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SECTOR AND VALUE CHAIN ANALYTICS

THE EIGHTH ANALYTICAL REPORT (2022)



Research

ISET
International School of Economics at TSU
Policy Institute

May 2023

CONTENTS

CHARTS	I
ACRONYMS	I
EXECUTIVE SUMMARY	2
METHODOLOGY	6
DATA AND METHODOLOGY	6
QUALITATIVE ANALYSIS	8
1. TOURISM	10
TOURISM VALUE CHAIN MODEL	10
SECTOR SUMMARY	10
SECTOR TRENDS	15
2. CREATIVE INDUSTRIES	67
SECTOR SUMMARY	67
MEDIA CONTENT PRODUCTION AND POST-PRODUCTION	68
ARTISAN	71
3. LIGHT MANUFACTURING	75
SECTOR SUMMARY	75
FURNITURE	76
CONSTRUCTION MATERIAL	87
PACKAGING	96
PERSONAL AND PROTECTIVE EQUIPMENT (PPE)	104
WOODEN TOYS	110
4. SOLID WASTE MANAGEMENT AND RECYCLING	114
SECTOR SUMMARY	114
5. SHARED INTELLECTUAL SERVICES	122
ARCHITECTURE DESIGN AND ENGINEERING (ADE)	124
FINANCE AND ACCOUNTING (F&A)	127
HUMAN RESOURCE MANAGEMENT (HRM)	130
CUSTOMER RELATIONSHIP MANAGEMENT (CRM)	132
6. CROSS-CUTTING SECTORS	135
SECTOR SUMMARY	135
INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)	136
E-COMMERCE	150
TRANSPORT AND LOGISTICS	157
APPENDIX 1- NACE CODES	167
APPENDIX 2 - SURVEY QUESTIONNAIRE	170
APPENDIX 3 - STAKEHOLDERS	171
APPENDIX 4 - FOCUS GROUP QUESTIONNAIRE	175
APPENDIX 5 - ASSOCIATION'S QUESTIONNAIRE	179
APPENDIX 6 – ABOUT THE PROGRAM AND PROJECT	182

CHARTS

Tourism

Chart I.1 The contributions of tourism value chains in the total share of tourism in GDP	15
Chart I.2 The number of international and domestic visits and their growth rate compared to the previous year	16
Chart I.3 The distribution of international visits by the main purpose of visit in 2022	17
Chart I.4 The distribution of domestic visits by the main purpose of visit in 2022	18
Chart I.5 The four-quadrant model for key international tourism source markets in 2022	19
Chart I.6 The distribution of expenditures of domestic visits by categories in 2022	20
Chart I.7 Turnover of the accommodation value chain and the corresponding aggregated sector....	22
Chart I.8 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector.....	22
Chart I.9 Annual growth rate of output for the accommodation value chain and the aggregated sector	29
Chart I.10 Output of the accommodation value chain and the corresponding aggregated sector	29
Chart I.11 Employment in the accommodation value chain and the corresponding aggregated sector	29
Chart I.12 Annual growth rate of employment in the accommodation value chain and its aggregated sector.....	29
Chart I.13 Productivity in the accommodation value chain and the corresponding aggregated sector	26
Chart I.14 Average monthly salary in the accommodation value chain and the corresponding aggregated sector.....	26
Chart I.15 Average hotel prices calculated in USD for 3, 4, and 5-star hotels	27
Chart I.16 Yearly Hotel Price Index for 3, 4, and 5-star hotels.....	28
Chart I.17 Turnover of the food services value chain and the corresponding aggregated sector	31
Chart I.18 The annual growth rate of turnover for the food services value chain and the aggregated sector.....	31
Chart I.19 Output of the food services value chain and the corresponding aggregated sector	31
Chart I.20 Annual growth rate of output for the food services value chain and the aggregated sector	31
Chart I.21 Employment in the food services value chain and the corresponding aggregated sector	38
Chart I.22 The annual growth rate of employment in the food services value chain and the aggregated sector.....	38
Chart I.23 Average monthly salary in the food services value chain and the corresponding aggregated sector.....	39
Chart I.24 Annual growth rate of productivity in the food services value chain and the corresponding aggregated sector.....	39
Chart I.25 The output of land and water transport value chain and its growth rate	41
Chart I.26 . International visits that include visiting national parks, nature, landscape, and exploring remote and exotic places and their share in total international visits (2019 - 2022)	44
Chart I.27 International visits that include visiting national parks, nature, landscape, and exploring remote and exotic places and their share in total international visits (2019 - 2022)	45
Chart I.28 Domestic visits that include visiting the national Parks, nature, landscape, and exploring remote and exotic places and their share in total domestic visits (2019 - Q2 of 2022).....	45
Chart I.29 The dynamics of the number of visitors to protected areas of Georgia (2016-2022 9M)	46
Chart I.30 Top 10 protected areas by number of visitors in the first nine months of 2022	47
Chart I.31 Output of land and water transport value chain and its growth rate.....	51

Chart 1.32 Output of air transport value chain and its growth rate	51
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Creative Industries

Chart 2.1 Changes in turnover for the media content production and post-production value chain and the corresponding aggregated sector	68
Chart 2.2 Turnover of the media content production and post-production value chain and the corresponding aggregated sector	68
Chart 2.3 Employment in the media content production and post-production value chain and the corresponding aggregated sector	69
Chart 2.4 Changes in turnover for the media content production and post-production value chain and the corresponding	69
Chart 2.5 Media content production and post-production value chain and the corresponding aggregated sector.....	69
Chart 2.6 Average monthly salary in the media content production and post-production value chain and the corresponding aggregated sector	69
Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain, the second half of 2022 (y-o-y).....	71
Chart 2.8 Average Change in Employment, the second half of 2022 (y-o-y).....	72

Light Manufacturing

Chart 3.1 Turnover of the furniture value chain and the corresponding aggregate sector	77
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector.....	77
Chart 3.3 Turnover of the furniture value chain inputs and its growth rate.....	78
Chart 3.4 Employment of the furniture value chain and the corresponding aggregate sector.....	78
Chart 3.5 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector	79
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing	79
Chart 3.7 Average monthly salary in the furniture value chain and the corresponding aggregate sector	80
Chart 3.8 Labor productivity (annual output per hired employee) in the furniture value chain and the corresponding aggregate sector.....	80
Chart 3.9 Georgian Imports of Furniture.....	81
Chart 3.10 Georgian Imports of Furniture Inputs.....	81
Chart 3.11 Georgian Imports of Furniture by Trade Partners (2022)	81
Chart 3.12 Georgian Imports of Furniture Inputs by Trade Partners (2022).....	81
Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs.....	80
Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (2022)	80
Chart 3.15 Georgian Exports of Furniture.....	81
Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (2022).....	81
Chart 3.17 Regional trade patterns in the furniture value chain.....	82
Chart 3.18 Turnover of the construction materials value chain and the corresponding aggregated sector.....	88
Chart 3.19 Growth rate of turnover for the construction materials value chain and the corresponding aggregated sector.....	88
Chart 3.20 Employment for the construction materials value chain and the corresponding aggregated sector.....	88

