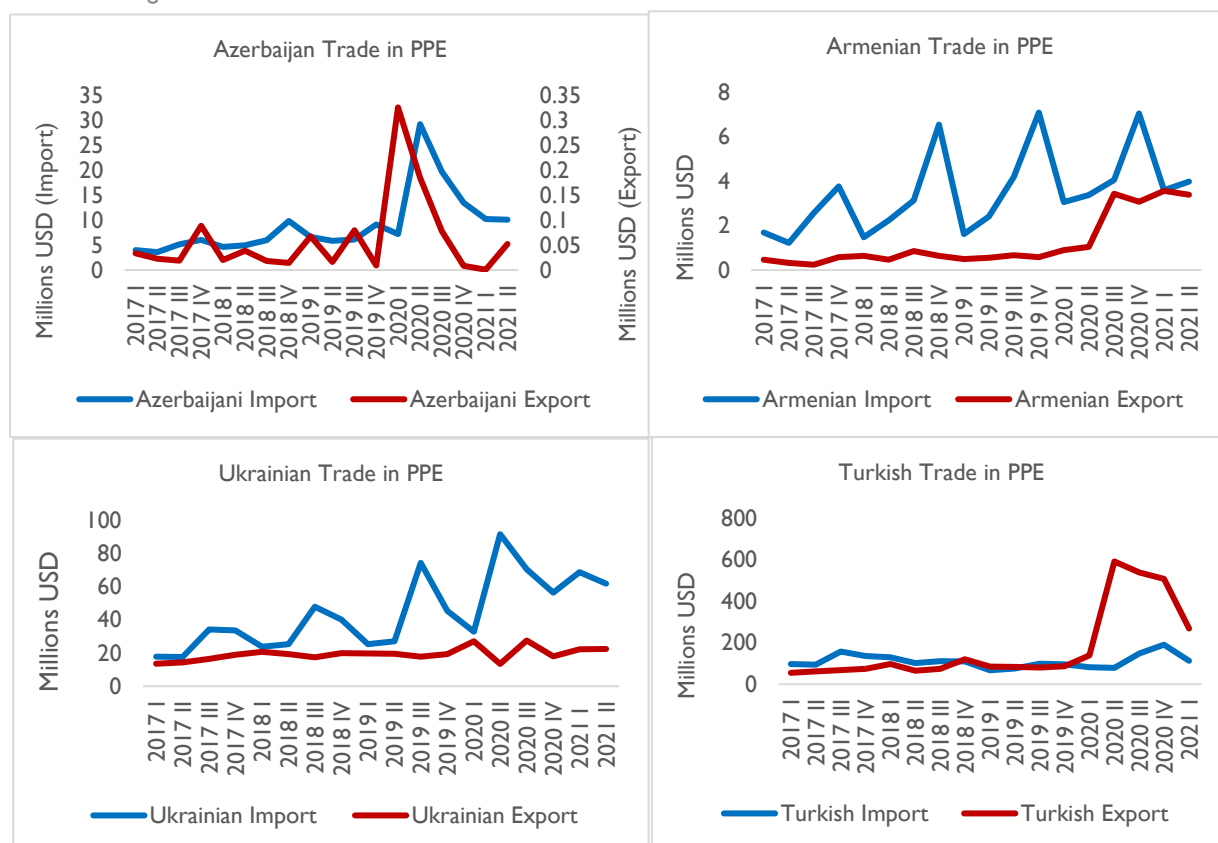
Chart 3.51 Georgia's Exports of Personal and Protective Equipment (2017-2021) and the top trade partners in PPE export (July 2020 – June 2021)



Source: Geostat; UN Comtrade

As Chart 3.52 presents, Azerbaijan experienced a moderate decline in PPE exports in Q2 2021, compared to Q2 2020. Contrastingly, Armenian and Ukrainian exports increased YoY. On the other hand, imports diminished in Azerbaijan and Ukraine and expanded in Armenia in Q2 2021 compared to the same period of 2020.

Chart 3.52 Regional Trade in PPE



Source: UN Comtrade<sup>67</sup>

<sup>67</sup> Q1 2021 values for Turkish trade present the sum of value for January and February 2021, since trade for March is not reported on UN Comtrade. In addition, Q2 2021 trade data for Turkey is not yet available. Q4 2020 values for Ukrainian trade present the sum for October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade.

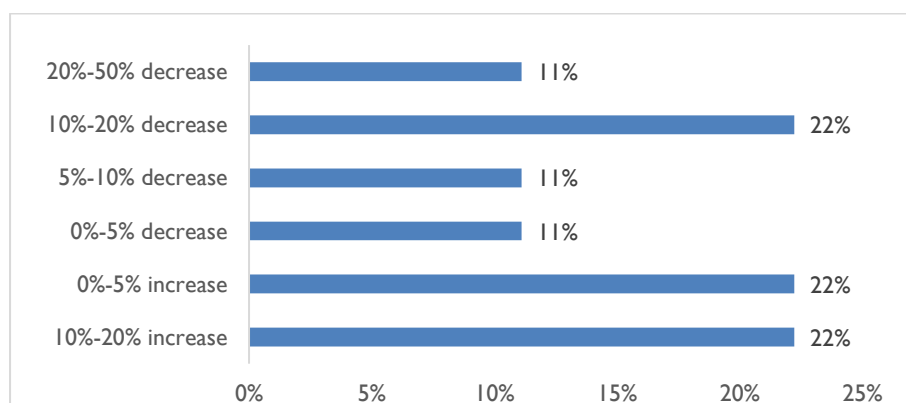
## WOODEN TOYS

### Quantitative Survey Results

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

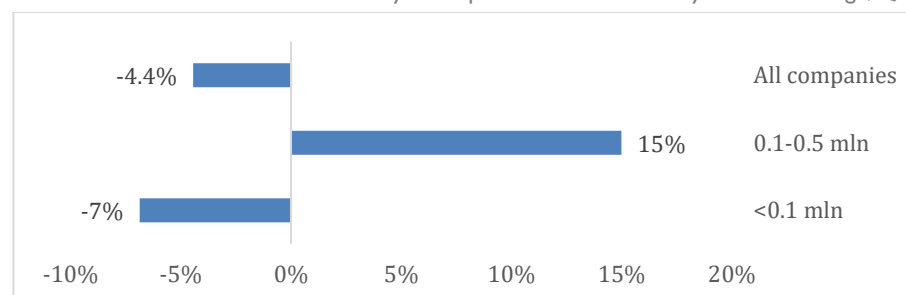
Declared turnover in Q2 2021 in this business activity was under GEL 0.1 million for 89% of surveyed firms. In Q2 2021, two interviewed producers (22%) experienced a turnover growth between 10% and 20%, compared to Q2 2020 (Chart 3.53). Two other companies (22%) indicated an increase in turnover between 0% and 5%. The other companies all reported a decrease in turnover compared to Q2 2020. The average decline in turnover for all companies was -4.4%. Firms whose turnover was between 0.1 mln and 0.5 mln experienced growth of 15%, while companies with turnover below 0.1 mln had it diminished by 7% (Chart 3.54).

Chart 3.53 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, Q2 2021 (Y-o-Y)



Source: Authors' calculations

Chart 3.54 Distribution of Wooden Toys Companies Growth Rates by Turnover Range, Q2 2021 (Y-o-Y)



Source: Authors' calculations

The number of persons employed in the wooden toys value chain varied between one and 20, with a median number of three. Women constituted 33% of employed people, while workers aged below 30 accounted for 47% of the total employed. The average gross salary amounted to GEL 1135 in the surveyed firms. Meanwhile, 44% of the producers reported that the average salary had not changed in Q2 2021, compared to the same quarter of the previous year.

Most wooden toy manufacturers (78%) did not change their number of employees in Q2 2021, while 22% of respondents declared an increase employment. None of the companies indicated that they had reduced the number of persons employed in Q2 2021.



## 4. SOLID WASTE MANAGEMENT AND RECYCLING

The following section provides an overview of quantitative indicators for the solid waste management and recycling sector along with the corresponding aggregate sector (water supply, sewerage, waste management and remediation activities)<sup>68</sup>.

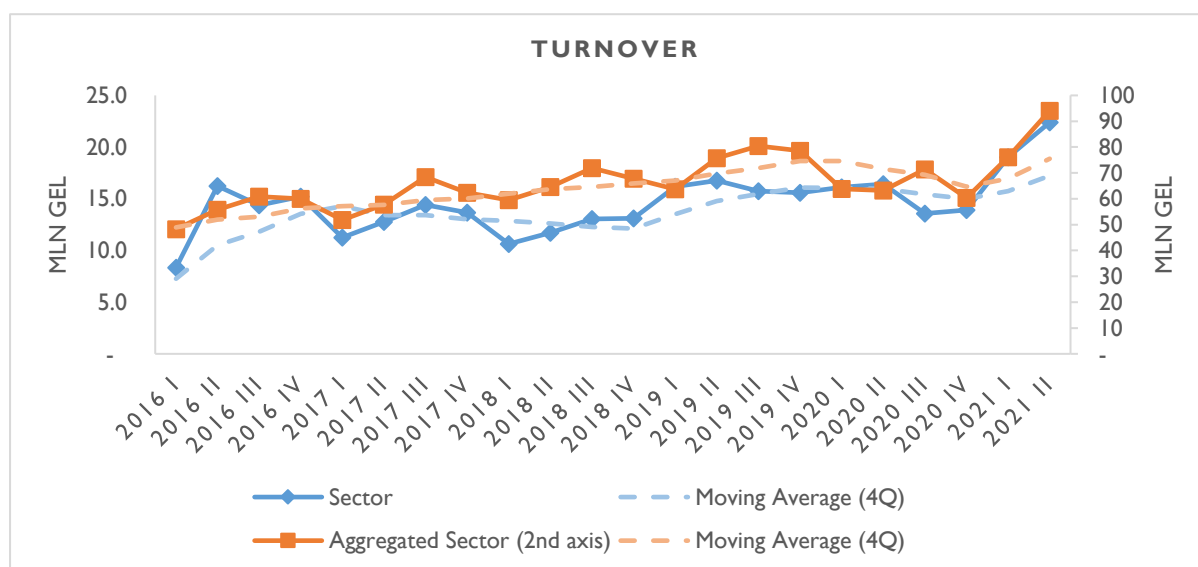
The solid waste management and recycling sector is matched with the following economic activities as classified in NACE Rev. 2 at 2-digit level (Table 4.1). The data on these NACE codes are available at both annual and quarterly frequencies.

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

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

In the second quarter of 2021 turnover for the solid waste management and recycling sector has increased, amounting to GEL 22 million, that is 36.3% higher compared to Q2 2020 (YoY). The turnover for the corresponding aggregated sector increased as well in Q2 2021 (48.9% YoY) and reached GEL 94 million (Charts 4.1 and 4.2).

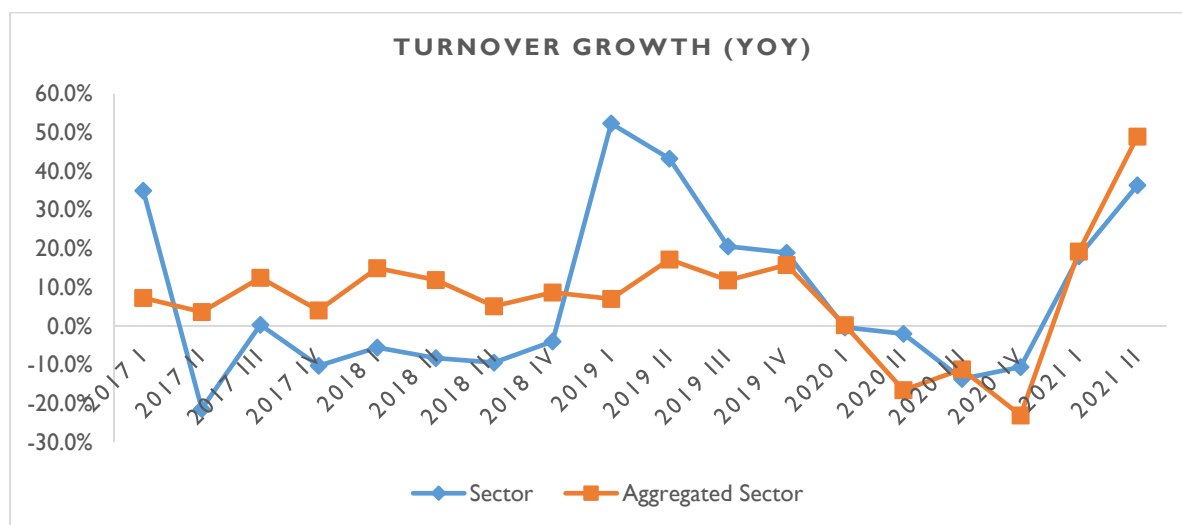
Chart 4.1 Turnover of the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

<sup>68</sup> Throughout this section, “sector” will refer to solid waste management and recycling, while “aggregated sector” will refer to water supply, sewerage, waste management and remediation activities.

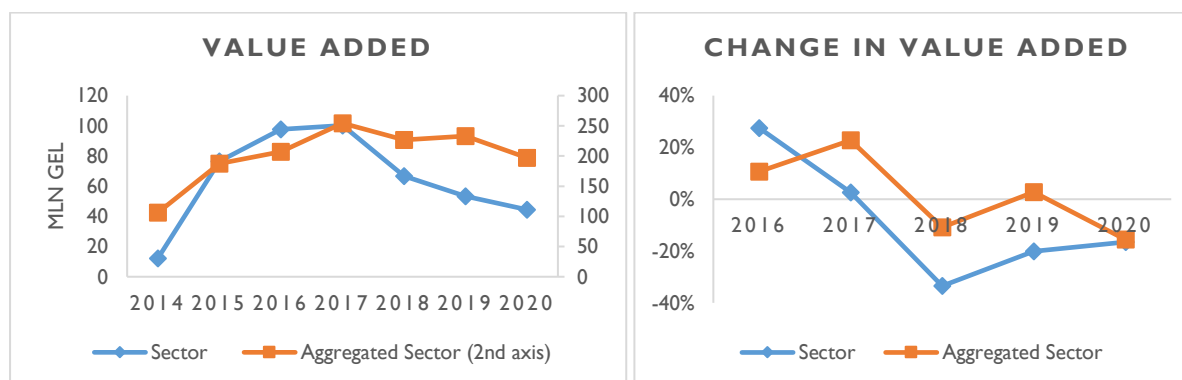
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 4.3 presents value-added and its growth rate during the period of 2014-2020. Value added in the sector has deteriorated in 2020 by 16%, going down to GEL 44.5 million. Similarly, value added in the aggregated sector has declined by 16%, reaching GEL 196 million.

Chart 4.3 Value Added and its growth in Solid Waste Management and Recycling sector and respective Aggregate Sector

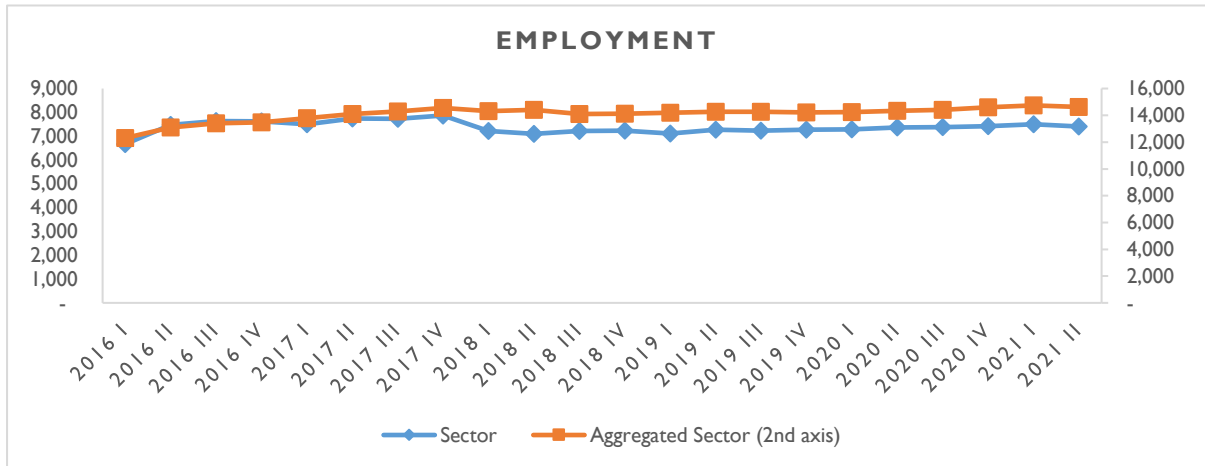


Source: National Statistics Office of Georgia

Charts 4.4 and 4.5 present the dynamics of employment and its annual growth rates in the solid waste management and recycling sector and the respective aggregated sector. In the second quarter of 2021 employment increased slightly (0.69% YoY) compared to Q2 2020 and reached 7,410 people. The number of hired employees also increased in the aggregated sector at a moderate speed, growing by 2.1% (YoY) in Q2 2021 compared to Q2 2020 and amounting to 14,636 people.

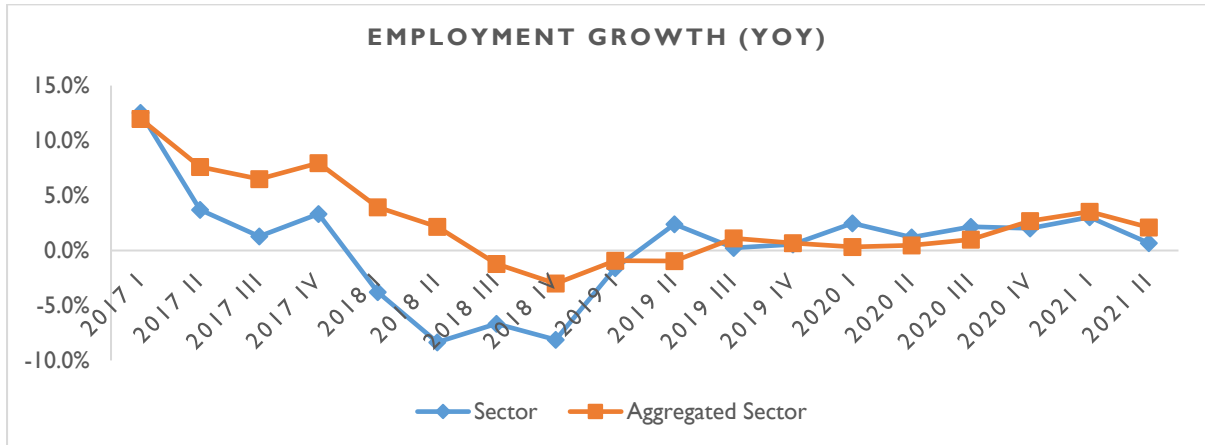
Share of women in employed people has decreased moderately from 39% in 2019 to 38% in 2020.