Chart 3.21 YoY growth rate of employment for the construction materials value chain and the corresponding aggregated sector	89
Chart 3.22 Average monthly salary in the construction materials value chain and the corresponding aggregated sector.....	89
Chart 3.23 Labor productivity (annual output per hired employee) in the construction material value chain and the corresponding aggregated sector	89
Chart 3.24 Georgian Imports of Construction Materials	90
Chart 3.25 Georgian Exports of Construction Materials	90
Chart 3.26 Georgian imports of construction materials by trade partner (2022)	91
Chart 3.27 Georgian domestic exports of construction materials by trade partner (2022)	91
Chart 3.28 Regional trade patterns of construction materials.....	92
Chart 3.29 Turnover of the packaging value chain and the corresponding aggregated sector	96
Chart 3.30 Growth rate of turnover for the packaging value chain and the corresponding aggregated sector.....	97
Chart 3.31 Employment for the packaging value chain and the corresponding aggregated sector	97
Chart 3.32 YoY growth rate of employment for the packaging value chain and the corresponding aggregated sector.....	98
Chart 3.33 Average monthly salary in the packaging value chain and the corresponding aggregated sector.....	98
Chart 3.34 Labor productivity (annual output per hired employee) in the packaging value chain and the corresponding aggregated sector	99
Chart 3.35 Georgian Exports of Packaging Goods 2017-2022.....	99
Chart 3.36 Georgia's Domestic Exports of Packaging Goods by Trade Partner (2022)	100
Chart 3.37 Georgian Imports of Packaging Goods 2017-2022	100
Chart 3.38 Georgian Imports of Packaging Goods by Trade Partner (2022)	100
Chart 3.39 Regional trade dynamics in the packaging value chain.....	101
Chart 3.40 Distribution of PPE Companies by Turnover Range, 2022 Q1&Q2 and Q3&Q4 (Gel). 104	
Chart 3.41 Percentage Distribution of Turnover Growth Rates in PPE Value Chain, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)	105
Chart 3.42 Distribution of PPE Companies YoY Growth Rates by Turnover Range, 2022 Q1&Q2 and Q3&Q4.....	105
Chart 3.43 Change in Employment, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)	106
Chart 3.44 Georgia's Imports of Personal and Protective Equipment (2017-2022) and the top trade partners in PPE import (2022).....	106
Chart 3.45 Georgia's Exports of Personal and Protective Equipment (2017-2022) and the top trade partners in PPE export (2022).....	107
Chart 3.46 Regional Trade in PPE	108
Chart 3.47 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)	110
Chart 3.48 Change in Employment, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)	111

Solid Waste Management and Recycling

Chart 4.1 Turnover of the solid waste management and recycling sector and the corresponding aggregated sector.....	115
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector	116
Chart 4.3 Employment for the solid waste management and recycling sector and the corresponding aggregated sector.....	116

Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector	117
Chart 4.5 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector	117
Chart 4.6 Labor productivity (annual output per hired employee) in the solid waste management and recycling sector and the corresponding aggregated sector	118

Shared Intellectual Services

Chart 5.1 Distribution of SIS Companies by Turnover Range, 2022 Q1&Q2 and Q3&Q4 (Gel).....	122
Chart 5.2 Distribution of SIS Companies Growth Rates by Turnover Range, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y).....	123
Chart 5.3 Percentage Distribution of Turnover Growth Rates in the SIS Value Chain, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)	123
Chart 5.4 Change in Employment, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)	124

Cross-cutting Sectors

Chart 6.1 Turnover of the ICT value chain.....	136
Chart 6.2 Annual growth rate of the ICT value chain's turnover.....	136
Chart 6.3 Employment in the ICT value chain	137
Chart 6.4 Growth rate of the ICT value chain's employment.....	137
Chart 6.5 Average monthly salary for the ICT value chain, divided by software and hardware.....	137
Chart 6.6 Productivity for the ICT value chain, divided by software and hardware.....	137
Chart 6.7 Georgian exports and imports of ICT equipment.....	138
Chart 6.8 Georgian imports of ICT equipment by trade partner (2022)	139
Chart 6.9 Georgian domestic exports of ICT equipment by trade partner (2022)	139
Chart 6.10 Regional trade patterns in the ICT equipment.....	140
Chart 6.11 Number of online transactions in Georgia decomposed by gambling and e-commerce	150
Chart 6.12 Total value of online transactions in Georgia decomposed by gambling and e-commerce	151
Chart 6.13 GDP of the transport and logistics value chain in Georgia	157
Chart 6.14 Turnover of the transport and logistics value chain	157
Chart 6.15 Annual growth rate of turnover for the transport chain and logistics value chain	158
Chart 6.16 Employment in the transport and logistics value chain	158
Chart 6.17 Growth rate of employment in the transport and logistics value chain	158
Chart 6.19 Productivity for the transport and logistics value chain.....	159
Chart 6.18 Average monthly salary for the transport and logistics value chain.....	159
Chart 6.20 Georgian imports and exports of transport services	159
Chart 6.21 Regional trade patterns in the transport and logistics services	161

ACRONYMS

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

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This annual report provides an analysis of economic trends, as well as denoting the challenges and opportunities (in local, regional, and global contexts) across selected value chains within six sectors to improve evidence-based decision-making through the provision of quality information and analytics. The specific sectors are tourism, creative industries, light manufacturing, shared intellectual services, waste management and recycling, along with cross-cutting sectors. The analysis tracks trends from January to December of 2022.

The following is a synopsis of the findings:

Tourism: In 2022 the number of international visits increased significantly by 173% compared to the previous year, reaching 4.7 million. Compared to the pre-pandemic period, in 2022, the number of international visits has not fully recovered and amounted to 61% of visits in 2019. In 2022 the number of domestic visits slightly declined (-4%) compared to the previous year and reached 16.3 million visits.

In 2022, the income from international travel reached USD 3.5 billion, which is 8% higher compared to 2019. The recovery was gradual, but by Q4 of 2022, it had exceeded the corresponding figure for Q4 of 2019 by 46%. In 2022, the expenditure of domestic visitors reached GEL 3 billion, which is higher compared to the previous year (by 9.8%) and 2019 (by 61.7%).

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

Creative industries: Media content production and post-production value chain, despite showing considerable growth in 2021 and 2022, as the recovery began from record-low numbers, most of the key indicators of the value chain were unable to return to the pre-pandemic levels. The turnover of media content and post-production value chain increased by 73.1% compared to 2021 but remained 22.7% below the turnover recorded in 2019. Interestingly, the number of people employed in the media content production and post-production value chain continued to grow in 2020 (though only by 5.5%) but substantially declined in 2021(-20.0%). In 2022, employment in the value chain saw a return to growth, albeit at a modest YoY increase of 3.8%, primarily driven by a low base effect. However, employment remained 16.9% lower compared to 2020 and 12.4% lower than 2019.

Georgia is taking important steps to become a post-production hub in the region as post-production is becoming a global phenomenon. Postred, the leading post-production company in Georgia, is currently working on numerous large international projects, including Euphoria and Scream, and has recently ventured into the video game sector through a partnership with a major player in the market. Postred is also actively contributing to developing a skilled workforce in the country by operating an academy that provides training in various post-production specializations. In response to increasing demand for post-production, the cash rebate program is undergoing important changes, as Enterprise Georgia is expected to approve the program soon, including offering cash rebates on post-production

(previously, the program only offered cash rebates of 20-25% on qualified expenses incurred during film production).

Important steps have been taken towards developing the capabilities of Georgian film production companies in the frame of a training program organized by the Enterprise Georgia agency for representatives of 21 Georgian companies. In addition, the commercialization program for Georgian films was launched under the initiative of "Enterprise Georgia" in cooperation with the Georgian National Film Center (GNFC). The goal of the program is to promote the screening of Georgian films at international festivals.

The artisan value chain also experienced significant positive changes in 2022. Approximately 90% of the surveyed companies reported an increase in turnover compared to 2021. Moreover, the majority of these companies reported high growth in turnover, ranging from 10% to 50% increase. Interestingly, most companies indicated no change in the number of employees, and none reported a decrease in the number of employed people in the second two quarters of 2022 compared to the same period in 2021. Artisan's value chain remained largely unchanged during the reporting period, as reported by sector representatives. However, they anticipate strong sales growth during the upcoming summer tourist season as the value chain continues to recover from the pandemic disruptions and return to its pre-pandemic state.

Light manufacturing: The turnover in all value chains in this sector demonstrated positive nominal growth in 2022 compared to 2021, with the highest growth observed in the construction materials value chain (21.6%). Employment also increased in 2022 in every value chain, with the only exception being the furniture value chain, where employment decreased slightly by 0.3%. The construction materials value chain registered the highest number of hired employees as of 2022, while the furniture value chain had the lowest. Improved performance in 2022 should be partly attributed to the base effect. Survey results for the PPE value chain and the wooden toys business activity suggest that the majority of PPE and wooden toys manufacturers reported increased turnover in both halves of 2022 compared to the first half of 2021. Regarding employment, most PPE value chain manufacturers reported no year-on-year change in their number of employees in 2022, while most wooden toy manufacturers reported an increase in the first half and no change in the second half of 2022.

Overall, according to a conducted qualitative assessment, there is a positive projection for a future increase in demand for Georgian production in the light manufacturing sector. However, the qualitative assessment has revealed that some overarching impediments restrict growth in all value chains of the light manufacturing sector. The most prevalent and persistent challenge seems to be the shortage of workforce. There is a general scarcity of human resources, in addition to a lack of qualifications in the labor force. Additionally, locally manufactured products might lack a competitive advantage against imported products. In this regard, there is not much that can be done except, if needed, to support these businesses in improving their technological base. Some of them, for instance, in the wooden toy manufacturing industry, report a lack of effective technologies that could improve both the quality and quantity of their production. Furthermore, there is a lack of information regarding local players across the supply chains – some potential Georgian purchasers of light manufacturing products have limited knowledge about local production.

Solid waste management and recycling: The turnover in the solid waste management and recycling sector demonstrated positive nominal growth in 2022 (12.1%) compared to 2021, reaching GEL 97.1 million. Average monthly salary and productivity also showed an increasing trend in 2022 compared to 2021.

The qualitative assessment revealed no significant progress in addressing the central impediments that have limited the overall development of this sector, with the underdevelopment of the waste management system in the country being a notable issue. Some potential for positive change lies in enacting four technical regulations to introduce Extended Producer Responsibility (EPR) for certain waste streams. It is expected that a technical regulation for another waste stream, specifically end-of-life vehicles, is also underway and will be enacted soon. However, implementing EPR for packaging materials is still pending and is considered a major obstacle to establishing an effective waste management system in the country. The shortage of recyclable waste in Georgia is seen as a critical barrier in this regard. This scarcity of waste also discourages domestic and foreign investors from showing interest and seeking returns in this sector. Improved cooperation with the public sector would greatly benefit this sector; however, instances of collaboration thus far have been lacking or less successful. Nevertheless, gaining a better understanding of the capacities of the parties involved in waste management holds significant potential for achieving lasting positive impacts in the development of this sector.

Shared intellectual services: In the first half of 2022, 50% of the surveyed companies were small businesses with a turnover below GEL 0.1 million. During the same period, 36.7% of businesses reported a turnover between GEL 0.1 million and GEL 0.5 million. However, in the second half of 2022, there was a shift in the distribution of companies towards larger turnover ranges, with more companies reporting turnover levels from GEL 0.5 million to over GEL 1.5 million. Overall, in the first half of 2022, the turnover of all surveyed companies increased by an average of 5.3% compared to the previous year. In the second half of 2022, companies reported a higher average year-on-year growth rate of 12.7%. The majority of companies, both in the first half (86.7%) and the second half (92.9%) of 2022, reported an increase in turnover compared to the same period in 2021.

The number of employed individuals in the surveyed SIS companies ranged from 1 to 2750, with a median of 8 employees. Women accounted for 69.9% of the employed individuals, while young workers (under 30 years old) made up 62.4% of the total employment in surveyed companies. In the first six months of 2022, 67.7% of companies indicated no year-on-year change in employment. However, in the second half of 2022, the majority of surveyed companies reported an increase in employment compared to the same period in the previous year. The average monthly salary in 2022 amounted to GEL 2,500. Most surveyed companies in both halves of 2022 reported a year-on-year increase in this indicator.

The qualitative analysis revealed two significant challenges that are universal across the BPO Value Chain. The first challenge is the lack of qualifications on both the demand and supply sides of this value chain. The scarcity of relevant market-oriented educational programs has been identified as the root cause of this barrier. Additionally, there is an intensified drain of human capital from Georgia, contributing to the overall lack of available human resources. Workforce availability becomes more problematic over time as markets under the SIS sector become more competitive and intensify their efforts to obtain and retain skilled labor.

Another prominent problem highlighted by the majority of sector representatives is the lack of regulatory mechanisms and professional standards. This issue includes challenges related to the certification of architectural services provision and professional standards in HRM, among others. Some sector representatives emphasize that introducing such standards would improve the quality of services provided. However, consistent advocacy efforts to address these challenges have not been observed thus far.

Cross-cutting sectors: Cross-cutting sectors analyzed in this report - ICT, e-commerce, and transport and logistics - have shown different growth trends in recent years. The main difference is that while the ICT and e-commerce value chains were boosted by pandemic-related restrictions, the transport and logistics value chain experienced a significant decline. In 2022, alongside the recovery from the pandemic, the key factor influencing the growth of these cross-cutting sectors in Georgia was the war in Ukraine.