Chart 4.4 Employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

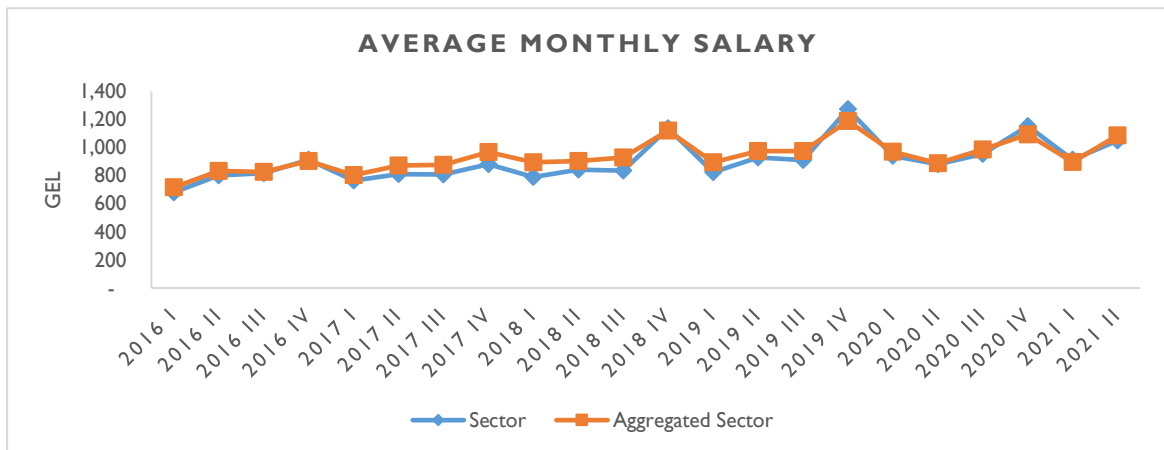
Chart 4.5 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 4.6 shows, the average monthly salary in the solid waste management and recycling sector expanded in Q2 2021, amounting to GEL 1 049, which is 19.1% higher than in Q2 2020. The average monthly salary in the aggregated sector also increased by 22.4% YoY to GEL 1 085 in Q2 2021.

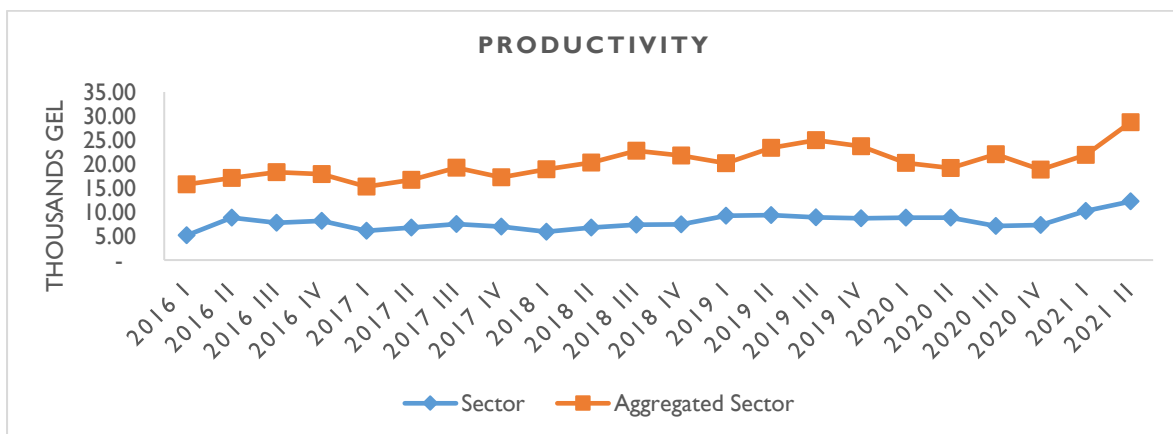
Chart 4.6 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The productivity in the solid waste management sector increased significantly (37.8% YoY) in Q2 2021 and amounted to GEL 12 200. The productivity in the aggregated sector increased as well by 49.8% YoY, amounting to GEL 29 000.

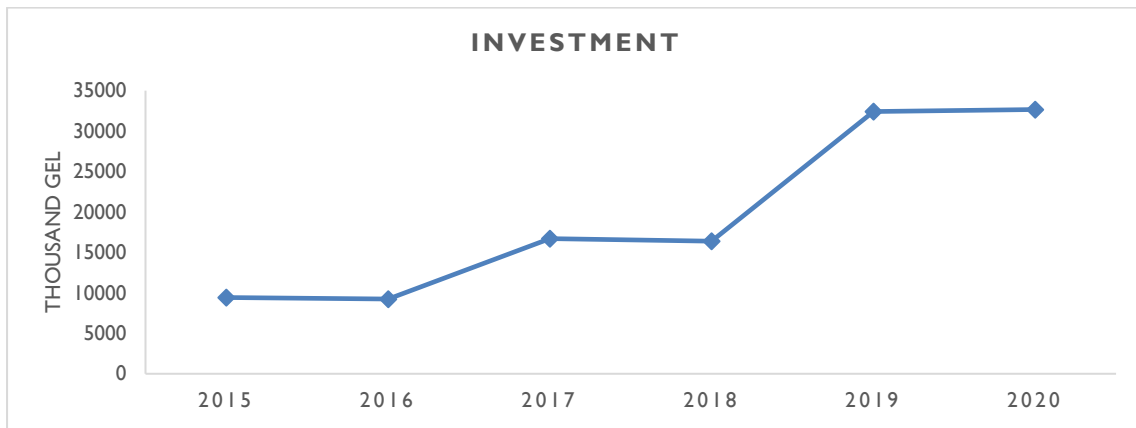
Chart 4.7 Productivity in the solid waste management and recycling sector and the corresponding aggregated sector (quarterly output per hired employee, annualized)



Source: National Statistics Office of Georgia

Investments in fixed assets and inventories recorded a slight increase in 2020, equating to GEL 32.6 million and marking a 1% increase compared to 2019.

Chart 4.8 Investment in Solid Waste Management and Recycling Sector



Source: National Statistics Office of Georgia

## 5. SHARED INTELLECTUAL SERVICES

### SECTOR 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 this given quarterly analysis: Architecture, Design, and Engineering (ADE); human resource management (HRM); Finance and Accounting (F&A); and customer relations management (CRM).

Due to unavailability of quarterly enterprise survey data for ADE and F&A business activities, report will present the latest data available in annual frequencies. As for the CRM and HRM, our survey results will be discussed.

Data from Geostat suggests that turnover and the value added declined in 2020 for both ADE and F&A business activities. However, while ADE recorded a deterioration in employment, F&A business activity experienced a slight improvement in the number of hired people. On the other hand, productivity and average monthly salary declined in both VCs in 2020. ADE also recorded an abrupt drop in investment, while F&A experienced a sudden growth in this indicator.

As the survey results for the CRM and HRM show, the majority of surveyed companies of both business activities were small businesses, with turnover below GEL 100,000. Moreover, a significant proportion of the CRM and HRM companies (86% of HRM companies, and 50% of CRM companies) reported an increase in turnover compared to Q2 2020. Despite the positive tendencies, on average, the HRM business activity presented a 1.6% decrease in turnover, while the CRM recorded an increase of 23.8%. As for employment, the majority of companies from both business activities (67% of HRM companies, and 50% of CRM companies) reported no change in their number of employees compared to Q1 2020.

### ARCHITECTURE, DESIGN, AND ENGINEERING

The analysis below will cover quantitative assessment of the economic tendencies in the architecture, design and engineering business activity and the corresponding aggregated sector (Professional, Scientific and Technical activities).

Table 5.1 below presents relevant NACE codes for target economic activity.

Table 5.1 Economic activities included in the architecture, design and engineering value chain

NACE	Description
<b>Available at annual frequency</b>	
71	Architectural and engineering activities; technical testing and analysis
74	Other professional, scientific and technical activities

Chart 5.1 and Chart 5.2 below provide ADE business activity and respective aggregated sector turnover data and its growth rate in 2014-2020. Turnover for the ADE business activity has decreased in 2020 by 25% and amounted to GEL 422 million (Chart 5.1). The turnover of the aggregated sector has also declined by 12%, reaching GEL 1,450 million in 2020.

Chart 5.1 Turnover of the ADE business activity and the corresponding aggregated sector

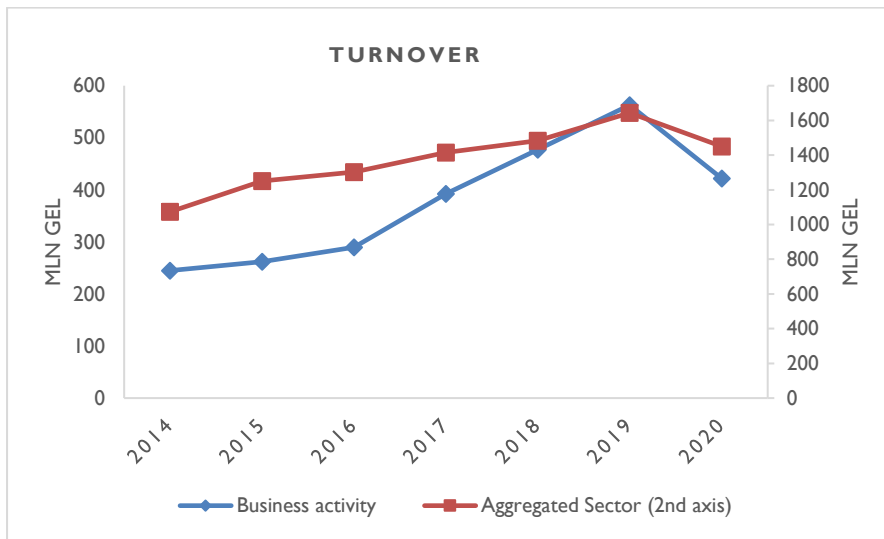
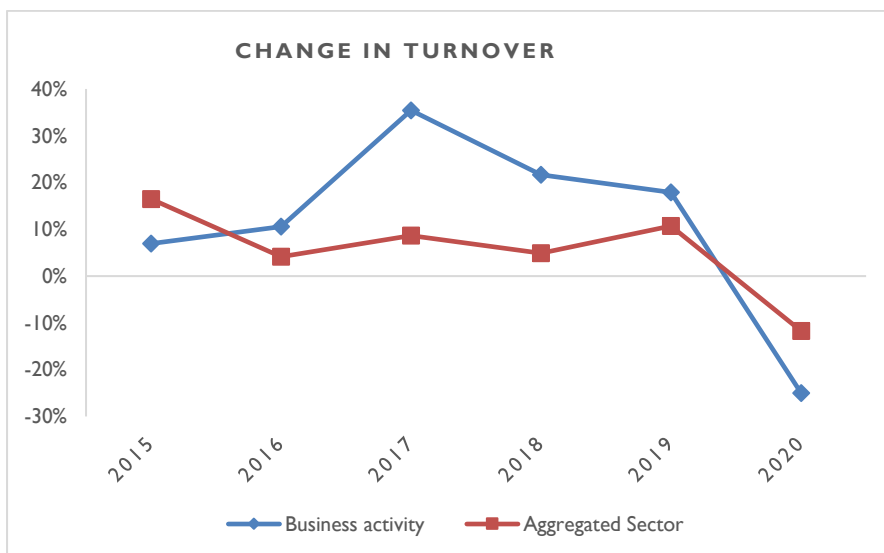


Chart 5.2 Annual growth rate of turnover for the ADE business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

According to Chart 5.3, the value-added of the ADE business activity decreased throughout 2020 by 15% and equated to GEL 286.3 million. As for the aggregated sector, it also recorded a decline of value added by 8% in 2020 compared to 2019, constituting GEL 882 million in 2020.

Chart 5.3 Value-added of ADE business activity and the corresponding aggregated sector

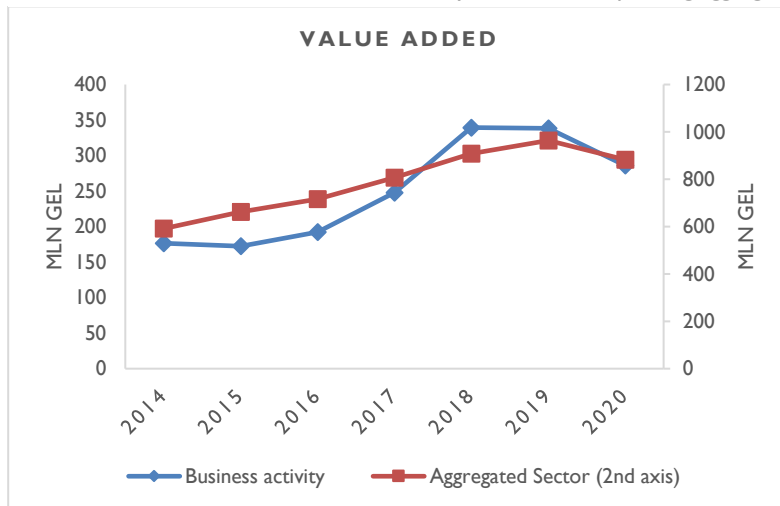
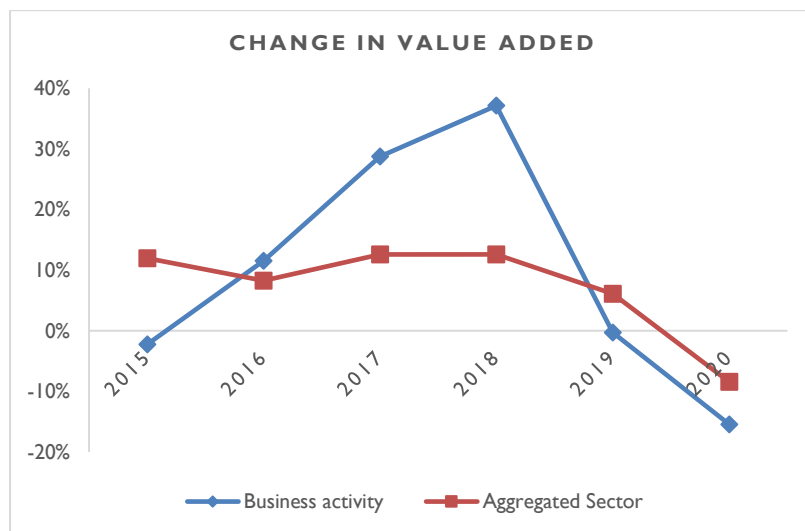


Chart 5.4 Annual growth rate of value-added for ADE business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Charts 5.5 and 5.6 below present the hired employment data for the ADE business activity and the corresponding aggregated sector. According to Chart 5.5, the number of hired employees in the ADE business activity has decreased in 2020 by 20%, reaching 8,448 workers. As for the number of hired employees in the aggregated sector, in 2020 it recorded a decline by 10% and reached 22,496. In addition, share of women in the number of employed people has increased significantly in 2020 from 31% to 37%.



Chart 5.5 Annual growth rate of employment for ADE business activity and corresponding

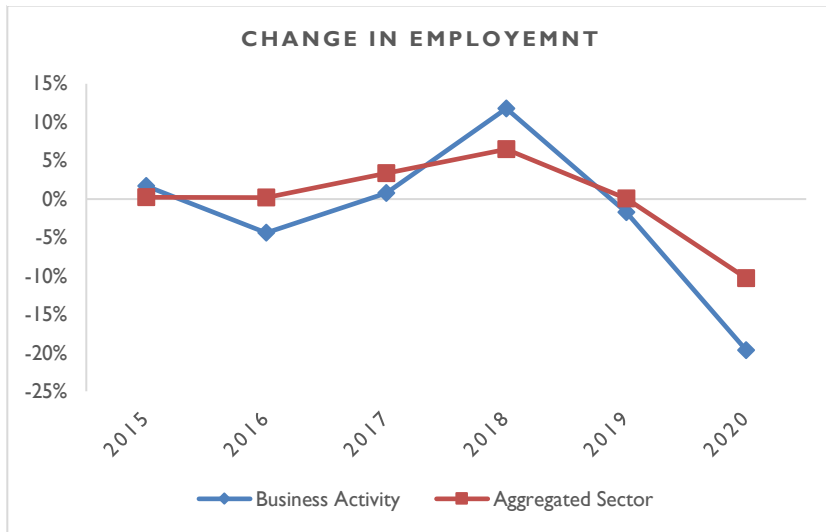
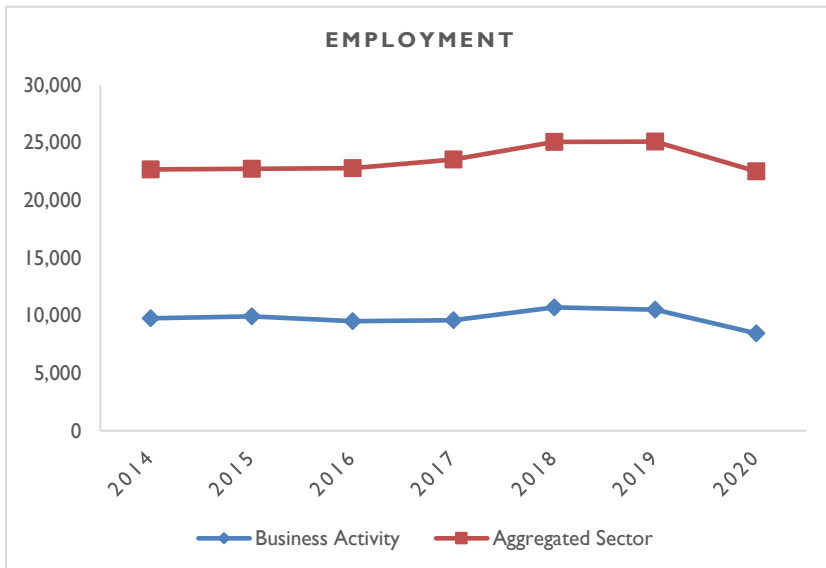


Chart 5.6 Employment of ADE business activity and corresponding aggregated sector



Source: National Statistics Office of Georgia

As shown in Chart 5.7 and Chart 5.8, the average monthly salary for the ADE business activity and the aggregated sector declined in 2020. Specifically, the average monthly salary for the ADE business activity dropped by 6% to GEL 1,753, while the average monthly salary in the aggregated sector decreased only slightly and amounted to GEL 2,102 in 2020.

A similar trend can be gleaned from Chart 5.8 for labor productivity data, calculated as an annual output per hired employee. Like the average monthly salary, productivity for the ADE business activity decreased in 2020 by 9% and amounted to GEL 49,935. On the other hand, productivity for the aggregated sector decreased moderately and reached GEL 57,157.