The ICT software value chain demonstrated remarkable growth in 2022, with turnover increasing by an impressive 339.4% year-on-year (YoY) and employment growing by 178.3% YoY. Although the ICT software value chain experienced a decline in 2020 due to decreased demand and disruptions in the supply chain caused by the COVID-19 pandemic, the nationwide stay-at-home directives during the pandemic boosted the demand for ICT technologies. Even as restrictions were lifted and general demand rebounded in 2022, the usage of technologies and digitalization trends remained strong. Additional factors contributing to the high growth of this value chain in 2022 were tax incentives introduced by the Georgian government to attract international ICT companies, resulting in the entrance of several major companies to Georgia. The war in Ukraine also played a role, as it led to an influx of skilled workers from Russia, Ukraine, and Belarus to Georgia.

The ICT hardware value chain in Georgia is comparatively smaller than the ICT software value chain. In 2022, the turnover of ICT hardware also experienced growth, though not as significant as ICT software, with a turnover of GEL 1.9 million, representing a 66.1% increase compared to 2021.

The e-commerce value chain, which benefited from pandemic-related restrictions and continued to experience high growth even after the loosening of restrictions in 2021, witnessed a slower growth rate in 2022. However, the value chain still maintained its high numbers achieved in previous years. The total number of e-commerce transactions in 2022 increased by 3.9% YoY, reaching 101.5 million, while the total value of e-commerce transactions increased by 2.1% YoY, amounting to GEL 6.5 billion.

The transport and logistics value chain, being the largest among all cross-cutting value chains, was heavily impacted by the pandemic, and the subsequent economic rebound had a strong influence on this sector as well. In 2022, key indicators of the value chain recorded significant growth, with the transport sector's GDP growing by 28.4% YoY and the turnover of the value chain increasing by 36.8% YoY. While the growth in the transport and logistics value chain in 2021 was largely attributed to the base effect, the growth in 2022 was primarily stimulated by the war in Ukraine. The outbreak of Russia's war in Ukraine resulted in a redirection of transport routes away from the conflict-involved countries, with Georgia becoming an alternative transit route, thereby increasing the demand for transport and logistics services in the country. Trade in the transport and logistics sector, which was heavily impacted by the pandemic, also showed impressive growth in the first half of 2022.

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:

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.

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).

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)¹¹¹.

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:

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

To cover the data gaps, it was decided to obtain the key business indicators describing development in the above six value chains through a short quantitative survey. For this purpose, the business register of Geostat¹ as well as the list of stakeholders² were used to map the six value chains to NACE

classification of economic activities and to select enterprises. As a result, the following mapping was undertaken:

Table 2. Value Chain Mapping

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

To determine whether the companies surveyed were 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 turnover³ and wages were also asked. Additional comments collected by the interviewers provided interesting insights into certain aspects of the value chains' activities (Appendix 2).

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

QUALITATIVE ANALYSIS

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

- What are the supply chain linkages in the domestic market?
- What are the dynamics with regard to the presence of business associations?
- How ready is the private sector to invest?
- What changes have been made to gain a competitive advantage against key competitors in the domestic or export markets?

What changes have been observed in opportunities addressing productivity gaps?
How has competitiveness been improved?
Are the required human resources available?
What are the key determinants of the latest industry trends?

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

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

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

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

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

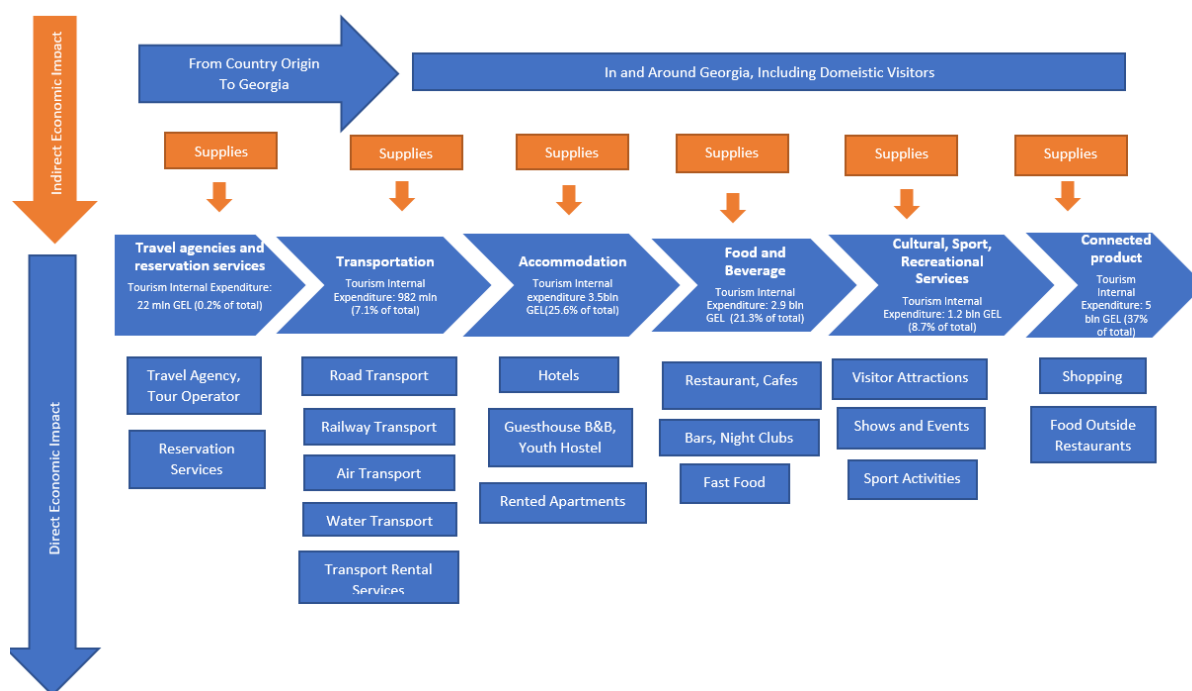
I. TOURISM

TOURISM VALUE CHAIN MODEL

The analysis presented below relies on the value chain model derived from reports such as "Sustainable Tourism for Development" (UNWTO, 2013), "Tourism Value Chain: Analysis and Practical Approaches for Development Cooperation Projects" (GIZ, 2020), and "Tourism Satellite Account of Georgia" (Geostat, 2022). By leveraging the insights from these reports, the analysis aims to gain a comprehensive understanding of Georgia's tourism industry and identify areas where improvements can be made.

Taking into account the value chain model, the analysis will delve into the different stages and activities within the tourism value chain, including aspects such as accommodation, transportation, attractions, tour operators, and related services. By examining each of these components, the analysis aims to identify potential gaps, challenges, and opportunities for enhancing the overall performance and competitiveness of Georgia's tourism sector.

Tourism Value Chain



SECTOR SUMMARY

In 2022 the number of international visits increased significantly by 173% compared to the previous year, reaching 4.7 million. Compared to the pre-pandemic period, in 2022, the number of international visits has not fully recovered and amounted to 61% of visits in 2019. In 2022 the number of domestic visits slightly declined (-4%) compared to the previous year and reached 16.3 million visits.

In 2022, the income from international travel reached USD 3.5 billion, which is 8% higher compared to 2019. The recovery was gradual, but by Q4 of 2022, it had exceeded the corresponding figure for

Q4 of 2019 by 46%. In 2022, the expenditure of domestic visitors reached GEL 3 billion, which is higher compared to the previous year (by 9.8%) and 2019 (by 61.7%).

Among the existing challenges and opportunities observed during the qualitative study, some of the most significant ones for each priority value chain are summarized below:

The effect of the Ukraine war on the Georgian Tourism Industry:

According to the respondents, the drivers of international tourism after the full-scale war in Ukraine included a mix of tourism-related and non-tourism-related (migration from conflict zones) factors. During 2022 and beyond, tourism industry representatives observed several trends and findings that have both short-term and long-term effects on Georgian tourism: Rapid and large-scale entry of foreign citizens from Russia, Ukraine, and Belarus in Georgia;

- Safety concerns on traveling to Georgia by international visitors;
- Disruptions in the structure of the main purpose of international visits;
- Lack of demand on tourist accommodation service providers;
- Changes in domestic tourism patterns;
- Changes in characteristics of visitors from the Gulf States;
- Disruption of the inflow of visitors from Azerbaijan;
- Labor force issues in the hospitality industry;
- Increase in the input prices.

The quarterly analysis of the **accommodation value chain** turnover and comparing it to the corresponding aggregated sector reveals that the value chain exceeded the pre-pandemic value in 2022. The accommodation value chain turnover reached GEL 975.6 mln in 2022, which is 4.4% higher compared to the corresponding value of 2019. Notably, the number of employees did not recover fully in 2022 compared to 2019 and stayed 9.1% below the pre-pandemic number.

Based on the qualitative analysis key points for the value chain of **Accommodation (Hospitality)** were identified:

Decreased ADR and Increased Input Prices: The hospitality sector has faced challenges with decreased Average Daily Rates (ADR) due to low demand for hotel services, particularly from migrants who opt for alternative accommodation options. Additionally, hotels have experienced increased input prices following Covid-19, leading to the need to balance ADR to cover costs while remaining competitive.

Student Qualification vs. Bad Management Practices: Representatives from the hospitality sector debate whether student qualifications or poor management practices are the main challenges in the industry. They highlight the impact of management practices on employee retention, emphasizing the need for investment in human resources through training, motivation, and favorable working conditions.

Domestic Adventure Travelers: Georgian citizens, restricted by outbound travel during the pandemic, have explored their own country and engaged in adventure tourism. This behavior has continued even after the pandemic, contributing to domestic tourism and regional economies.

Expectations for Summer Season: The Federation of Hotels and Restaurants expects a significant rise in Gulf tourists during the upcoming summer, projecting their share in hotel occupancy to reach

up to 60%. However, concerns exist regarding frequent deportations without clear explanations and reduced border accessibility with Azerbaijan. Demand from European group bookings and individual travelers is increasing, but overall demand remains relatively low compared to the pre-pandemic period. Increased demand from Russian tourists is anticipated in Batumi during the summer.

In 2022 the turnover of the **food service value chain** has shown a 48.5% YoY increase compared to 2021, reaching GEL 1,224 mln. In addition to that, the turnover of the food service value chain exceeded the pre-pandemic value significantly – by 36.6%.

Key points for the value chain of **Food and Beverage** (Hospitality) were also identified through qualitative analysis:

Service Quality Enhancement: Collaboration efforts involving academic institutions and destination management organizations (DMOs) are essential for addressing the challenge of service quality in Georgian tourism. Projects like the 'Khetsuriani Sommelier & Wine School | Caucasus University' in the Imereti region aim to provide training programs for hospitality, tourism, and wine industry representatives to enhance their skills and knowledge in areas such as sommelier training and wine cellar management.

Promoting Gastronomy Tourism: Georgian gastronomy's diversity is a key strength that can be leveraged to attract tourists. Projects like "Imeruli Gemo" promote authentic Imeretian cuisine and culture through marketing video clips featuring famous chefs. These initiatives aim to position the Imereti region on the world tourism map, highlighting its gastronomic offerings alongside other tourism segments.

High Expenditure on Food and Drink: Migrants within the tourism industry allocate a significant portion of their spending toward dining out. Unlike other tourism-related services that can be substituted with longer-term alternatives, dining out remains a constant necessity for migrants. The International Visitor Survey data indicates a notable increase in visitor expenditure on food and beverages, reflecting the appeal of Georgia's culinary traditions and the convenience of restaurant services.

In 2022 the output of **travel agencies' value chain** could not recover fully to pre-pandemic value (GEL 154 million) and amounted to 90% of it.

Key points for the value chain of **travel agencies and reservation services** are summarized below:

ITB Berlin: The event presented an opportunity for the tourism industry to showcase Georgian tourism, but some stakeholders raised criticisms. Tour operators expressed solidarity with protestors and criticized the government's inconsistent actions, which could affect the country's ability to benefit from the event.

Tourism Law: The law is in the final stage of development, but unresolved issues concern tour operators. They raise concerns about the certification of cultural guides, unregulated guides contributing to the shadow economy, and the need for regulations to address infringements. There are also concerns about applying European Union (EU) law without adjusting it to the Georgian reality.

Influx of Russian Tour Operators: Tour operators are concerned about the growing presence of Russian tour operators in the Georgian market. They fear that attracting visitors primarily from CIS

countries will lead to lower expenditure per visit and compromise service quality. This could impact the reputation of Georgian tourism and its focus on quality over quantity.

Traffic Jams: Worsened traffic jams in Georgia create a negative experience for visitors, who may have to stay in buses for hours to reach their destinations. Tour operators request permission for tourist cars to use bus lanes to alleviate the problem.

Increasing Demand for Responsible and Sustainable Tourism: There is an increased demand for sustainable tours in Georgia, mainly from European visitors. However, developing sustainable practices within the tourism industry needs improvement to meet this demand. Tour operators encourage service providers to adopt sustainable practices and take a green direction in their businesses.

The Key points for the value chain of **Cultural, Sports, and Recreational Services** was also identified within the analysis:

Fraud Near Tourism Attractions: Fraud cases near attractions, like Martvili Canyon, have become common, impacting revenue and service quality. "Tourist hunters" offer alternative tours to visitors at inflated prices, reducing revenue for attractions and compromising service quality. Guides responsible for taking tourists to these attractions are involved in the fraudulent scheme.

Adventure Tourism and Migrant Businesses: Migrants are bringing their tourism businesses, including adventure tourism services, to Georgia. This influx of migrant businesses increases diversity and competition in the adventure tourism sector.

Service Quality in Adventure Tourism: Efforts are being made to enhance service quality in adventure tourism. Training programs, such as the Training for Bird Watching Guides, aim to improve the skills and professionalism of adventure tour guides.

Supplemental Documents for Ecotourism Strategy: The Ecotourism Strategy in Georgia is supported by manuals like the Universal Design Strategy, Cost-benefit Analysis, and Trail Planning and Development Guidelines. These documents provide guidance for infrastructure development and decision-making in ecotourism.