Chart 5.7 Average monthly salary for the ADE business activity and the corresponding aggregated sector

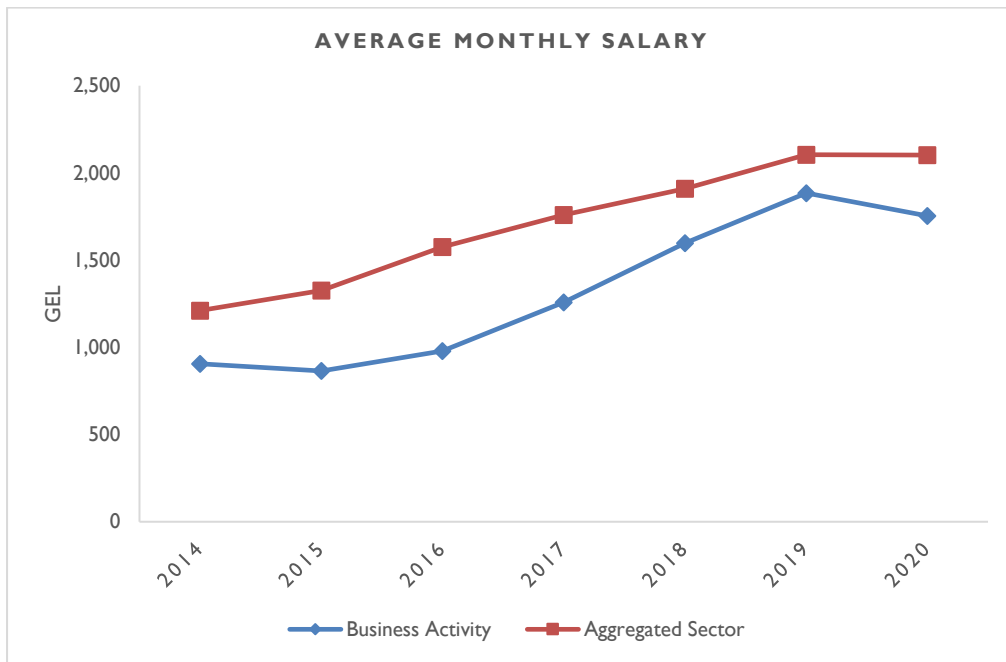
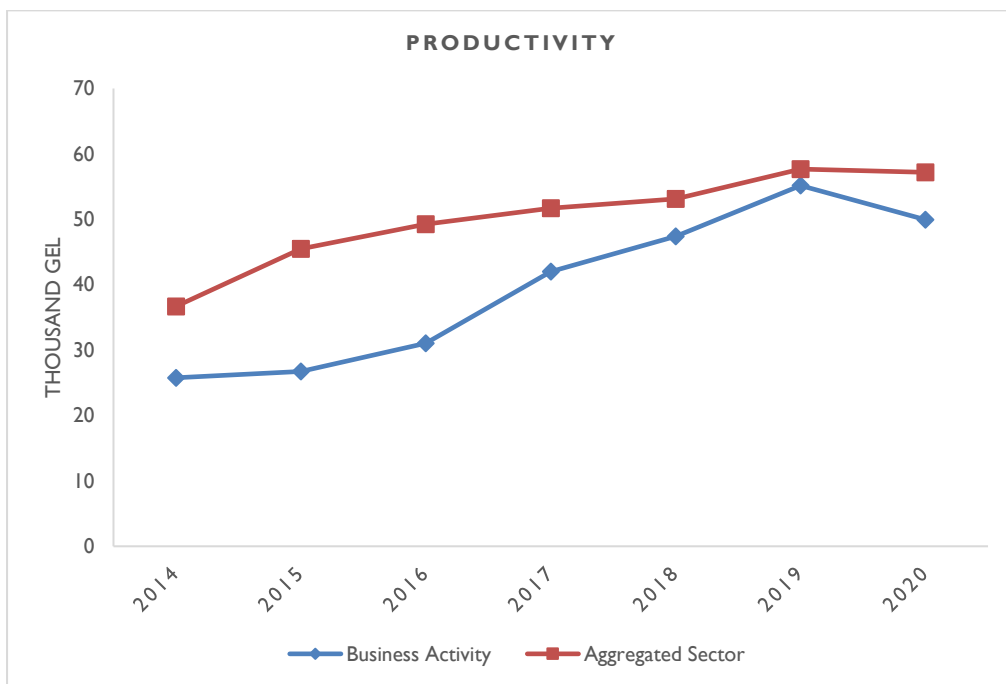


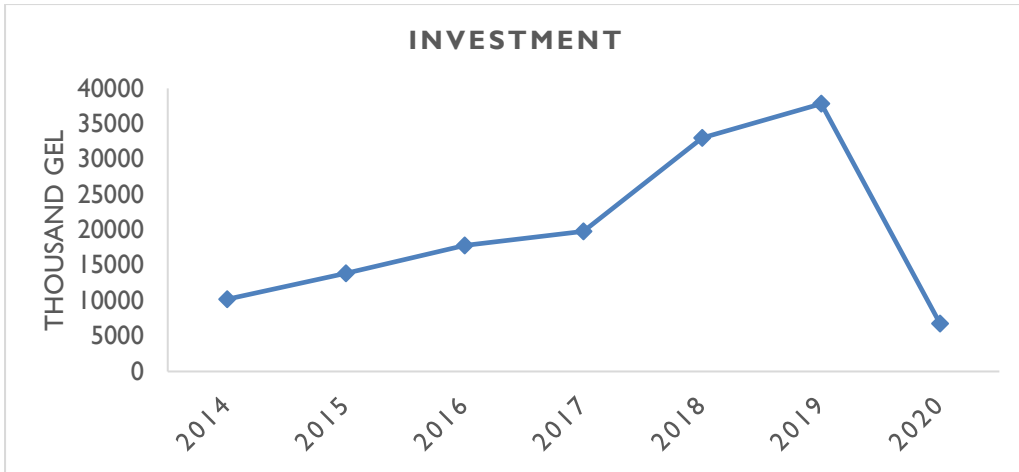
Chart 5.8 Productivity for the ADE business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 5.9 below presents an investment indicator, which is calculated as the sum of annual investments in fixed assets and inventories. As we see, investments for the ADE business activity declined abruptly in 2020 by 82%, coming down to GEL 6.7 million.

Chart 5.9 Investments in the ADE business activity



Source: National Statistics Office of Georgia

## Overview of Existing Challenges and Opportunities

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, according to some participants. Even though none of the respondents claimed that certification would solve all of the problems currently being faced in ADE, they outlined that it was a necessary tool in the course of determining a fairer market price for architectural services in Georgia. Moreover, if administered appropriately, mandatory certification has the potential to increase the credibility of service providers through the introduction of additional objective criteria. Notably, some significant steps have already been taken in this direction. The Code of Georgia on Spatial Planning, Architecture and Construction (hereinafter, the Construction Code), adopted in 2018, introduced a mandatory certification to conduct architectural activity in Georgia<sup>69</sup>. According to the current version of the Georgian Law on Architectural Activities, this requirement will come into force only in October 2022, which is two years later than initially planned<sup>70</sup>. Importantly, as interviewed architects claim, the proposed change is not well communicated with the private sector, which might threaten effective implementation of the policy.
- **A shortage of quality education** represents another challenge that is prominent for this economic activity. Even though the sphere has been established in Georgia for years, some participants agree that the country lacks effective and market-oriented educational modules in ADE. Those institutions that offer degrees do not have resources to integrate contemporary approaches into their programs. As a result, it is usually the private sector that has to care for educating their employees.

**A challenging system of public procurement** is another barrier identified as hampering growth in this business activity. In certain cases, the public procurement system does not ensure a fully transparent process and leaves room for some distrust towards the establishment of criteria and the selection procedures. For instance, some participants of the focus groups outlined that, frequently, the company eligibility criteria in public procurements requests an unreasonably high annual turnover from applicants, while it does not determine the applicant's capacity to actually execute the proposed project in a timely and satisfactory manner. Thus, from the perspective of many focus group participants, it would be beneficial if the current public procurement system was to be based on stronger principles of transparency and competition. 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.

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<sup>69</sup> Article 140 of the "Code of Georgia on Spatial Planning, Architecture and Construction." Available at: <https://matsne.gov.ge/ka/document/view/4276845?publication=8>

<sup>70</sup> Article 3, paragraph 4 of the "Law of Georgia on Architectural Activities." Available at: <https://matsne.gov.ge/ka/document/view/32506?publication=5>

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

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 Biennial<sup>71</sup>, founded and organized by four Georgian architects, is a promising initiative in this direction. If suitably strengthened, the biennial could assist Georgian architects to establish contacts with professionals in the sphere from different parts of the world.

Some of the challenges mentioned above could be better addressed by the organized efforts of the private sector. In terms of design activities, Association Design Georgia has been active in the country since May 2019. However, private sector leadership is vividly low when it comes to the architecture business activity. Pertinently, there is no specific active business association in the industry. The professional platform entitled the Georgian Union of Architects is present in 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

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<sup>71</sup> <https://biennial.ge/>

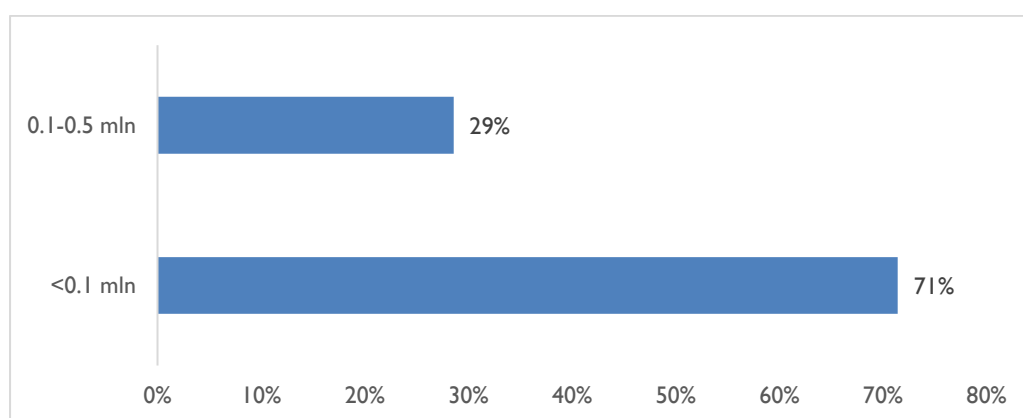
## HUMAN RESOURCE MANAGEMENT (HRM)

### Quantitative Survey Results

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

The surveyed firms are mainly Limited Liability Companies (LLC). The declared turnover of each firm was under GEL 0.5 million. More specifically, 71% of firms declared to have turnover below GEL 0.1 million, the rest indicating the range between GEL 0.1 – 0.5 million (Chart 5.10).

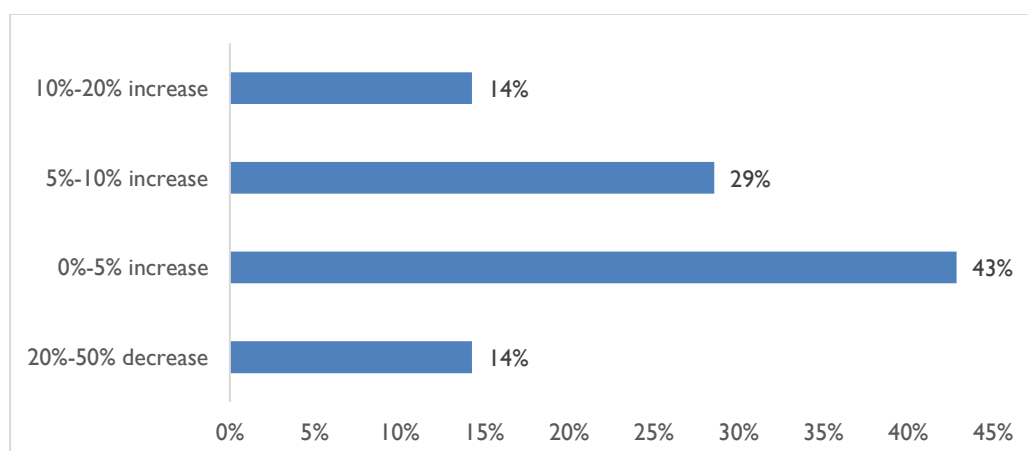
Chart 5.10 Distribution of HRM Companies by Turnover Range, 2021 Q2 (Gel)



Source: Authors' calculations

In Q2 2021, the rebound in the economic growth seems to have influenced positively the turnover growth, as 86% of surveyed companies reported increase in turnover compared to Q1 2020. Despite the positive tendencies, 14% of surveyed firms still experienced a moderate decline in their turnover (Chart 5.11).

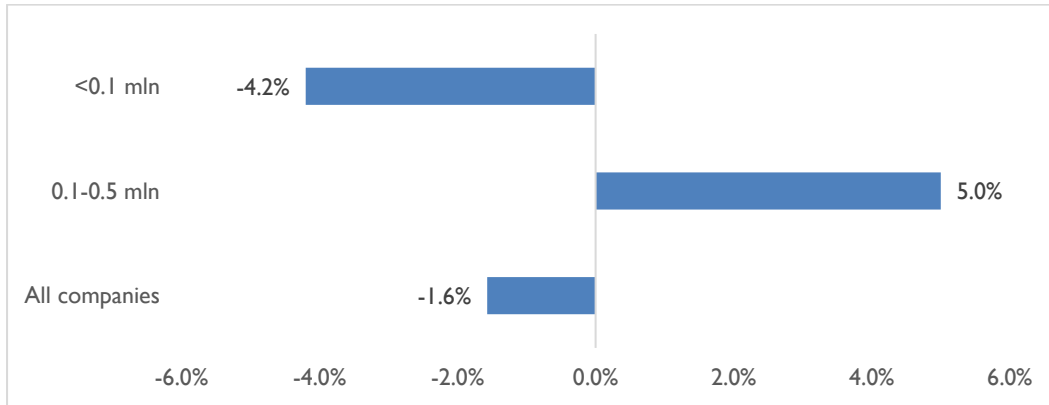
Chart 5.11 Percentage Distribution of Turnover Growth Rates in the HRM Value Chain, 2021 Q2 (Y-o-Y)



Source: Authors' calculations

On average, the turnover growth rate in HRM companies constituted -1.6% in Q2 2021, compared to the same quarter of the previous year. This decline has been driven by firms, whose turnover was below GEL 0.1 million (Chart 5.12).

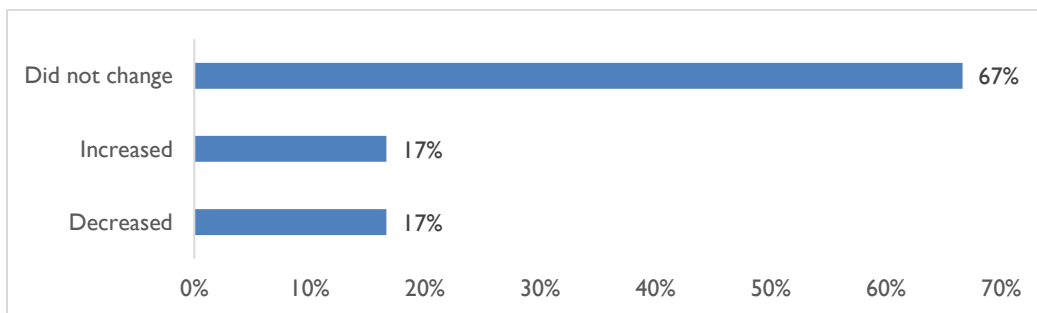
Chart 5.12 Distribution of HRM Companies Growth Rates by Turnover Range, Q2 2021 (Y-o-Y)



Source: Authors' calculations

The number of employed people in HRM companies in Q2 2021 varied between 3 to 12, the median number being 4 employed persons. At the same time, share of women in those firms equaled 93% and the proportion of staff aged under 30 years has been 58%. Employment in most of the companies (67%) did not change in Q2 2021 compared to the same quarter of the previous year. In 17% of firms, employment increased, and 17% experienced decline in number of hired people (Chart 5.13).

Chart 5.13 Change in employment, Q2 2021 (Y-o-Y)



Source: Authors' calculations

## Overview of Existing Challenges and Opportunities

The average monthly salary of the HRM employees equaled GEL 1383 in Q2 2021. 57% of firms reported the rise in the monthly salary, while only three companies reported decline in their monthly salary.

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. Georgian HRM specialists are largely unable to add value to foreign HRM markets. Knowledge and skills that are the most applied on the Georgian HRM market mainly relate to HR administration - HRM service that manages employee contracts, agreements, personal information, thus is regulatory regime-specific and inflexible to export. As representatives of this business activity outline, language might be another barrier to penetrate some of the Asian markets. Millennials, that mainly comprise Georgia's HRM talent pool, do not have proficiency in Russian, which is a working language in some post-Soviet parts of Asia.

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



On the domestic market, demand for HRM services mainly comes from the health management, retail, gambling, and fintech sectors. In general, HRM outsourcing services are mostly utilized by the private sector in Georgia. Focus group participants could not recall partnership instances with the public sector and evaluated public-private cooperation as critically low. Inter-sectoral dialogue is also near absent. For instance, most of the interviewed business activity representatives declared that they had been excluded from 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 and recruiting activity both by industry players and businesses demanding these services. Such a perception is problematic since it overlooks a broad spectrum of responsibilities that must be undertaken by the HR team or HR consultant in reality to ensure sustainability of the service offered and guarantee employee retention.
- **A shortage of academic programs in HRM** reflects the low level of awareness regarding this sphere in Georgia. Some educational institutions perceive HRM as a sub-discipline of psychology. In some instances, and more correctly, HRM is taught under business administration 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.

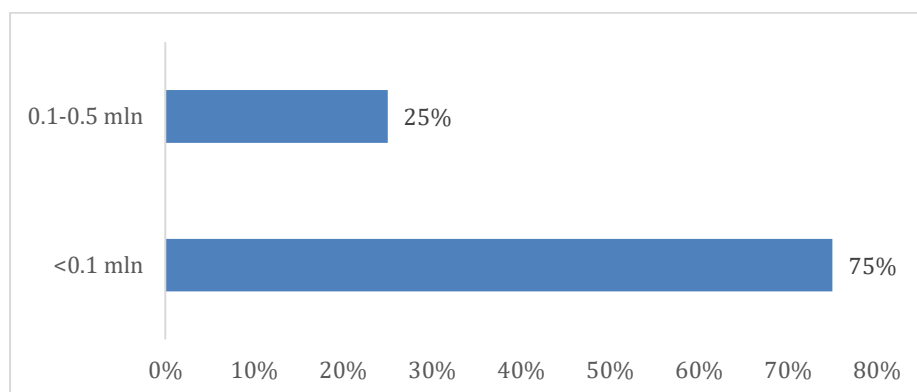
## CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

### Quantitative Survey Results

In this section the dynamics of CRM business activity is assessed based on a quantitative survey conducted with four CRM companies. Surveyed firms were all small-scale businesses, providing outsourcing of CRM services. Most of them are based in Tbilisi, albeit there is also Akhaltsikhe-based company, providing call-center and outsourcing services.

Surveyed companies are mostly limited liability companies (LLC). In Q2 2021, 75% of them declared to have turnover below GEL 0.1 million, while 25% of them stated to have turnover between GEL 0.1-0.5 million (Chart 5.14).

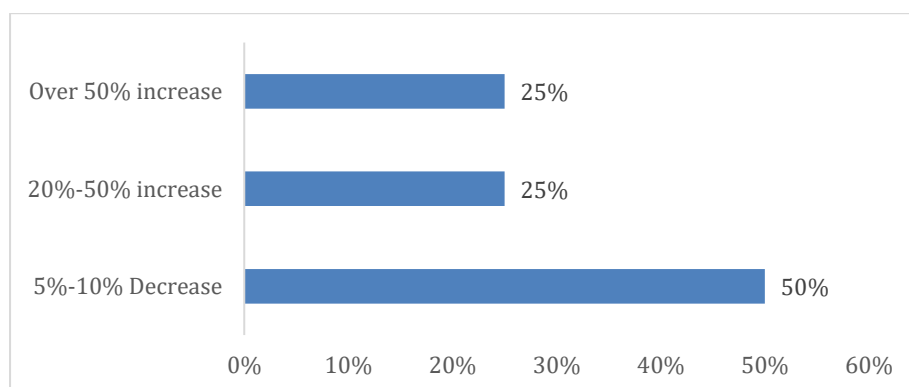
Chart 5.14 Distribution of CRM Companies by Turnover Range, 2021 Q2 (Gel)



Source: Authors' calculations

In Q2 2021, the rebound in the economic growth seems to influence positively the turnover growth. 50% of surveyed companies reported increase in turnover utmost 50%, compared to Q2 2020. The other half of companies indicated the decline in their turnover up to 10%. (Chart 5.15).

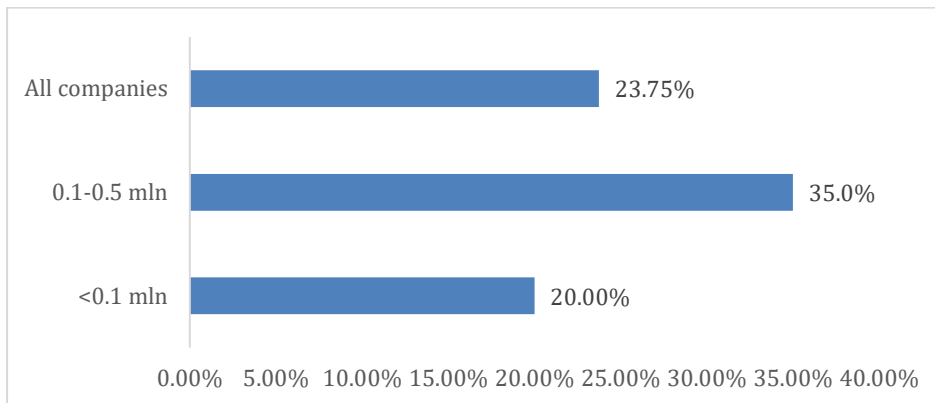
Chart 5.15 Percentage Distribution of Turnover Growth Rates in the CRM Value Chain, 2021 Q2 (YoY)



Source: Authors' calculations

On average, the turnover growth in CRM companies constituted 24% in Q2 2021 compared to the same quarter of the previous year. Companies with turnover between GEL 0.1- 0.5 million have experienced growth of 35% (Chart 5.16). The small firms only have grown by 20% on average.

Chart 5.16 Distribution of CRM Companies Growth Rates by Turnover Range, Q2 2021 (Y-o-Y)



Source: Authors' calculations

The number of employed people in CRM companies in Q1 2021 varied between 2 and 10. The share of women equaled 43% and the proportion of staff aged under 30 years was almost 38%. For 50% of companies, the number of persons employed did not change in Q2 2021 compared to the same quarter of the previous year, while the other half of companies increased their number of employees.

The average monthly salary of the CRM employees equaled GEL 517 in Q2 2021. In Q2 2021, 75% of firms reported a rise in monthly salaries compared to Q2 2020.

## Overview of Existing Challenges and Opportunities

The CRM business activity is nascent in the Georgian context. Nevertheless, CRM has already shown promising signs in terms of growth and job creation. As an indication of such potential, 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 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.

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

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

There is no precedent for traditional PPP in this business activity. Collaboration instances with most public agencies are mainly sporadic and are often extended in time. However, in terms of Majorel, the Business Activity Prioritization and Gaps Assessment Study conducted under USAID Economic Security Program, 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 Telavi<sup>72</sup>. Better cooperation with public sector has the potential to further improve social outcomes as, for example, some of the interviewed companies declare their willingness to employ vulnerable societal groups such as PwDs.

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

- The business activity necessitates intensive **awareness raising campaign** in the public. It would be beneficial if the public sector was to also contribute to information-sharing efforts regarding CRM employment opportunities to the population. This would potentially prepare the necessary talent pool of future employees.
- More it expands, CRM increases its demand on **qualified workforce**. As representatives of this business activity outline, freely available workforce for CRM becomes meagre as more CRM operators appear on the market. Lack of labor skills is especially evident when it comes to knowledge of some European languages (e.g. German, French, Italian, Spanish, Dutch, Greek, etc.).

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<sup>72</sup> Business Activity Prioritization and Gaps Assessment, USAID 2019, p. 35.

Thus, to exploit its full potential, there is a need to have a strategic vision regarding effective ways of workforce recruitment and training for CRM.

- Representatives of this sphere also have a need for improved access to **quality infrastructure**. Primarily, a more robust internet connection was highlighted as essential. Additionally, CRM operators grow their demand on class A office spaces and reliable maintenance services (e.g. for air conditioning systems). Quality infrastructure is regarded as an essential prerequisite to ensure stable management of routine operations in this business activity.
- Lastly, the existence of **inter-sectoral networking platforms** was demonstrated to be an important factor. It might enable small-sized CRM firms to expand their operations and to be better prepared to enter foreign markets.

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

## FINANCE AND ACCOUNTING (F&A)

The analysis below will cover quantitative assessment of the economic tendencies in the finance and accounting business activity and the corresponding aggregated sector (Professional, Scientific and Technical activities).

Table 5.2 below presents relevant NACE codes for target economic activity.

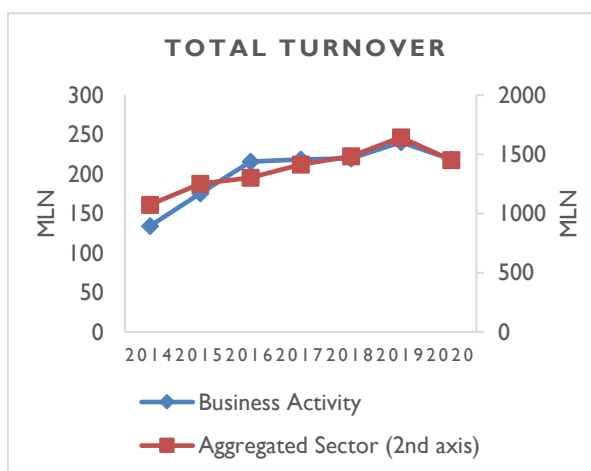
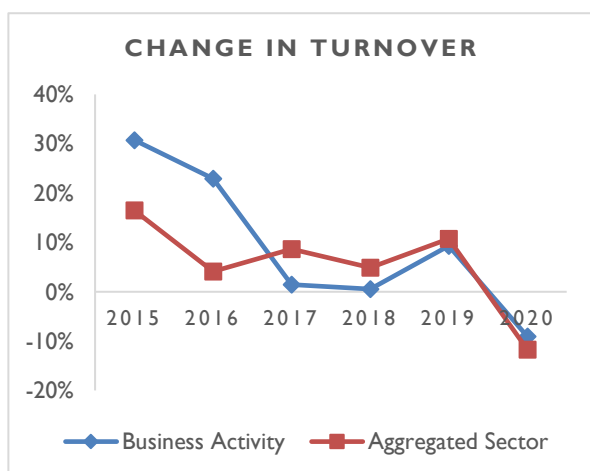
Table 5.2 Economic activities included in the finance and accounting value chain

NACE	Description
Available at annual frequency	
69	Legal and accounting activities

As presented in Chart 5.17 and Chart 5.18, the turnover for the F&A business activity demonstrated a downward trend in 2020, declining by 9% and amounting to GEL 218.5 million. The turnover for the aggregated sector was also characterized by a declining trend over the same period, reaching GEL 1450 million in 2020 (12% decrease compared to 2019).

Chart 5.18 Annual growth rate for turnover in the F&A business activity and corresponding aggregated sector

Chart 5.17 Turnover for the F&A business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The value-added of the aggregated sector demonstrated a downward trend with an 8% decline in 2020, going down to GEL 882 million. As for the value-added of the F&A business activity, it decreased more abruptly, by 19%, in 2020 recording its value of GEL 168 million in 2020 (Chart 5.19).

Chart 5.19 Value-added of the F&A business activity and the corresponding aggregated sector

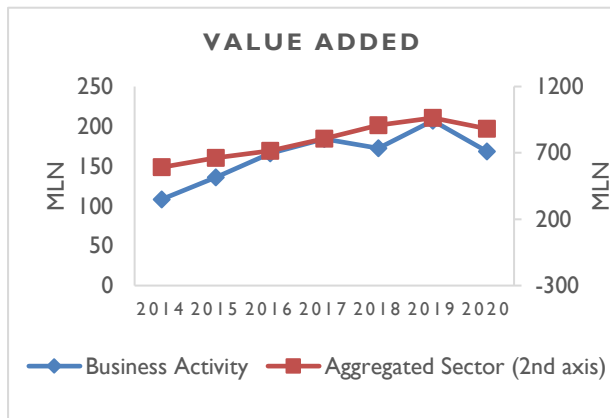
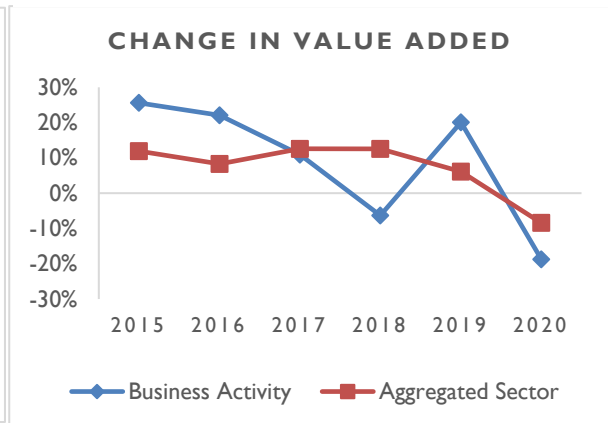


Chart 5.20 Annual growth rate for turnover in the F&A business activity and corresponding aggregated sector



Source: National Statistics Office of Georgia

The number of hired employees for the F&A business activity and the corresponding aggregated sector are presented on Charts 5.21 and 5.22 below. As charts depict, the number of hired employees in the F&A business activity has slightly increased in 2020. The growth constituted 0.3% compared to 2019, reaching 4,773 workers. Of this number, 53% were recorded to be women compared to 48% in 2019. In contrast, the number of hired employees declined in the aggregated sector by 10%, going down to 22,496.

Chart 5.21 Number of hired employees in the F&A business activity and the corresponding aggregated sector

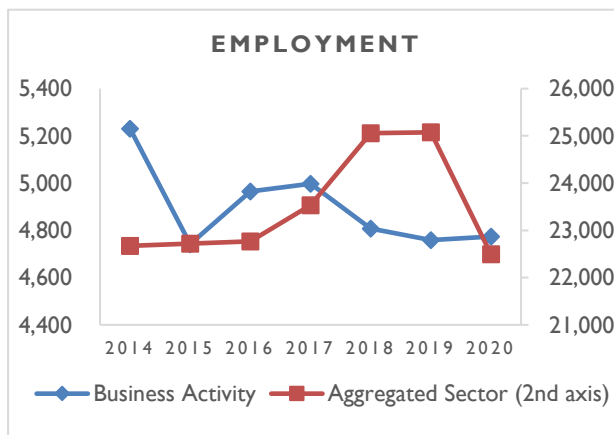
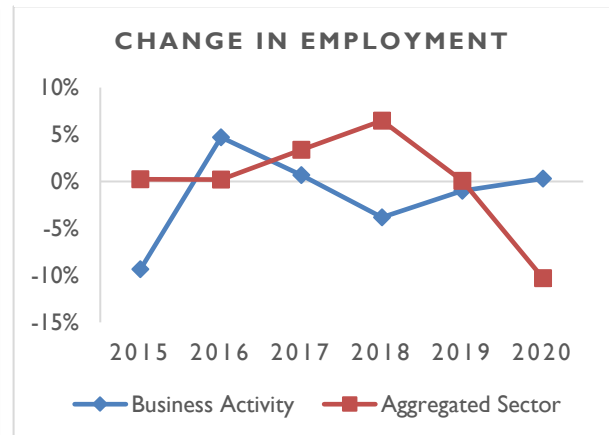


Chart 5.22 Annual growth rate of number of hired employees for the F&A business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

According to Chart 5.23 and Chart 5.24, the average monthly salary for the F&A business activity and for the corresponding aggregated sector displayed a declining trend in 2020. Average monthly salary decreased to GEL 2,206 (2% decrease compared to 2019). The average monthly salary for the aggregated sector has also declined slightly by 0.1%.

As seen in Chart 5.23 productivity for the F&A business activity experienced a deterioration of 13%, settling down to GEL 45,7810. Similarly, productivity for the aggregated sector has changed slightly, reporting 0.9% decline, amounting to GEL 57,1570.

Chart 5.24 Average Monthly Salary for the F&A business activity and the corresponding aggregated sector

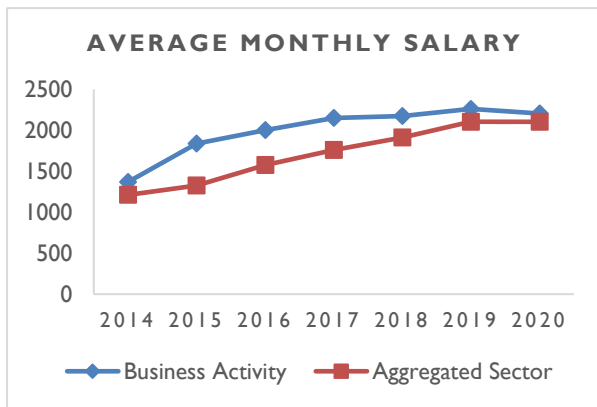
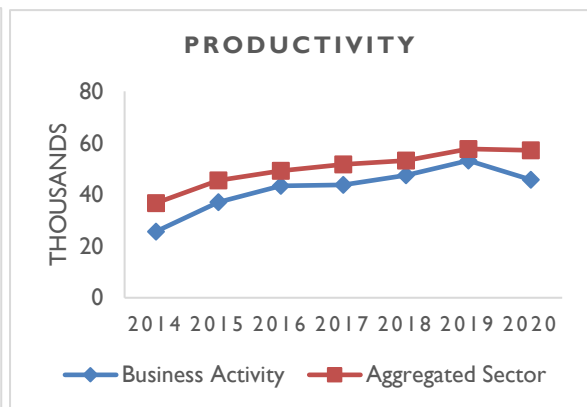


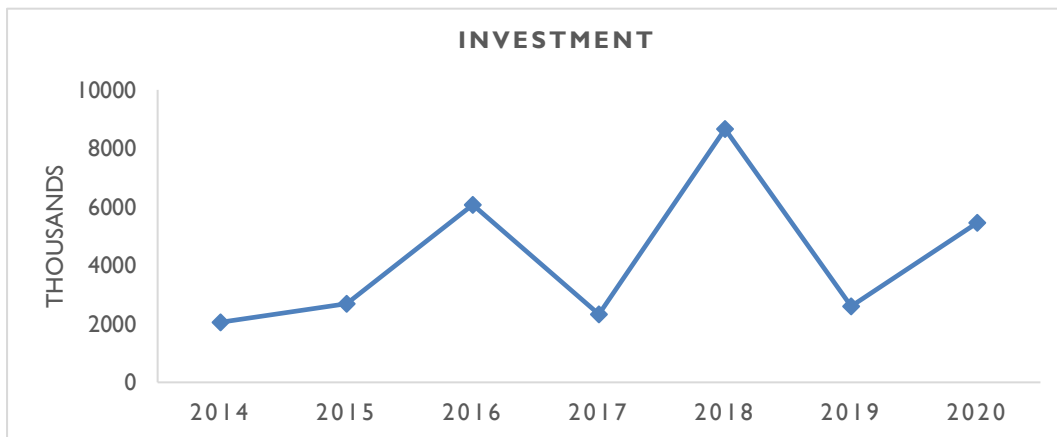
Chart 5.23 Productivity for the F&A business activity and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Investments, measured as the sum of investments in fixed assets and inventories, for the F&A business activity was characterized by fluctuations (Chart 5.25). In 2020, investments showed 109% increase compared to 2019 and amounted to GEL 5.4 million.

Chart 5.25 Investments in the F&A business activity



Source: National Statistics Office of Georgia



## Overview of Existing Challenges and Opportunities

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

Depending on categorization of enterprises per the volume of i. total value of their assets ii. generated revenue, and iii. average number of persons employed, firms in Georgia are divided in four enterprise categories that possess different reporting requirements before SARAS<sup>73</sup>. Due to the reporting requirements, compared to finance, accounting is at a relatively more advanced stage of development in the country. There are many small accounting firms, mainly specializing in outsourced accounting, which intensely compete over procurements stemming from the enterprises of the third and fourth categories. Leading players in accounting (e.g. the “Big Four” of EY, PWC, Deloitte, and KPMG; BDO; Nexia TA; and Grant and Thornton) mainly serve the enterprises of the first and second categories.

Private sector leadership within F&A is high. The largest players in the market, known as the Big Four, have significantly contributed to building up knowledge and qualification domestically. There are several local and international professional unions and associations in this business activity. These platforms offer networking services, share, and spread industry-specific knowledge and, in particular cases, are delegated with certain administrative and organizational responsibilities. Locally, the work of the Georgian Federation of Professional Accountants and Auditors (GFPAA) is worth noting here. The GFPAA has been active since 1998 and currently brings together up to 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 have significantly affected the domestic market. In response to the obligations of the Association Agreement with the European Union (EU), Georgia enacted the Law on Accounting, Auditing and Reporting in 2016. Following the law’s adoption, SARAS was established as the national supervisory authority on the market. SARAS, besides its obligation towards enterprises to meet International Financial Reporting Standards (IFRS), oversees the certification process of professionals and introduces quality control standards for the firms. While such measures ensure the homogeneity of the service quality across the country, according to some of the interviewed representatives of relatively small-sized accounting companies it has been perceived as a burden, favoring the leading market players in this business activity.