Ecotourism Committee for Monitoring: Efficient coordination and monitoring of tourism activities are crucial. An ecotourism committee, consisting of relevant organizations, is proposed to address challenges, promote regional development, and monitor the implementation of the ecotourism strategy.

Guide Fest: The Guide Fest event aims to promote adventure tourism professions and highlight the role of guides in delivering exceptional experiences. It serves as a platform to raise awareness about adventure tourism and showcase Georgia's natural beauty.

Impact of Technological Progress: Technological advancements, such as AI and automation, are expected to impact adventure tourism significantly. While automation can handle routine tasks, the role of mountain guides remains crucial in providing personalized experiences and ensuring safety in challenging terrains.

Tourism Sectoral Skills Organization (SSO): The development of the SSO aims to bridge the skills gap in adventure tourism and establish vocational standards for adventure tourism guides. Discussions are ongoing regarding the number of SSOs to be established.

Mountain Lifeguard Qualifications: Efforts are underway to develop Mountain Lifeguard qualifications to enhance safety and professionalism in adventure tourism. Collaboration between relevant stakeholders is driving this initiative.

Adventure Tourism Training and Certification: Training programs and initiatives, supported by organizations like the Mountain Guide Association and USAID aim to provide adventure tourism training and certifications. These programs raise the skill level and professionalism of adventure tourism professionals.

Ecotourism Projects for Sustainable Development: Various ecotourism projects focus on sustainable tourism development, such as marking hiking routes and creating interpretive routes. These projects contribute to the growth of ecotourism and promote economic benefits for local communities.

Cultural Routes for Tourism Development: Developing cultural routes is an effective tool to boost cultural tourism, diversify tourism products, and stimulate economic benefits for local communities. GNTA and DMOs play a role in coordinating and promoting these routes.

Transnational Tourism Product Development: Collaboration between Georgia and Armenia aims to develop transnational tourism products, catering to tourists interested in visiting multiple regional destinations. This collaboration aims to create cultural, adventure, and gastronomy tourism products.

In 2022, the output of **land and water transport VC** reached GEL 1,742 million, which is 59% higher compared to the pre-pandemic (2019) figure. In 2022, the output of **the air transport value chain** reached USD 191 million, which is 24% higher compared to 2019.

Key points for the value chain of **Transport** (Transportation):

Transport Infrastructure Challenges: European tour operators expressed concerns about Georgia's transport infrastructure, particularly bus stations, limited public transport options from airports, and slower train services. Improvements in these areas are necessary to enhance the travel experience for European tourists.

High Competition in Car Rentals: The car rental industry in Georgia is highly competitive, with international companies dominating the market for the car rental sector without drivers. Local companies have shifted their focus to the car rental sector with drivers, targeting B2B customers such as tour operators and hotels. This strategic shift helps reduce marketing costs and establishes long-term partnerships, providing a more stable revenue source.

Transport Industry Issues in Tourist Packages: The transport industry has been identified as the most problematic link in tourist packages, leading to tourist dissatisfaction. Issues range from fraudulent practices to subpar services. Rento Group is addressing this by offering specialized training courses for drivers and advocating for standardized training programs across the transport industry.

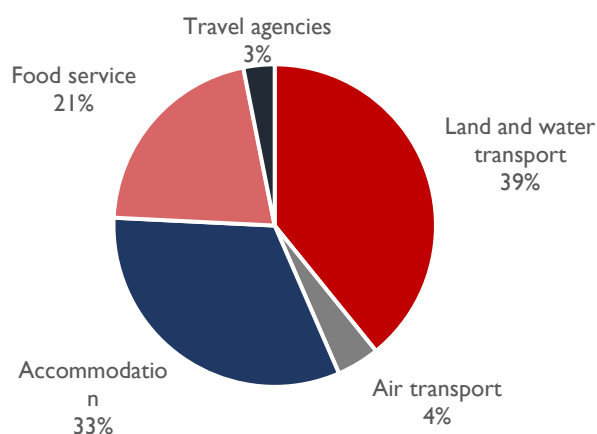
Comprehensive Approach to Address Challenges: Rento Group emphasizes the need for a comprehensive approach involving training programs, strict regulations, monitoring mechanisms, and continuous evaluation to improve the professionalism and quality of services provided by the transport industry. This aims to deliver seamless and satisfactory tourist experiences and enhance the tourism sector’s competitiveness.

SECTOR TRENDS

GROSS VALUE ADDED OF TOURISM VALUE CHAINS

The analysis of GDP patterns in the tourism sector revealed that it contributed GEL 4,447 million in 2022, which is 27.1% higher compared to 2021 (GEL 3,498 mln) and 22.5% higher when compared to 2019 (GEL 3,016 mln). The share of the tourism sector’s contribution to the total GDP of 2022 was 7.2%, which is 0.5 pp higher when compared to 2021 and 1.2 pp lower when compared to the pre-pandemic 2019 value.

Chart 1.1 The contributions of tourism value chains in the total share of tourism in GDP



Source: Georgian National Tourism Administration

By examining the contributions of various value chains within the tourism industry, it can be observed that the land and water transport value chain amount to 39.2% (GEL 1,742 mln) of the total gross value added of the tourism sector, followed by accommodation (32.3% - GEL 1,437 mln) and food service (21.1% - GEL 983 mln) value chains. Meanwhile, travel agencies and air transport value chains amounted to only 3.1% (GEL 139 mln) and 4.3% (GEL 191 mln), respectively.

Notably, compared to the previous year, the share of land and water transport in total tourism gross value added declined by 3 pp, while the share of food services increased by 1.4 pp. The contributions of other value chains did not change considerably. Compared to pre-pandemic distribution (2019), the share of land and water transport increased by 8.9 pp, the share of food services increased by 2.8 pp, while the share of accommodation declined significantly by 10.7 pp.

FOREIGN DIRECT INVESTMENT (FDI) IN TOURISM VALUE CHAINS

According to the analysis of annual FDI patterns in accommodation and food service activities, in 2022, the FDI amounted to USD 31.5 million after disinvestment in 2021 (USD -7.4 million). For comparison, it must also be mentioned that in 2019 the FDI in this sector amounted to USD 119.3 million, which is 3.8 times larger than the investment value of 2022. To compare the share of FDI in the

accommodation and food service sector in total foreign direct investment, in 2019, this value was equal to 8.8%. In 2022, the accommodation and food service sector contributed 1.6% of the total FDI.