On another hand, difficulty to meet compliance requirements also demonstrates that firms belonging to this economic activity necessitate to improve their services. The interviewed expert of this sphere pointed out that only a small share of the active auditing firms is capable of fully complying with national

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<sup>73</sup> See more information regarding reporting requirements in Law of Georgia on Accounting, Reporting and Audit. Available at: <https://matsne.gov.ge/en/document/download/3311504/4/en/pdf>

regulatory requirements - majority of the market players do not possess enough resources to provide quality auditing. Instead, some of them can well specialize in accounting only. Future advancement of this sphere, thus, will depend on how the companies will reconfigure their positioning on the market to best reflect their professional capacities.

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

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

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.

## **6. CROSS-CUTTING SECTORS**

### **SECTOR SUMMARY**

Rebounding economy in the second quarter of 2021 was coincident with the rebound in cross-cutting sectors, even when loosening pandemic-related restrictions could act negatively for ICT and e-commerce VCs, as the two in fact got a slight boost by the pandemic-related restrictions. This hints at possible permanent nature of the shift towards digital economy, however, as pent-up demand and recovery in disposable income was also evident in Q2 2021, careful observations are needed over the course of next quarters to make such conclusions.

However, this rebound has not yet affected employment numbers fully. The ICT sector experienced growth all key indicators except for employment in Q2 2021, while e-commerce value chain experiences a rapid surge in turnover and average monthly salary in 2020 combined with a sharp fall in employment. This combination of rising turnover and output and falling employment has resulted in significant growth of the VCs productivity. E-commerce transactions have continued their strong growth trajectory which started since Q2 of 2020, both, in terms of number and value of transactions. Interestingly, the share of gambling sector in total virtual transactions has declined significantly when compared to pre-pandemic levels, representing 73% of the number of transactions in Q2 2021 compared to 86% in Q2 2020. Overall, the expected decline of the number of transactions after

loosened restrictions has not occurred, and in fact, the number of transactions has increased by 17.1% in Q2 when compared to Q1 of 2021.

Unfortunately for the transport and logistics value chain, the airline industry was hit the hardest as there was no flexibility in contrast to other sectors of the value chains, with the decline continuing throughout Q1 2021. The transport and logistics VC experienced its first growth since the start of the pandemic in Q2 2021, growing by 25.9% in turnover, which was only partially attributed to low base in Q2 2020 – the VC's turnover also saw an increase of 15.0% when compared to Q2 2019. This recovery has been paired with the rebound of external trade in Q2 2021. Moreover, the VC's other key indicators, such as employment, average monthly salary and productivity have also increased when compared to Q2 2020 and Q1 of 2021. This strong recovery has been fueled by the rebound of air transport, remaining subdued up until Q1 of 2021.

Although the previous study revealed the ICT value chain's concerns about inactive and ineffective public-private dialogue, positive steps have been taken in a short period towards improving the level of communication between the private sector enterprises and respective government units. This progress is mainly aimed at overcoming some of the major challenges identified during previous studies relating to public-private dialogue and decentralizing a public e-service ecosystem. This process was mainly driven by the incentives of a recently founded Georgian Digital Transformation Consortium uniting diverse stakeholders with a general aim of supporting Georgia in 'digital transformation, the development of a decentralized ecosystem of public e-services, development of the country's international export potential, and supporting effective dialogue between the value chain stakeholders.

According to the majority of respondents, the new initiative of Enterprise Georgia, (active since September 1 2021) including the IT sector in priority sectors' list, will allow the value chain business actors for better access to finance. However, according to them, this opportunity is associated with impediments of collateralization or loan guarantees to be made by the business actors. However, discussions around this issue have already been held with different stakeholders, including the banking sector, and the parties are currently working on a joint solution.

Besides, as reported by the consortium founders, active negotiations are already being held with the Ministry of Economy and the National Bank of Georgia concerning development of capital markets through modern mechanisms such as STOs (Security token offering); also, introducing the CBDC (Central Bank Digital Currency, or digital Lari). According to the respondents, this approach will make payment systems more flexible and convenient. Early discussions are being held for introducing 'stablecoins' – stable cryptocurrency, being backed by reserve assets.

Yet again, the scarcity of a qualified workforce in the ICT value chain has been marked as the most significant obstacle. However, ICT cluster members stated their active involvement in two main directions: firstly, the cluster is working on founding and developing 100 technology clubs for school-age children in the regions of Georgia; secondly, creating a model aimed at supporting educational organizations to develop practical approaches tailored to the current needs of the business sector.

A qualitative study of the e-commerce value chain revealed ambiguities among the stakeholders in defining and hence measuring e-commerce in Georgia. Part of respondents regards e-commerce as online transactions only, excluding cash payments. Some, claim that food delivery services should also be included in e-commerce quantitative studies, etc. However, most of the stakeholders agree that a mutual understanding and hence an agreement on a clear definition of e-commerce should be established (with a record of such definition in anticipated law on e-commerce) and harmonized to

internationally recognized concepts of e-commerce. Thus, the e-commerce section provides an overview of worldwide recognized definitions of e-commerce.

The vast majority of the e-commerce stakeholders are in anticipation of law on e-commerce, which will allow the local e-commerce outlets to develop further and encourage their more active use, also making e-commerce platforms more credible, and increasing customer confidence therein. Discussions were held regarding the role of fintech companies' presence in the local e-commerce market. Part of the respondents foresees the penetration of new fintech companies as an opportunity for the value chain, as they will provide more convenient payment solutions to e-commerce players and eventually stimulate healthier competition among players.

The majority of respondents in the Transport and Logistics value chain were concerned about the impact of COVID-19 on the global shipping industry. In particular, recently global shipping costs have surged strongly, which significantly affects a local demand for shipping services especially on sea freight transportation from China (for instance, shipping rates for 40' FT container from China to Georgia has increased 5-6 times compared to the pre-Covid period)

As previous studies revealed, the transport and logistics value chain stakeholders again discussed the importance of supplementary functional associations providing a variety of services and solutions including improved public-private dialogue, policy advocacy, educational programs, etc. which would eventually play a crucial role in uniting the actors, increasing competition and the productivity of the VC.

Finally, the individual interviews and FG meetings yet again revealed a lack of skilled labor force and professional educational programs, specialized in transport and logistics. The interviewed small and medium-size business actors still face impediments in recruiting qualified and skillful employees at the local labor market.

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

Digital technologies are becoming more and more critical determinants of a country's economic growth, social well-being, and security. The necessity of digital transformation is believed to be essential, especially after the events of the COVID-19 pandemic.

Recently, Enterprise Georgia has incorporated the IT sector among the agency's priority industries, which is believed to result in VC's better access to finance, however, the respondents claim about possible impediments of loan collateralization the private sector might face. Besides, the ICT cluster reported a launch of two educational projects that envisages the creation of 100 technology clubs for school-age children in the regions of Georgia, as well as assisting educational institutions in developing practice-based programs tailored to the common needs of the private sector. Moreover, Sweeft Digital has recently started a career acceleration program, through which, interns are able to undergo intensive coaching by senior mentors and engage in local and international projects. The program is being implemented with the support of the USAID Economic Security Program and is a compelling initiative for leveling up the most demanding skills in the VC.

Important to note that ever since our last qualitative study, there have been taken important steps for strengthening public-private dialogue. The movement has been mainly driven by the incentives of a recently founded Georgian Digital Transformation Consortium, uniting a diverse stakeholder with a general aim of supporting Georgia in 'digital transformation'. In particular, the consortium, discusses with the Ministry of Economics and Sustainable development, possibility to decentralize the public e-

service ecosystem; besides, the consortium members reported active discussions with NBG about the introduction of the CBDC (Central Bank Digital Currency) and development of capital markets through modern mechanisms such as STOs (Security token offering)<sup>74</sup>. Details are described below, however, we are pleased that as the founders of the consortium mentioned, our internal discussions during the project-based focus group meetings, played an inspirational role for such dialogue and partnership between the parties.

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

### **First attempts for decentralizing a public e-service ecosystem:**

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

As the consortium members reported, at the initial stage, the Ministry of Economy and Sustainable Development was open for dialogue within the abovementioned framework, and after comprehensive discussions, the latter proposed to pilot technical decentralization approach of E-auction of the National Agency of State Property of Georgia. As reported by the respondents, the roadmap is already being discussed with the Ministry and a detailed study will begin soon. As a consequence, a solution, as a precedent, will be proposed by the private sector on how to decentralize specific services without disrupting the existing ecosystem. This approach differs from traditional outsourcing as it retains public sector's role in provision of public services, but incentivizes voluntary involvement of private sector representatives to offer alternative services.

### ***Increased access to finance in the ICT value chain:***

As of September 1, 2021, Enterprise Georgia has incorporated the IT sector into its list of priority sectors. According to the majority of the interviewed respondents, such an initiative will allow ICT value chain business actors for better access to finances. However, this opportunity is linked to an obstacle of collateral or loan guarantees made by the business actors. The challenge is described below, however, the consortium, together with other actors of the VC, has already carried out activities for overcoming the challenge.

### ***Impediments associated with loan collateralization in the ICT value chain***

Although already being among priority sectors of Enterprise Georgia, ICT value chain business actors will probably face obstacles with regards to the loan collateral. Referring to the private sector

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<sup>74</sup> Security Token Offerings (STOs) combine the technology of blockchain with the requirements of regulated securities markets to support liquidity of assets and wider availability of finance (Deloitte 2020)

viewpoint, mostly, IT companies own neither land nor any capital to be used as a guarantee for business loans. According to them, intangible assets such as copyrights and codes are not what Georgian banks are currently interested in. Besides, in today's changing world and difficult environment, neither previous contracts nor a good history of small sized enterprises represents a guarantee for commercial banks. Raising funds might be easier for large and experienced companies, though quite difficult for small size and start-up companies. Thus, in the worst-case scenario, such SMEs will be forced to make private investments, which is certainly not the best move for businesses. As marked above, discussions around this issue have already been held with different stakeholders, including the banking sector, and the parties are working on a joint solution.

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

As the founders of the consortium reported, active negotiations are already being held with the Ministry of Economy and the National Bank of Georgia concerning developing capital markets through modern mechanisms such as STOs (Security token offering). Though, the stakeholders intend to be very cautious of not generating frauds or damaging reputation but to have more liquid and flexible instruments, strictly compliant with the regulations. According to our respondents, this direction seems to be interesting for the Ministry of Finance and the Ministry of Economy, since it creates opportunities to attract investors. The respondents are also confident that this will result in helping start-ups and small to medium-sized companies attract foreign investments (for instance, attracting micro-investors with respect to developing public e-services).

The consortium members, together with MOESD and NBG, also confirmed working with Deloitte within the USAID Economic Governance Program, which incorporates two main directions in this regard. Firstly, supporting the GOG in implementation and enforcement of policies, laws and regulations for the capital market development in Georgia; secondly, as requested by the NBG and the MOESD, facilitating crowdfunding ecosystem development in Georgia, with a solely focus on equity-based crowdfunding.

### ***Strives for introducing CBDC***

The members of the consortium also confirmed their active involvement in discussions with the National Bank related to the introduction of the CBDC (Central Bank Digital Currency) or in other words, digital Lari. This approach will make payment systems more flexible and facilitate the entry of new players. However, as interviewed respondents claimed, the approach of the National Bank in this initiative should be careful, as there is a risk that in case of drastic steps and excessive actions from the state, this initiative might become unsuccessful. According to them, taking into account the international practice, the western world is cautious and moving forward very slowly in this regard. The consortium members are currently holding meetings with the representatives of the National Bank of Georgia, and the parties are discussing the initial steps in this regard. For instance, to introduce stablecoins<sup>75</sup>, with the aim to avoid over-issuance of the GEL and, in general, to create the right ecosystem.

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

Although in an earlier qualitative study the VC representatives were concerned about sluggish and ineffective dialogue between the private and public sectors in the ICT value chain, it is noticeable that

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<sup>75</sup> Type of cryptocurrency that attempt to offer more stability than other cryptos as are being backed by reserve assets - pegged to a currency like the U.S. dollar or other assets such as gold.



in a rather short period of time, positive steps have been taken towards improving the level of communication between the private sector enterprises and respective government units. However, the private sector claims there still exists a risk that the effectiveness and the format of the existing dialogue might change in the event of a change in political governance. Therefore, the working group thinks that the systemic vision, being already established, is a good basis for elaborating a strategy of sustainable actions. This will in turn create a tendency of strong public-private partnership and thus a good precedent of the VC's effective development. With such an approach, all governments will have a desire to take part in relevant activities and the ultimate success. Keeping this in mind, the majority of private sector representatives request donor organizations to be more actively involved in sustaining the course and further developing the dialogue.

### ***Lack of qualified workforce in the ICT value chain:***

As marked in the previous qualitative study, IT human resources development represents a dual puzzle for the value chain, associated with a high global demand for qualified specialists. 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.

In line with this, there are two main directions the ICT cluster is currently working on. The first project envisages the creation and development of 100 technology clubs for school-age children in the regions of Georgia. The initiative aims to develop technical skills in pupils from an early age. Hence, successful students of the technology club will have internship opportunities in cluster member and non-member companies. Secondly, the ICT cluster, together with its member companies, is working on a model aimed at supporting educational organizations to develop practical approaches tailored to the current needs of the business sector. Applying this model, the educational institutions will train the workforce, which in turn will be of further interest to the businesses. As in most cases, the companies are bringing up such staff themselves, the cluster members will observe and study the practice that companies have towards interns: how competencies are developed during the internship, in what directions they can be supported, what would facilitate this process. As a consequence, the recommendations will be developed based on this experience, which will then be passed on to universities to upgrade the teaching methodologies. This approach is believed to be helpful for universities, as well as for the private sector, as it will result in optimizing operational costs for internships and saving time.

A general objective of the ICT cluster and the newly founded consortium is to eventually create such jobs in the VC, the employees of which would create services/ products with a potential of exporting those products, rather than engaging in "brain export".

Interesting to observe the topic from the large businesses' perspective. According to the representative from EPAM, one of the most important benefits that a large company entry can bring to Georgia is the fertilization of the country's soil through leveling up education and qualification in the IT field. As stated, they do a lot in investing resources in education. EPAM already provides 3-4 free online courses for interns, and additional courses are planned to be added. Besides, it provides paid internship opportunities (on average \$300 per month) to youth with no specialized education or experience in the IT field. However, only Tbilisi is developed in this regard and the level in regions is still very low. From the respondent's viewpoint, overall, there is a huge potential in Georgia in the IT value chain, however active popularization of the field is necessary. Also, the private sector's cooperation with educational institutions has been marked as significant. For instance, EPAM has a master's program in Ukraine and is taught by EPAM staff. Applying the same approach and the use of

these resources is believed to be important. In the respondent's opinion, the current period is the beginning of an acceleration in Georgia to a successful phase, which has already been achieved in Ukraine and Belarus.

Furthermore, the IT company Sweeft Digital, with the support of USAID's Economic Security Program, has recently launched a career acceleration program. Through which, the interns will be able to undergo intensive, theoretical and practical coaching with the help of a personal senior mentor, engage in local and international projects and get paid from the first day of joining the program. The goal of the program is to have trained hundreds of interns by 2023 and is believed to be a significant initiative for leveling up the most demanding skills in ICT value chain.

### ***Tax relief scheme for ICT companies with 'international' status:***

Referring to a viewpoint of a representative from EPAM, the current tax relief system plays an accelerator role for the companies with international status. However, EPAM had already discussed penetrating the market prior to this initiative and the tax benefits were not the determinant of the decision. According to the respondent's opinion, it would be better to extend the existing preference to the entire IT sector. Though, on the other hand, it can be perceived as an incentive and not oppression of Georgian companies. As noted, several IT companies will try to engage in exports and gain international status, which in turn will eventually help the value chain.

An opposite opinion was shared by the ICT cluster member companies. As stated, this issue was discussed during the negotiations with the relevant government agencies but yet no consensus has been reached. This seems to be a concern for the majority of Georgian IT companies. As outlined by the respondents, there are several companies facing difficulties in this respect, while others are at risk of employee layoffs. As reported, establishing tax benefits only for enterprises with "international" status gives them an advantage over local companies and renders competition unbalanced on the local market.

## **E-COMMERCE**

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

Important to highlight that, as set out in the methodology, the Geostat data applied for The e-commerce value chain analysis depicts economic activities only of those enterprises that operate under the Nace code 47.9 "Retail trade not in stores, stalls or markets", the closest statistical classification of E-commerce. Nevertheless, as the qualitative analysis revealed, there might be a number of enterprises 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.

According to Geostat's survey, in 2021, 21.2% of Georgian population has bought goods or services via online channels in the past year. This marks a slight decrease compared to 2020 (21.3%), which in turn saw a significant increase from 2019's 20.8%. It is also worth noting that in 2021, the share of population over 60 who were engaged in e-commerce increased dramatically, from 6.5% in 2020, to



9.8% in 2021. Conversely, 34.6% of people between the ages 15-29 have used online channels for commerce at least once in the past year in 2021, marking a decrease from 37.3% in 2020.

Chart 6.1 Turnover of the e-commerce value chain and the corresponding aggregated sector

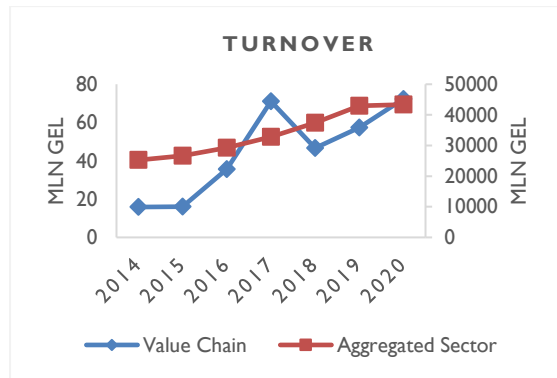
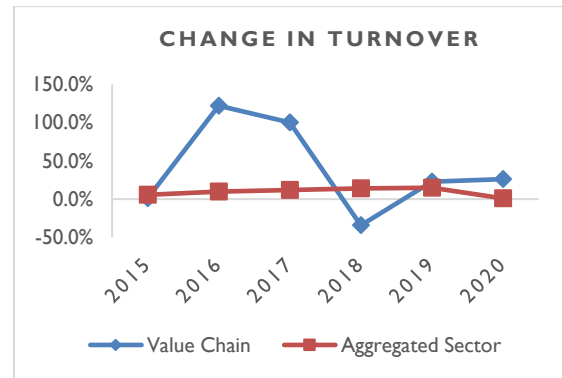


Chart 6.2 Annual growth rate of the e-commerce value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

From 2014 to 2020, the turnover of this value chain increased from GEL 15.9 million to GEL 72.3 million, which is equal to CAGR of 28.8%. Over the covered period, the turnover of the aggregated sector's CAGR reached only 9.4%, 3.1 times less compared to the e-commerce value chain.

However, the absolute value of the e-commerce value chain remains low compared to its aggregate sector (wholesale and retail trade). Even after the positive shock in 2020, the turnover of the e-commerce value chain represents only 0.17% of the turnover of the aggregated sector in 2020.

Chart 6.3 Employment in the e-commerce value chain and the corresponding aggregated sector

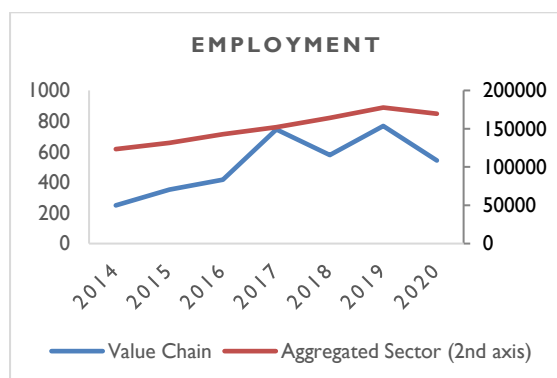
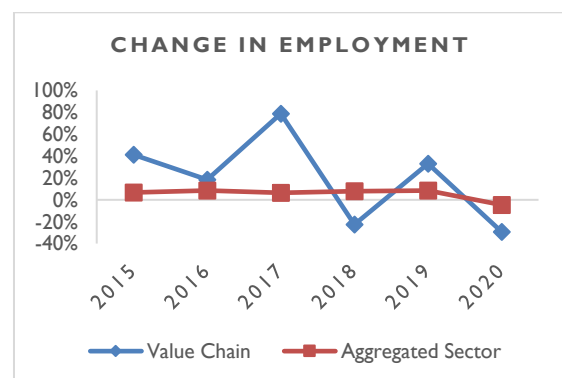


Chart 6.4 Growth rate of e-commerce value chain employment and the corresponding aggregated sector

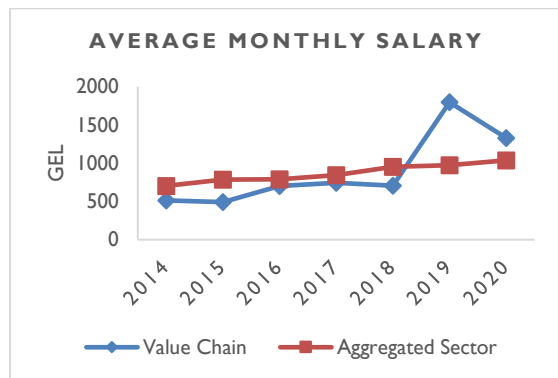


Source: National Statistics Office of Georgia

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. Despite experiencing growth in turnover, number of employees in the VC declined by 29.3% and amounted to 543 people in 2020. Again, e-commerce employs a tiny proportion of the total employed in the wholesale and resale trade sector – just 0.32%.

When it comes to the share of women working in the value chain, on average 49.3% of employees in the value-chain were women. This number has been stable over the years, with the exceptions of 2015, when the share of women was higher, and 2018 and 2019, when the share of women was lower.

Chart 6.5 Average monthly salary for the e-commerce value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

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, which represented 154.1% growth. In 2020, this number decreased by 25.9% to GEL 1329, however, kept elevated when compared to pre-2019 levels. As mentioned above, fewer than 800 workers are employed in the value chain, therefore even a single outlier company could have a substantial effect on the data.

As for the productivity in the value chain, it has started to decrease since 2017 by 20.4% on average, rebounding in 2020 by doubling in absolute number. This rise was intuitive given the simultaneous decline in the number of employees and growth in VC's output. As for the aggregated sector, the productivity also kept a positive trend over the years, increasing by a CAGR of 4.9%, as opposed to 16.5% of e-commerce.

The analysis of the e-commerce sector in 2020 up to the 2nd quarter of 2021 uses the transactions via bank cards (VISA, MasterCard, etc.) online. Notably, a part and not the whole of the transactions with bank cards would be part of the turnover, as some corporations are labelled under different sectors. Thus, an assumption will be made that the data will reflect non-cash operations of e-commerce companies, and the gambling sector is also presented for a comparison.

Chart 6.6 Productivity for the e-commerce value chain and the corresponding aggregated sector

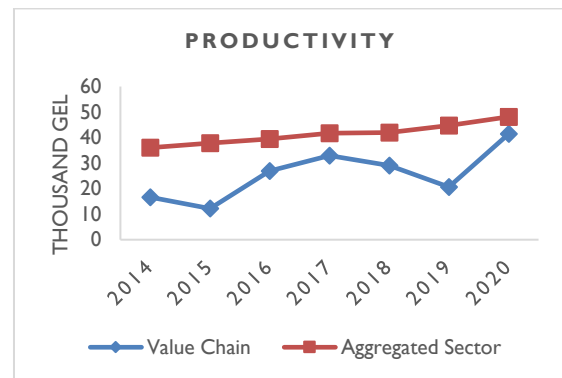
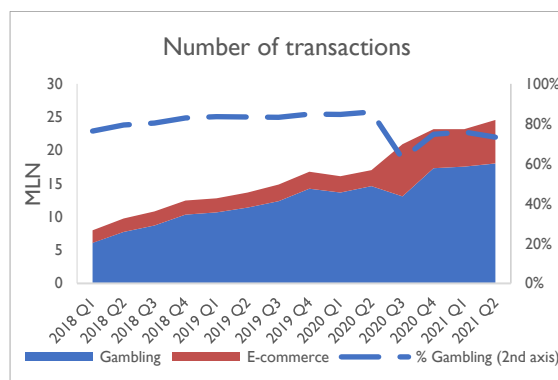
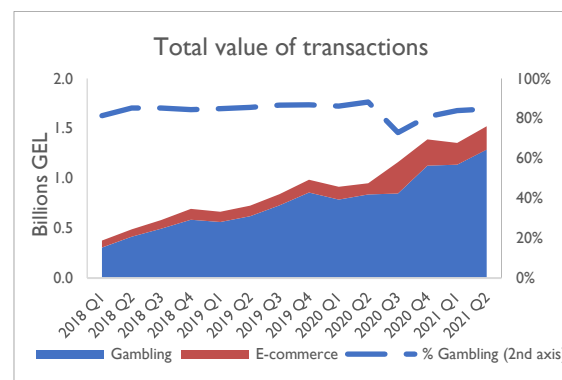


Chart 6.7 Number of online transactions in Georgia decomposed by gambling and e-commerce



Source: National Bank of Georgia

Chart 6.8 Total value of online transactions in Georgia decomposed by gambling and e-commerce



While the online transactions excluding the gambling sector often hovered around 20% of the total operations from the 1st quarter of 2018 up to the 2nd quarter of 2020, from the 2nd quarter to the

3rd quarter of 2020, the overall percentage of the sector increased from 14% up to 38%. This increase was due to two key reasons: The pandemic led consumers to rely on online stores more as traditional stores were less available, while having less money to spend in total. The share of gambling recovered slightly in the subsequent quarters up to 73% at the 2nd quarter of 2021 but did not return to pre-2nd quarter of 2020 levels, mainly due to a permanent nature in the shift in terms of e-commerce transactions<sup>76</sup>.

With the recovery of the Georgian economy in the 2nd quarter of 2021, overall, total e-commerce transactions have increased both in quantity and in value when compared to the 1st quarter of 2021; having increased from 23.2 million up to 24.6 million in quantity, while in increasing in value from GEL 1.36 billion up to GEL 1.52 billion. This increase comes even despite loosening restrictions of the pandemic, with potentially more people utilizing cash operations rather than bank card operations. This hints at more permanent nature of the shift to e-commerce, however, pent-up demand in Q2 2021 could also be the key reason for this increase. Careful observation of evolution in e-commerce transactions in the subsequent quarters will allow to make more conclusive observations about the nature of the current increase, as while the pandemic forced people to utilize online stores and other forms of e-commerce transactions, they might continue to use these online and e-commerce transactions due to convenience, and an increased trust towards them.

When it comes to online transactions made via non-Georgian bank issued cards, more than 99.9% are conducted in non-gambling e-commerce operations rather than gambling. The non-Georgian bank issued card E-commerce operations have a seasonal trend, whereby the 3rd quarters of every year reach local maximums as tourism usually increases at this time. Moreover, the share of non-Georgian bank issues cards in total e-commerce is also low, amounting to just 1.3% of total transaction value in Q2 2021. Interestingly, in the Q1 and Q2 of 2021 – with the loosening of COVID-19 restrictions – the quantity and value of abovementioned e-commerce transactions increased by a significant amount, reaching even higher than pre-pandemic levels, which might be explained by a tourism rebound mainly fueled by high spending of tourists.

### **Overview of the Existing Challenges and Opportunities**

Conducting both the quantitative and qualitative analyses, it is obvious that Covid-19 was a game-changer for the e-commerce value chain. The pandemic forced the local companies to raise their online presence, as well as it changed many consumers' behavior shifting from purchasing goods and services offline to online. As the recent studies conclude and forecast, such inertia continues, and it will be attained in a post-pandemic era. As the qualitative study showed, although new opportunities have arisen for the e-commerce value chain to further grow, primarily, a clear and joint understanding of what e-commerce is, and hence precisely measuring it, is vital. The qualitative study will also emphasize analyzing the readiness for an adequate response of the VC to the increased demand and the opportunities for further development.

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

#### ***Ambiguities in defining and measuring e-commerce:***

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<sup>76</sup> These transaction statistics include purchases from both, local e-commerce platforms and international systems such as Amazon.

As the qualitative study reflected, the definitions of e-commerce are perceived from a different perspective by the value chain players. Both parties agree that e-commerce is the sales of goods and services in which a commitment for a purchase is made online (i.e., an initiative of purchasing online), although such differences are mostly associated with the form of payment. I.e., how the payment is made - whether the payments made non-online is still, part of e-commerce or not. Therefore, initially, we provide a brief overview of worldwide recognized definitions of e-commerce:

- OECD (2011): “The sale or purchase of goods or services, whether between businesses, households, individuals or private organizations, through electronic transactions conducted via the internet or other computer-mediated (online communication) networks. The term covers the ordering of goods and services which are sent over computer networks, but the payment and the ultimate delivery of the goods or service may be conducted either on- or off-line<sup>77</sup>.”
- US Census Bureau (2018) uses an analogous definition of e-commerce, however adding also such sales of goods and services where the final price and other sales’ terms are negotiated online.
- Statistics Canada (2016) defines ‘e-commerce’ as similar to the OECD, further specifying that it incorporates orders made through the internet, excluding orders made by Tel calls or emails.
- With regards to trade policy communities, they use a much wider concept of e-commerce. For instance, according to the definition used by World Trade Organization electronic commerce is "production, distribution, marketing, sale or delivery of goods and services by electronic means".
- The Eurostat, 2017 (Eurostat Methodological Manual for Statistics on the Information Society) recommends recognition of OECD definition of e-commerce internationally for ensuring the widest possible comparability of e-commerce statistical data worldwide.
- SebStat (Unified Information System of the National Bank of Georgia) payment card statistics manual (PCS data family) defines e-commerce operations as follows:
  - E-Commerce Transaction - a card transaction performed for the purpose of purchasing /selling services or goods through the website of a merchant;
  - Local e-commerce operation - an e-commerce operation, the acquiring of which is carried out by a provider operating in Georgia;
  - Foreign e-commerce operation - an e-commerce operation, the acquiring of which is carried out by a foreign provider.

It seems Galt & Taggart was guided by this definition of SebStat when carrying out a recent study<sup>78</sup> on e-commerce, however with some exclusions. It defines electronic commerce as online sales of goods to a private end-user (B2C) – purchases at local and international (cross-border) online marketplaces. However, digital media, entertainment, and food delivery services are excluded from the definition. Besides, the so-called Cash on Delivery (CoD), estimated at 15-20% of total e-commerce turnover, is not included in the market sizing. However, part of our respondents does not agree with the latter assumption as, according to them, cash on delivery still represents a significant amount of online merchants’ turnover in Georgia and thus it should be taken into account. Consequently, the respective quantitative measurements made in the report would change – the respondents say (for instance a penetration rate of e-commerce (1.1%) in local retail market sales, comparability with other markets, forecasts made, etc.). Though, the other part of respondents regards e-commerce as online

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<sup>77</sup> Source publication: OECD Guide to Measuring the Information Society, 2011.

<sup>78</sup> E-commerce in Georgia. Sector study. Galt & Taggard, July 2021.

transactions only, excluding cash payments. Some, claim that food delivery services should also be included in e-commerce quantitative studies.

Overall, most of the stakeholders agree that a mutual understanding and hence an agreement on a clear definition of e-commerce should be established, compatible with internationally recognized concepts of e-commerce. Otherwise, there will always be a mismatch in the qualitative measurements and data. Finally, a record of such definition should be made in anticipated law on e-commerce.

### ***Cross-border acquiring – an opportunity for the e-commerce value chain in Georgia.***

Cross-border acquiring is an activity allowing international merchants to operate across multiple countries for more beneficial and efficient payment processes. In other words, it allows merchants to go abroad for finding better services and rates than those offered by their domestic acquirers. In turn, such activity would bring a number of advantages to consumer satisfaction: the merchants experiencing a lower cost will result in more competitive prices for consumers.

According to interviewed respondents, the control over cross-border acquiring has been limited in Georgia before 2020, as the requirements for the international acquiring were mainly compliant with AML/Compliance<sup>79</sup> program and Georgian legislation could not define a notion of a merchant or seller in the global internet commerce, whether it must have an office, employees, warehouses in Georgia, etc. NBG's new statute of September 2nd, 2020<sup>80</sup> sets out a number of requirements and obligations towards the acquirer and sub-acquirer primarily to prevent fraudulent schemes and reduce the risk of fraud. However, as was highlighted, there are yet no specific rules about cross-border acquiring defined in the legislation, thus the commercial banks' activities in this direction are immobile before the law on e-commerce incorporates and defines it. According to interviewed respondents, although the acquirers are still being cautious, there is a big potential in developing the cross-border acquiring in Georgia. As an example, European companies, being attracted by Georgia's doing business environment, would register their business representations in Georgia, and sell, for instance, software to US clients through Georgian banking infrastructure. According to the E-commerce Association of Georgia, there still exists interest among international merchants from Eastern markets in investing in the Georgian e-commerce value chain, with the final goal of reaching the EU market.

On the other hand, the respondents once again emphasize a competitive advantage of Georgia being among the safest countries when it comes to cyber fraud - ranked 9th in the European region and 18th in the world for cybersecurity among 178 countries<sup>81</sup>.

### ***Law on e-commerce still pending:***

As marked in our previous reports, mostly all individual and focus group discussions touched on a common issue relating to a delay of adoption of a law on e-commerce, as it has not yet been approved by the Parliament of Georgia. According to the vast majority of the interviewed stakeholders, the new law on e-commerce will allow the local e-commerce outlets for further development and encourage their more active use. Besides, it will make Georgia's e-commerce platforms more credible and increase customer confidence therein. However, it should be emphasized that a part of the value chain

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<sup>79</sup> Anti-Money Laundering compliance program ensuring that an institution is able to detect suspicious activities associated with money laundering, including tax evasion, fraud, and report them to the appropriate authorities.

<sup>80</sup> <https://cutt.ly/pTXOhua>

<sup>81</sup> The Global Cybersecurity Index (GCI) 2018, of International Telecommunication Union (ITU).

stakeholders still claims about a low engagement of the private sector in the draft law discussions and the process in general.

### ***Merchants' inability for managing their marketplaces:***

As highlighted by the majority of stakeholders, a starter and small merchants mostly fail to manage their marketplaces and tend to make mistakes that later occur hard to be solved. For instance, a lack of qualified software developers represents a huge obstacle for running e-commerce businesses; bookkeeping and finances were also mentioned as being one of the most challenging for such merchants that provokes several problems, for some of them even with fatal results. Thus, most of the respondents emphasize the significance of educating Georgian merchants in a number of essential directions - increasing their access to cutting-edge technologies and providing good opportunities in the e-commerce value chain.

A part of the stakeholders sees a great opportunity for such merchants to place their goods and services on third-party marketplaces – the ones with existing large traffic and already successful business operations. Even large companies, in addition to their online stores, prefer to sell their product on larger marketplaces, because of large traffic. Besides, several respondents shared with us preliminary information about the entry of new large players (marketplaces) in the market soon with turn-key solutions for small merchants. However, as our respondents mention, there still exist barriers and difficulties for small merchants when entering popular marketplaces. They face competence boundaries and complex standards to meet. There should exist a company or organization which would initially conduct a comprehensive study on detecting such barriers and hence provide result-oriented support for overcoming them – the respondents suggest.

### ***Presence of new fintech companies – an opportunity for e-commerce value chain:***

As the majority of interviewed stakeholders agree, 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, one of the most striking issues in this matter relates to the value chain's competitiveness - the presence of strong financial institutions on the market, with the strongest commercial banks acting as the parent companies of the biggest e-commerce companies with the largest market shares. Such e-commerce companies hold a competitive advantage when it comes to generating greater sales and superior margins compared to their smaller market rivals. The emphasis was made on the importance of the self-reliance of business actors in the e-commerce value chain.

For overcoming this obstacle, the association's management foresees the penetration of fintech companies into the local market, which will offer more convenient 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.

As the E-commerce association representatives mention, although there is a big demand for founding and registering fintech profile companies, they are still afraid of the competition and thus they are reluctant to make a decision. As the respondents reported, such new fintech companies should take advantage of the simplicity and convenience in terms of new technologies (for example big data, AI), which occurs to be very complex in today's reality.

### ***Opportunities of exporting goods and services through e-commerce:***

According to the vast majority of interviewed respondents, accelerating exports of goods or services from Georgia through e-commerce channels is an outstanding opportunity for the value chain business

actors. As they mark, hindered exports of goods are due to impediments associated with logistics, and 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. On other hand, the private sector stakeholders have still confirmed their involvement in ongoing negotiations regarding the potential export of Georgian e-commerce business platforms in developing countries. Details haven't been shared, however, inventory management platforms were named as one of the software products in which the other end expressed interest. Consequently, as the interviewed respondents reported, even today, although being at the emerging stage of the e-commerce value chain, Georgia still has the potential of exporting its successful e-commerce platforms and business models in developing countries.

#### ***Unfair competition among e-commerce value chain business actors:***

According to the 'Voice of E-commerce' association, in addition to the transactions through the internet covering only purchases made via credit or debit cards, 70-80% of e-commerce outlets use the Cash on Delivery (COD) service, which accounts for around 60-70% of their turnovers. Thus, the vast majority of customers of such outlets prefer paying by cash. However, according to the association representative, there exist particular courier companies involved in so-called shadow e-commerce that hide COD service operations and thus avoid paying taxes. On the other hand, there exist merchants who cooperate with such courier companies, being able to offer cheaper items to customers by avoiding paying taxes. Earlier, individual entrepreneurs were acting with the same scheme, which was not a big share of the market, however, now this approach is related to a large sum, resulting in unfair competition with conscientious taxpayer companies and affecting the market competitiveness negatively. According to the respondents, there should be expressed an interest from the state to study and hence regulate the issue.