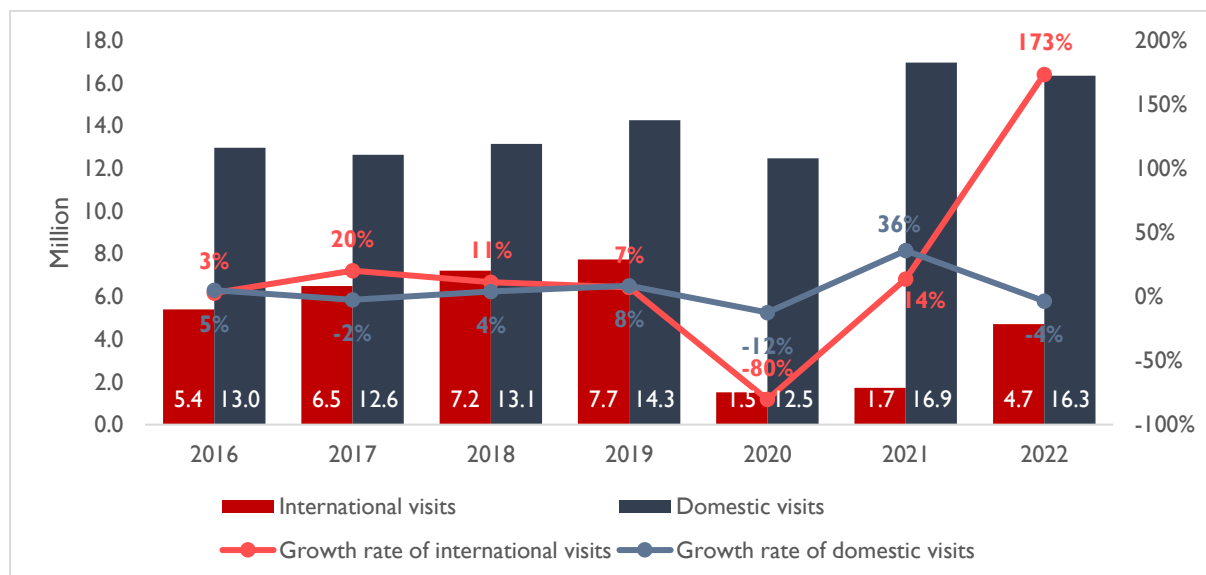
DYNAMICS OF INTERNATIONAL AND DOMESTIC VISITS IN 2022

Number of visits

In 2022 the number of international visits increased significantly by 173% compared to the previous year, reaching 4.7 million. Compared to the pre-pandemic period, in 2022, the number of international visits has not fully recovered and amounted to 61% of visits in 2019. As for the future flow of visitors, the GNTA forecasts that the number of visitors will not return to 2019 levels until 2024, which aligns with international expectations.

In 2022, the highest number of visitors to Georgia came from Russia, amounting to 915,000, 75% of the total number of visitors from Russia recorded in 2019. In second and third place were fellow neighboring countries Turkey (711,000) and Armenia (531,000).

Chart 1.2 The number of international and domestic visits and their growth rate compared to the previous year



Source: National Statistics Office of Georgia

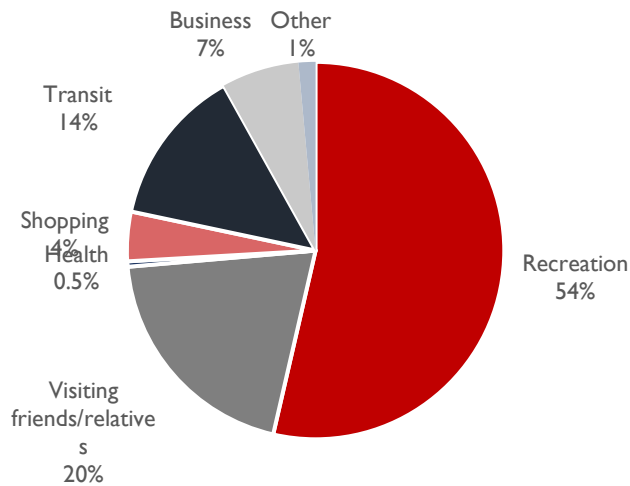
In 2022 the number of domestic visits slightly declined (-4%) compared to the previous year and reached 16.3 million visits. Nevertheless, it should be emphasized that domestic visits in 2022 remained 15% higher than the pre-pandemic level (2019), suggesting a sustained growth in demand for tourist activities among domestic visitors.

The regional distribution of domestic visitors in 2022 remained similar to previous periods. In particular, the main destination for domestic visits was Tbilisi (22% of total visits), followed by Imereti (17%) and Adjara (11%). In absolute terms, the number of visitors to Mtskheta-Mtianeti declined significantly by 253,700 visitors, while in Shida Kartli this number dropped by 227,100. Meanwhile, visits to Tbilisi (140,600) and Kakheti (104,300) increased notably in 2022 compared to 2021.

Purpose of visits

In 2022, the primary purpose of international visits was recreation, accounting for 54% of total visits. It was followed by visiting friends/and relatives (20%), transit (14%), and business (7%). Meanwhile, health (0.5%) and shopping (4%) had the lowest shares in total visits. Notably, recreation increased by 10pp in 2022 compared to 2019, while the shares of shopping, transit, and business in total visits declined.

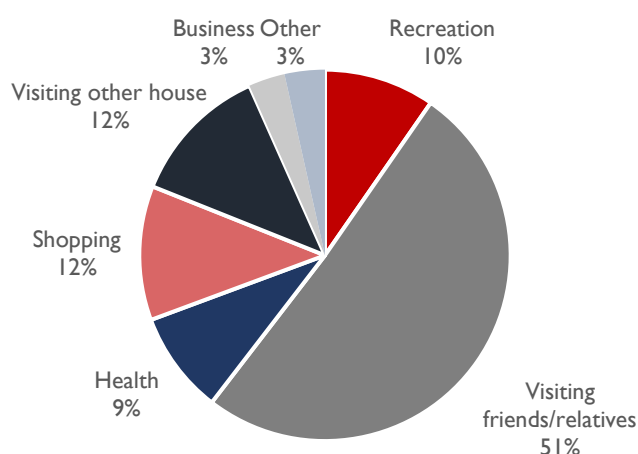
Chart 1.3 The distribution of international visits by the main purpose of visit in 2022



Source: National Statistics Office of Georgia

The distribution of domestic visits in 2022 by the primary purpose of the visit was consistent with previous years. The main purpose for the majority of visits (51%) was visiting friends/relatives, followed by visiting their other house (12%), and shopping (12%). Among the main categories of visits, “business” amounted to only 3%.

Chart I.4 The distribution of domestic visits by the main purpose of visit in 2022



Source: National Statistics Office of Georgia

Expenditures and lengths of visits

International visitors

In 2022, the income from international travel reached USD 3.5 billion, which is 8% higher compared to 2019. The recovery was gradual, but by Q4 of 2022, it had exceeded the corresponding figure for Q4 of 2019 by 46%.

Despite only a partial recovery in the number of international visitors in 2022, the income from international travel exceeded the pre-pandemic level significantly. This can, in part, be attributed to the fact that the statistics on income from international travel also consider those staying in Georgia long-term (migrants) who are not counted in the international visitor statistics. In addition, factors such as the increased length of stay and the relative recovery of international tourism also played a role in this rapid increase in income. In addition, in 2022, the average length of stay per visit increased by 2.3 nights in 2022 compared to 2019, which also quickened the recovery in income from international travel.

According to the National Georgian Tourism Administration, among the top tourism source markets, in 2022, the length of stay was longest for Belarus (14.6 nights), followed by India (13.2), USA (11.7), Ukraine (11.1) and Russia (10.8). On the other hand, the length of stay was shortest for Armenia (3.9 nights), followed by Turkey (4), Azerbaijan (5), and Israel (5.8).