#### ***Technical barriers on e-commerce websites***

Although some private sector representatives reported improvements in services (including logistics) and functionality of their websites, rendering a general opinion of the interviewed respondents, the existing architecture and respective technical obstacles on Georgian e-commerce websites still hamper cooperation between merchants and the consumers. A few of such deficiencies were named: Modest web content; Prolonged registration forms; Incomplete product descriptions; Absence of a returns policy (mostly all Georgian e-commerce websites lack a returns policy); Unsaved credit/debit card information; and Inventory management (the merchant is running out of the stock). The latter is linked to a more systemic impediment- implementation of various operations from the point of origin to the point of consumption i.e. logistics.

#### ***Low level of Public-private dialogue:***

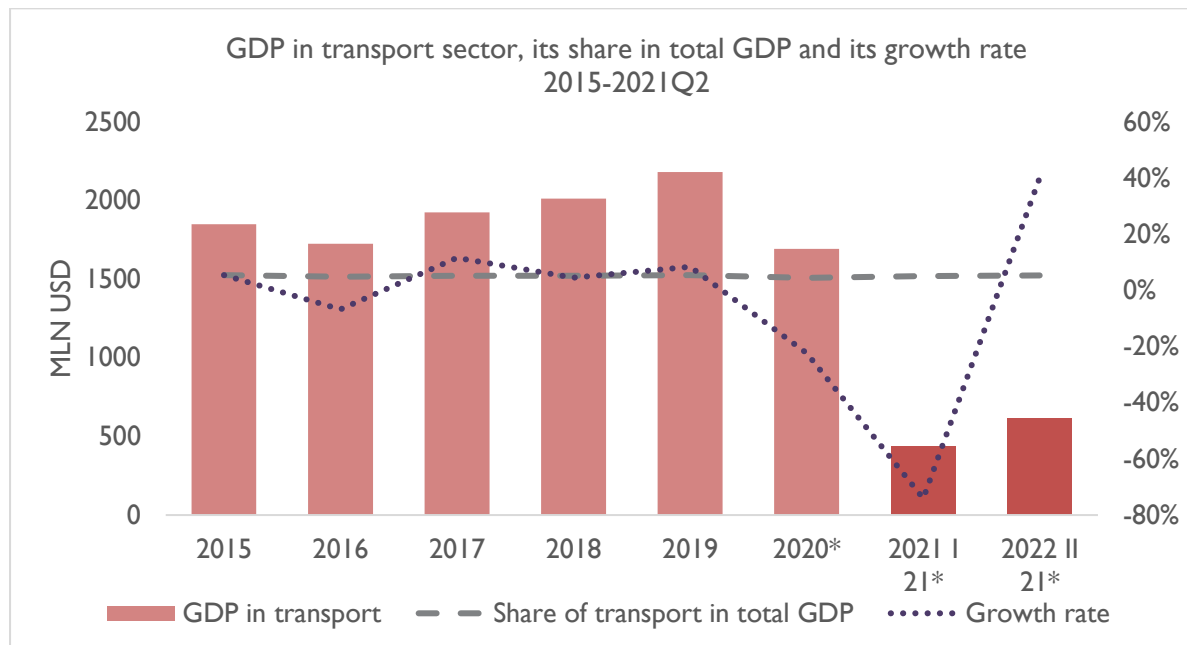
In the opinion of the majority of respondents from the private sector and sector associations, the level of dialogue between the public and private sector business actors is still low. As some of them claimed, if such dialogue occurs, it is between the states and a few large e-commerce business actors. However, the obstacles faced to smaller size enterprises sometimes considerably differ from the ones of large players. Consequently, involving as many stakeholders as possible is essential for balanced and constructive dialogue.

## **TRANSPORT AND LOGISTICS**



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

Chart 6.9 GDP of the transport and logistics value chain in Georgia



Source: National Statistics Office of Georgia

GDP of the transport sector in Georgia has been experiencing stable moderate growth, averaging yearly 4.6% in 2015-2019 period. In 2020, GDP of the sector suffered by a decline of 22.3%. In 2021, recovery is evident, with GDP of Q2 2021 exceeding GDP of Q2 2020 by 47.0% and of Q2 2019 by 2.7%. The share of the sector in overall economy has been more stable, averaging 5.2% in the period of 2015-2021 Q2.

Chart 6.10 Turnover of the transport and logistics value chain

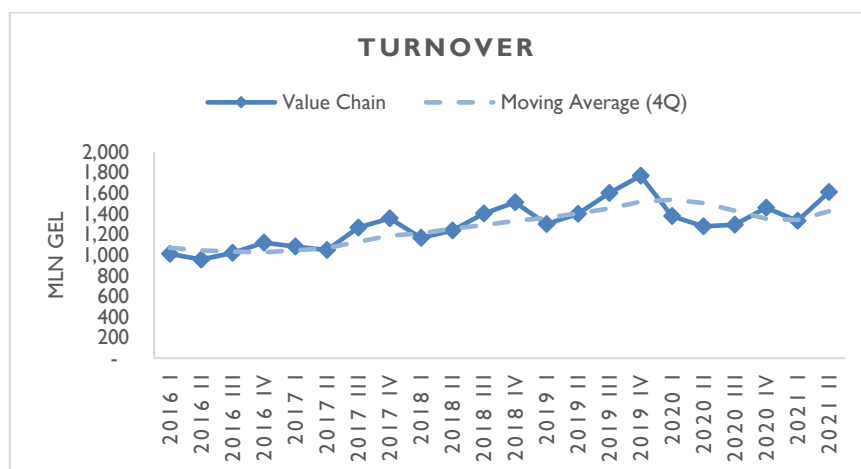
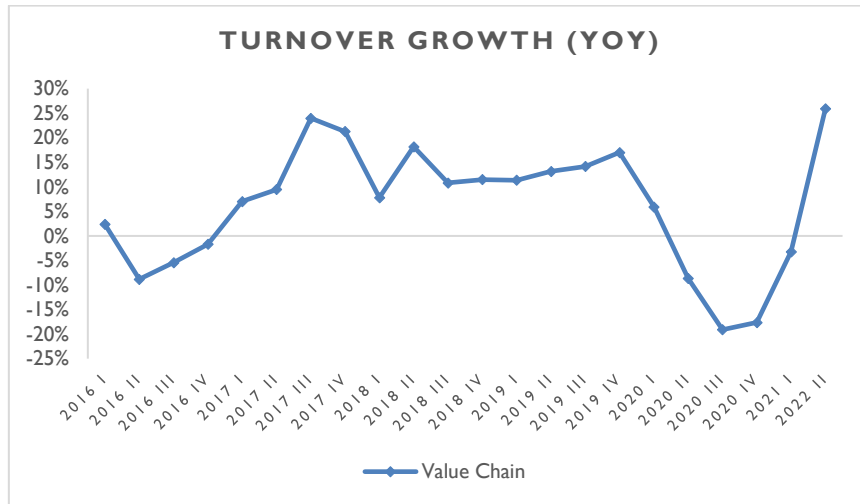




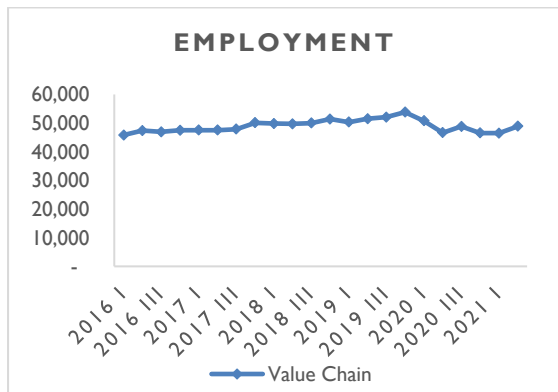
Chart 6.11 Annual growth rate of turnover for the transport and logistics value chain



Source: National Statistics Office of Georgia

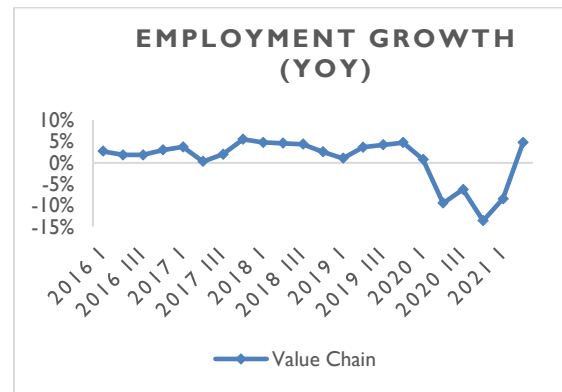
After having experienced stable growth prior to the pandemic, the turnover of the transport and logistics value chain dipped 2020 and Q1 2021. In Q2 2021, VC's turnover saw a strong recovery, especially compared to Q2 2020 – a growth of 25.9%, reaching GEL1.6 billion in absolute number. However, the recovery is only partially attributed to the low base effect, as growth was strong even in comparison with Q2 of 2019 – 15.0%. It is also notable that 2021 Q2 is the first quarter when growth was reported since Q1 2020. Significant pick-up in exports and imports of Georgia can be considered as one of the main drivers of this growth. experienced steady and stable growth.

Chart 6.12 Employment in the transport and logistics value chain



Source: National Statistics Office of Georgia

Chart 6.13 Growth rate of employment in the transport and logistics value chain



Employment in the VC saw a steady increase prior to the pandemic, gradually declining from 53.9 thousand in the 4<sup>th</sup> quarter of 2019 down to 46.5 thousand in the 1<sup>st</sup> quarter of 2021. Similar to turnover, Q2 2021 saw a rise in employment as well. Number of employees in the VC increased by 4.7% when compared to Q2 2020, however, it is still 5.2% lower than Q2 2019 level.

Chart 6.14 Average monthly salary for the transport and logistics value chain

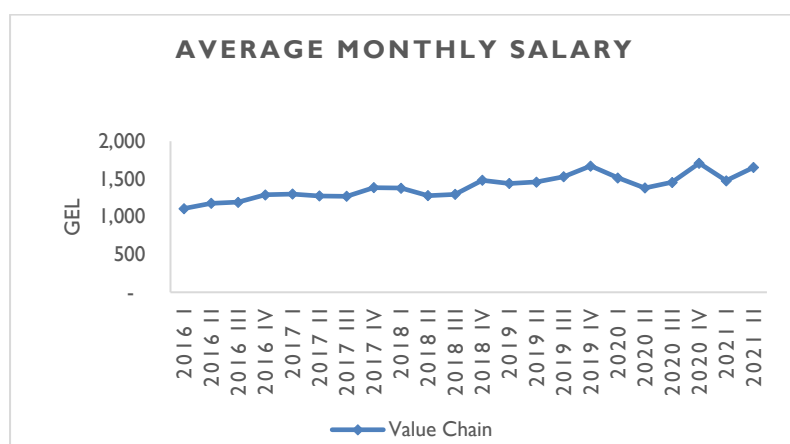
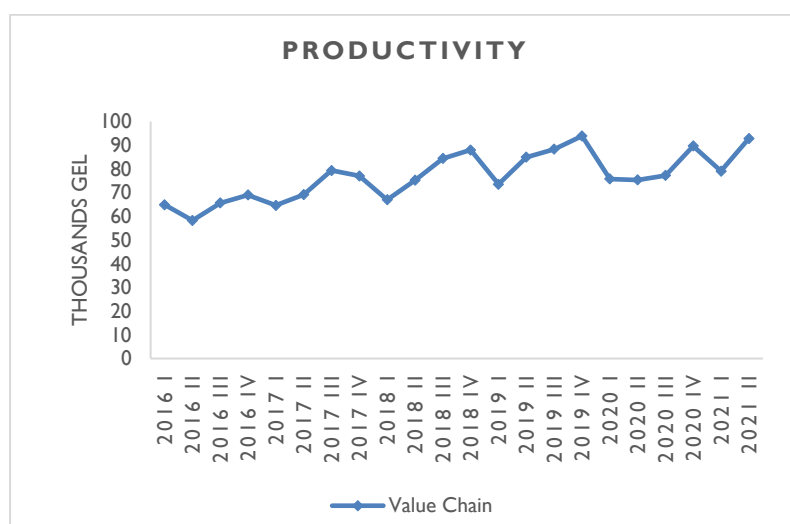


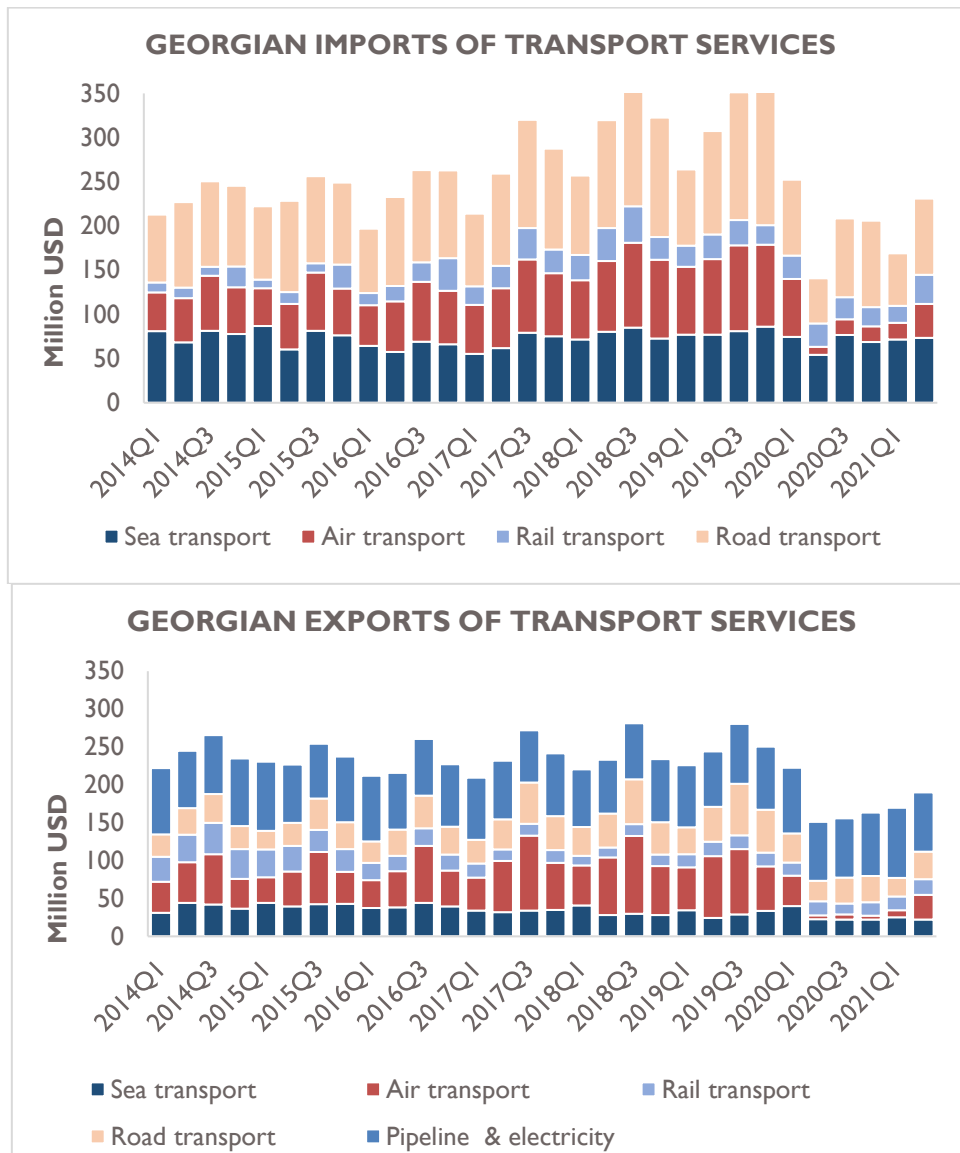
Chart 6.15 Productivity for the transport and logistics value chain



Source: National Statistics Office of Georgia

The average monthly salary for the transport and logistics value chain showed similar dynamics to turnover and employment, growing steadily before the pandemic, and then gradually declining until Q1 2021, with the recovery starting in Q2 2021. The only observed difference is a pick-up in Q4 2020 in average monthly salary, before dipping again in Q1 2021. In Q2 2021, average monthly salary reached GEL 1653, growing by 19.7% compared to Q2 2020 and by 13.2% compared to Q2 2019. Productivity of the VC shared the dynamics of average monthly salaries; however, it was far more volatile. In Q2 2021, productivity increased by 23.9% compared to Q2 2020 and by 9.3% compared to Q2 2019. Finally, as mentioned before, the sector is highly dependent on the performance of the overall economy, and with the recovery picking pace in the remainder of 2021, the transport and logistics VC is also expected to expand in the upcoming quarters.

Chart 6.16 Georgian imports and exports of transport services



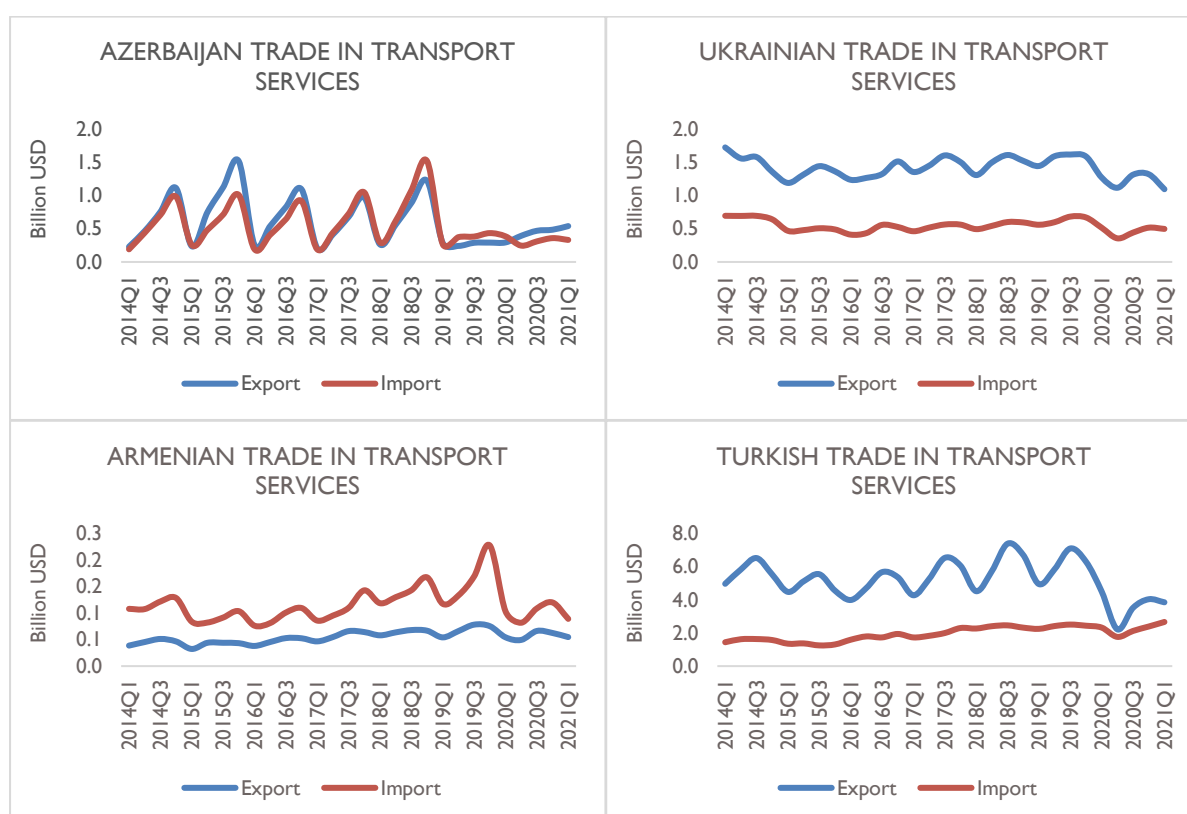
Source: National Bank of Georgia

Trade in the transport and logistics sector was heavily impacted by the pandemic, mainly due to disruption of aerial transport for a full year starting from Q2 2020. In Q1 2021, a recovery in Georgian imports of air transport services was visible, with a strong YoY recovery of 335.6%. However, it is still 55.0% lower when compared to Q2 2019. Strong growth is visible in rail transport, with YoY growth in Q2 2021 at 23.5% and 19.5% growth when compared to Q2 2019. Overall, transport service imports managed to grow by an impressive 63.6% YoY but remain 25.0% lower when compared to Q2 2019.

As for the exports of the trade services, air transport again showed the most significant YoY recovery, with a growth rate of 548.5%. However, when compared to Q2 2019, the decline of aerial exports was 60.4%. Sea transport and road transport exports also remain below 2019 levels. Overall, transport service exports managed to grow by 24.8% YoY, but remain 22.6% lower when compared to Q2 2019.

Overall, trade in transport services recorded a deficit of USD41.1 million, with lagged recovery in road exports and strong railway import dynamics being the main contributors to turning mild surplus of Q1 2021 to a deficit.

Chart 6.17 Regional trade patterns in the transport and logistics services



Source: Respective central banks

As far as regional trade is concerned, Turkey and Ukraine both experience significant levels of trade surpluses in the transport and logistics trade, Armenia consistently experiences trade deficits, while Azerbaijan maintains a balance between imports and exports. Turkey's transport services are well-established and are exported worldwide, as Turkey has a significant tourism industry; as such, Turkey's export of transport services has a seasonality trend, whereby it reaches local maximums every 3rd quarter. Due to the air travel restrictions in 2020, Turkey's exports of transport services experienced a harsh 51.1% contraction. However, as air restrictions are slowly lifted, Turkey's exports of transport services have been slowly recovering in the subsequent quarters. A similar pattern is observed in Ukraine, where a pattern of seasonality is also visible, but not as significant as Turkey's. Ukraine also has a contraction from the 1st quarter of 2020 to the 2nd, albeit not nearly as harsh as Turkey's contraction at the same time period. As for Azerbaijan, significant part of the total transport services is pipeline export and import, whereby Azerbaijani companies and government pay for the rights to operate oil and gas pipelines in foreign territories. Interestingly, the contraction in both Azerbaijani exports and imports happened before the pandemic, namely in the first quarter of 2019. According to the central bank of the republic of Azerbaijan, this shift is solely caused by the oil and gas sector.

In Q2 of 2021, Turkish transport service exports grew by the most (by 115.9%) compared to Q2 2020, remaining just 2.4% lower than Q2 2019 level. Armenian growth was also strong, with a YoY 60.2%, and even surpassing Q2 2019 levels by 19.7%. For Azerbaijan, exports increased by 44.6% YoY, and by 135.9% compared to Q2 2019, which is explained by low base effect in 2019 (following a decline in oil and gas exports in Q1 2019). As for Ukraine, it has not yet managed to recover neither to Q2 2020 export level (-3%) nor to Q2 2019 level (-31.2%).

As for transport service imports, again, Turkey saw the highest growth, increasing by 76.7% YoY and by 20.6% compared to 2019. Ukraine and Azerbaijan followed closely, with the YoY growth rate of

60.2% and 58.3%, respectively. When compared to 2019, transport imports decreased (by 0.7%) in Ukraine and increased (by 4.2%) in Azerbaijan. As for Armenia, YoY growth in Q2 2021 stood at 42.1%, while imports remained 12.8% lower than Q2 2019 level.

### **Overview of the Existing Challenges and Opportunities**

Sustainability of transport and logistics value chain is key for trade facilitation, connecting global value chains, effective multimodal transportation, and distribution - as a result representing a substantial contributor to the country's economy. As recent events displayed, proper technologies and efficient management of transportation and logistics operations are vital for the cross-cutting sector functionality.

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

#### ***The development of a cargo transit – an opportunity to advance the logistics VC:***

Referring to the viewpoint of the respondents from the airfreight service sector, the development of cargo transit services, including multimodal transit<sup>82</sup>, provides a great opportunity for the VC development. The potential of the country's cargo service development is believed to be a convenient geographical positioning for the main routes of international freight traffic. Interviewed respondent's opinion is that transit service development is one of the essential prerequisites for companies to build large logistics chains. However, the respondents made claims about the non-flexible and illiberal legal framework for transit service development in Georgia, in which the business sector foresees the VC associations as an important contribution of the policy advocacy. The issue is further described below.

#### ***Cargo Hub Vs passenger transit hub:***

The opinions shared from interviewed respondents about the theme were mostly based on discussions of the Aviation Committee of the Chamber of Commerce and Industry that has been held earlier. The debate was about the possible ways to grow cargo turnover in the field of aviation and one of the concepts was to increase the passenger flow and make Tbilisi a transit hub for passengers. However, several arguments have been stated by the respondent's contrary to this: firstly, since our neighboring countries are already far ahead of us (e.g. Turkey, where the second largest airport has been constructed recently) and the passengers will most probably not use Tbilisi International Airport for transit; Secondly, according to them, in order to operate as a hub, the country should have at least a national provider to bring passengers to Georgia initially and then distribute them in different directions. In line with the respondents' opinion, initial steps should be taken ahead for creating a cargo transit hub instead that represents a great potential for the rapid development of the country's logistics sector.

#### ***The difficulties and bureaucracy of customs procedures about transit cargo:***

As marked in the previous qualitative study, generally, the transit cargo is regularly stuck at Georgian customs, reporting the carrier that such cargo is not allowed to be transported through Georgia, whereas, on the other hand, it is not an issue for the sender and the consignee country. A practical case was discussed: an airline transports cargo to Tbilisi International Airport through a transit flight and then continues its flight to a third country. When entering the Tbilisi International Airport, it is automatically registered at the customs office, and in order to send the cargo in transit, the customs require a power of attorney from each consignee of transit goods (if there are 100 different consignees, they require a power of attorney from each). Such problems often arise, and solutions to them are found de facto. Once the case is repeated, the operators remind the customs how they resolved the problem previously and request to do the same. According to stakeholders, this is an obstacle hindering operational management of transit, which requires uninterrupted and stable processes. As a consequence, the interviewed respondents request liberalizing the legal framework, at least in terms

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<sup>82</sup> Multimodal transit is a transportation of cargo performed with two or more modes of transport (for instance air, sea, land), under single contract.

of transit, as it would be a big step forward for the market development. Part of the respondents thinks that the association could probably play a better role in resolving customs-related issues through policy advocacy, described further below.

***Transport and Logistic VC in need of supplementary functional associations:***

Although a few of interviewed respondents were skeptical about the effectiveness of business associations, the majority of small and medium-size business actors during a focus group meeting were united around the idea of becoming members of a supplementary association that would preferably provide a variety of services for its members including, but not limited to: policy advocacy – ensuring that existing policies and legal framework are adjusted to its members’ needs (relevant, for instance, to the customs-related issue above); PPD - mediation between the private and public sectors, which ensures the timely exchange of important information and initiatives between the sectors (for example, update about important initiatives of the GoG or possible amendments in legislation); Involving its members in educational programs; Uniting members for finding and proposing optimal ways for solving specific problems. Again, the respondents expressed readiness for paying a membership fee if it is spent purposefully on the VC development.

Remarkably, according to the Aviation Committee member company representatives, recently, discussions are being held at the Aviation Committee of the Chamber of Commerce, about founding a supplementary association that would play a crucial role in uniting the value chain stakeholders.

***Anti-competitive practices among freight forwarder companies:***

According to the majority of business actors in freight forwarding, the competition among the players is becoming unfair, unorganized, and chaotic. As noted, this has become apparent especially after the Covid-19 pandemic crisis. This is an overall concern and as voiced by the actors, such activities are mostly related to unfair recruitment practices, price dumping, breaking confidentiality, etc. As they note, in the medium term, the impediment will have a damaging effect on the value chain functionality and eventually harm the consumers. The majority of interviewed respondents from freight forwarding companies think that such anti-competitive practices have to be regulated by the legislation and hence, a functional association, within its mandate, could be an outcome for the challenge.

***Negative impact of Covid-19 on shipping industry:***

The impact of the Covid-19 outbreaks on global shipping, especially on global maritime mobility, turns out to be severe. Since autumn 2020, the shipping costs have surged strongly, and the trend has been attained until recently. The challenge is especially painful for the shipping from China – representing a significant share of imports to Georgia. As an example, shipping rates for 40’ FT container from China to Georgia has increased 5-6 times compared to the pre-Covid period. Our interviewed respondents were concerned as this external problem has had a considerable impact on the demand for shipping services, especially on sea freight transport services from and to China<sup>7</sup>.

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

Lack of skilled labor force and professional educational programs, specialized in transport and logistics, still represents one of the primary challenges of the value chain. The interviewed small and medium-size business actors face a huge impediment in recruiting qualified and skillful employees at the local labor market. Though, some of them think that good basic education, especially in technical fields, is the most important prerequisite for becoming a qualified employee in the transport and logistics field. According to respondents, most of the company managers are self-educated, which in some cases results in low quality of services.

***Cargo ferry service development – an opportunity for the VC:***

According to our respondents, a ferry service of Georgia, carrying cargo across the body of water of the Black Sea, is underdeveloped, and hence enlarging the infrastructure is a great opportunity for increasing cargo turnover. Besides, it would represent an alternative route for cargo transportation, supplementary to that through Turkey. Besides, as emphasized during the FG meeting, initially there is a need of comprehensive feasibility studies and preliminary projects prior to making large

investments in building a modern logistics hub. As voiced by the respondents, one of such important projects is regarded to be cargo ferry service infrastructure development, which among other advantages, ensures a receipt of ferry backhaul (reverse flow) from Europe.

## APPENDIX I- NACE codes

Value Chain	Economic Activity Classification for Trade Data		Economic Activity Classification for Business Registry Data		Economic Activity Classification for Business Survey Data	
	NACE	Description	NACE	Description	NACE	Description
<b>Any type of media content production</b>			59.1	Motion picture, video and television programme activities	59.1	Motion picture, video and television programme activities
<b>Post-production</b>						
<b>Artisan</b>			N/A		N/A	
<b>Furniture</b>	31	Manufacture of furniture	31	Manufacture of furniture	31	Manufacture of furniture
	15.11	Tanning and dressing of leather; dressing and dyeing of fur	16.1	Sawmilling and planing of wood	16.1	Sawmilling and planing of wood
	16.1	Sawmilling and planing of wood	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	16.21	Manufacture of veneer sheets and wood-based panels				
	16.22	Manufacture of assembled parquet floors				
	16.29	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials				
<b>Packaging</b>	16.24	Manufacture of wooden containers	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	17.21	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard
	17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard	17.29	Manufacture of other articles of paper and paperboard
	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods	22.22	Manufacture of plastic packing goods
	23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
	25.92	Manufacture of light metal packaging				
<b>Solid waste management and recycling</b>			38	Waste collection, treatment and disposal activities; materials recovery	38	Waste collection, treatment and disposal activities; materials recovery
			39	Remediation activities and other waste management services	39	Remediation activities and other waste management services



<b>Construction materials</b>	16.23	Manufacture of other builders' carpentry and joinery	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	23.11	Manufacture of flat glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
	23.12	Shaping and processing of flat glass	23.3	Manufacture of clay building materials	23.3	Manufacture of clay building materials
	23.13	Manufacture of hollow glass	23.6	Manufacture of articles of concrete, cement and plaster	23.6	Manufacture of articles of concrete, cement and plaster
	23.32	Manufacture of bricks, tiles and construction products, in baked clay	23.7	Cutting, shaping and finishing of stone	23.7	Cutting, shaping and finishing of stone
	23.6	Manufacture of articles of concrete, cement and plaster	24.33	Cold forming or folding	25.11	Manufacture of metal structures and parts of structures
	23.7	Cutting, shaping and finishing of stone	25.11	Manufacture of metal structures and parts of structures	25.12	Manufacture of doors and windows of metal
	24.33	Cold forming or folding	25.12	Manufacture of doors and windows of metal		
	25.11	Manufacture of metal structures and parts of structures				
25.12	Manufacture of doors and windows of metal					
<b>Personal and protective equipment</b>	HS-6	630790; 902000; 900490; 401511; 401519; 611610; 621600; 401590; 481850; 621010; 392620; 621050; 620322; 620329; 620422; 620423; 620429; 611693; 640110; 640291; 640340; 650610; 630720; 621040; 650599	14.12	Manufacture of workwear	N/A	
			32.99	Other manufacturing n.e.c.		
<b>Wooden toys</b>			N/A		N/A	
<b>Customer relationship management</b>			82.2	Activities of call centres	N/A	
<b>Architecture, Design and Engineering</b>			71	Architectural and engineering activities; technical testing and analysis	71	Architectural and engineering activities; technical testing and analysis
			74	Other professional, scientific and technical activities	74	Other professional, scientific and technical activities
<b>Finance and accounting</b>			69	Legal and accounting activities	69	Legal and accounting activities
<b>Human resources</b>			78	Employment activities	N/A	
<b>ICT</b>	26.1	Manufacture of electronic components and boards	26	Manufacture of computer, electronic and optical products	26	Manufacture of computer, electronic and optical products
	26.2	Manufacture of computers and peripheral equipment	58	Publishing activities	58	Publishing activities

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

## APPENDIX 2 - Survey questionnaire

A1. კომპანიის რეკვიზიტები:

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

B1. როგორ იყო კომპანიის წლიური ბრუნვა 2019 წელში:

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

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

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

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

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

C2. აქედან რამდენ პროცენტს შეადგენდნენ?

ქალები \_\_\_\_\_ %                      15-29 წლის ახალგაზრდები \_\_\_\_\_ %

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

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

## APPENDIX 3 - Stakeholders

<b>TOURISM</b>		
<b>Associations</b>		
GITOA	Ia Tabagari	
Georgian Mountain Guides Association	David Rakviashvili	
HORECA	Shalva Alavredashvili	
<b>Public Sector</b>		
NATIONAL AGENCY FOR CULTURAL HERITAGE PRESERVATION GEORGIA	Beka Baramidze	
<b>Private Sector</b>		
Inn Group Hotels	Erekle Kokaia	
Hotel Collection International	Ketevan Mikashavidze	
Restaurant 'Amo Rame'	Nikoloz Ivanishvili	
Mtserlebi resort	Givi Tchonkadze	
	Salome Sirbiladze	
<b>SHARED INTELLECTUAL SERVICES</b>		
<b>Associations</b>		
<b>BPO</b>	Georgian Federation of Professional Accountants and Auditors (GFPAA)	Lavrenti Chumberidze
	Human Resources Professionals Association (HRPA)	Sergo Nozadze, Salome Ghachava
<b>Private Sector</b>		
<b>Architecture, Design and Engineering (ADE)</b>	MUA - Multiverse Architecture	Devi kituashvili
	Wunderwerk	Gigi Shukakidze
	Individual Representative	Soso Alavidze
	Green Studio	Sulkhan Sulkhanishvili
	Designbureau	Nia Mgaloblishvili
	Urban Experiments	Shota Saganelidze
	Individual Representative	Thomas Ibrahim
	IDAAF Architects	Nana Zaalishvili
	Individual Representative	Giorgi Inasaridze
<b>Human Resources Management (HRM)</b>	Insource	Medea Tabatadze
	Individual Consultant	Irakli Dadiani
	HR Partners	Nino Jinjolava
	HR Hub; Student.job.ge	Ana Navdarashvili
	HR4B	Irina Shalamberidze
<b>Customer Relationship Management (CRM)</b>	Majorel	Natia Gobejshvili
	K-call	Irina Darovskaya
	LTD Auditis Samsaxuri	Elene Petriasvhili
	Auditi 2016	Khatuna Metonidze
	Business Consultancy Center	Archili Devadze
	LTD Tbilisi Auditors Team	Levan Jangulashvili
<b>CROSS-CUTTING SECTORS</b>		
<b>Associations</b>		

E-Commerce Association of Georgia		Maia Kheladze
Voice of E-Commerce		Tamar Gogolashvili
Georgian ICT Cluster		Mariam Sumbadze
<b>Private Sector</b>		
<b>E-Commerce</b>	Extra.Ge	Ana Tabatadze
	iMart.ge	Lasha Zautashvili
<b>ICT</b>	Azry	David Japaridze
	Innovative System Management	Davit Kiziria
	Iknow	Irakli Gogoladze
	UGT	Zurab Magradze
<b>Transport &amp; Logistic</b>	Vengo	Levan Nebieridze
	IT Group	Zura Tsinadze
	Lasare	Giorgi Kakashvili
		Giorgi Nadirashvili

## APPENDIX 4 - Focus group questionnaire

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

### 1. ბიზნეს საქმიანობა

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

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

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

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

კონკურენტულობის დონე სექტორში	<input type="checkbox"/> დაბალ კონკურენტული <input type="checkbox"/> საშ. კონკურენტული <input type="checkbox"/> მაღალ კონკურენტული	კომენტარი
სექტორის კონკურენტული უპირატესობა საერთაშორისო ბაზრებზე (თუ ასეთი არსებობს)?	<input type="checkbox"/> ხარისხი; <input type="checkbox"/> ფასი; <input type="checkbox"/> ინოვაცია; <input type="checkbox"/> სხვა	
ძირითადი საექსპორტო ბაზრები?		
ახალ ბაზრებზე გასვლის 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?

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

## APPENDIX 5 - Association's questionnaire

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

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

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

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

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

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

12. 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?	

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

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

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

14. პროგნოზი

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

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

15. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

16. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

## APPENDIX 6 – About the program and project

### ABOUT THE PROGRAM

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

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

Through its four components, the Program:

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

### ABOUT THE PROJECT

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

- Tourism
- Creative Industries
- Light Manufacturing
- 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).