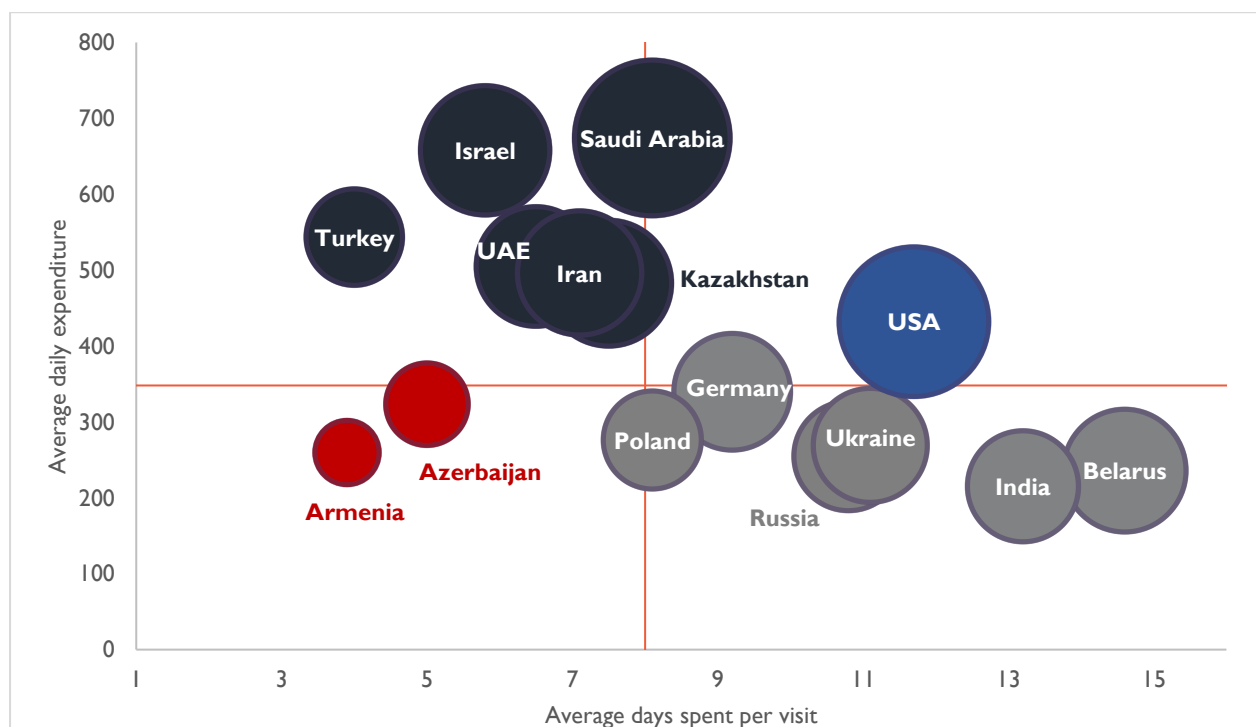
In terms of nationality, the income from Russian travelers was the highest in 2022 and amounted to USD 891 million (25.3% of total income), which is 15% higher compared to 2019. Meanwhile, income from Ukrainian travelers exceeded the pre-pandemic number by 52% and reached USD 282 million. Income from Israeli travelers also exceeded the pre-pandemic number significantly (16%), while income from the EU (-30%) and Armenia (-19%) remained below the pre-pandemic levels. Notably, income from Turkish travelers recovered to 92% of the pre-pandemic

number after the rapid monthly increase (85.7%) in December 2022, which could be attributed to the surge of the inflow of travelers from Turkey to buy iPhones¹.

Notably, according to the estimations of the National Bank of Georgia, in 2022 **the income from migrants was approximated to be USD 509 million**. Out of that, the majority of income from migrants comes from Russians (approximated at USD 422 million), and the rest is approximated to be coming from Belarusian migrants (USD 88 million). The average household expenditure of migrants from Russia is USD 1730 per month, while migrated households from Belarus spend about USD 1440 per month².

In addition to the individual analysis of expenditures and length of stay, within this report, we also utilized a three-dimensional analysis of key source markets combining two indicators – average expenditure per visit and the average daily expenditure of international visitors. Mapping the most prominent countries according to the average daily spend per visitor (Y-axis) and average days spent per visit (X-axis) in 2022, with the average total expenditure per visit represented by the size of the bubble on the graph, helps identify the higher-than-average daily spenders and the longer-than-average stayers.

Chart I.5 The four-quadrant model for key international tourism source markets in 2022



*Note that the red lines represent the total average daily expenditure (GEL 348) and average days spent per visit (8.0) by tourists in Georgia

Source: Georgian National Tourism Administration

Using this method, countries of origin can be segregated into different categories, ranked from most desirable to least desirable:

¹<https://batumelebi.netgazeti.ge/news/450970/>

² [2022q4-geo.pdf \(nbg.gov.ge\)](#)

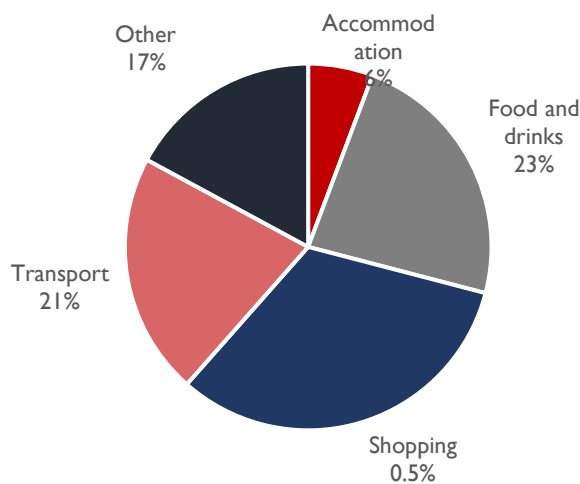
- **High-spend, long-stay – the United States**
- **High-spend, short-stay – Turkey, Israel, UAE, Iran, Saudi Arabia, and Kazakhstan**
- **Low-spend, long-stay – Belarus, India, Ukraine, Russia, Germany, and Poland**
- **Low-spend, short-stay - Azerbaijan and Armenia**

Therefore, according to the analysis, it can be concluded that marketing and other types of activities to increase the length of stay of visitors from Turkey, Israel, UAE, Iran, Saudi Arabia, and Kazakhstan are recommended as they are high spenders and are currently in the short-stay category. On the other hand, countries, such as Belarus, India, Ukraine, Russia, Germany, and Poland are low spenders; however, due to their longer stay, their contribution to the total expenditures of tourists is high.

Domestic visitors

In 2022, the expenditure of domestic visitors reached GEL 3 billion, which is higher compared to the previous year (by 9.8%) and 2019 (by 61.7%).

Chart 1.6 The distribution of expenditures of domestic visits by categories in 2022



Source: National Statistics Office of Georgia

The expenditure distribution in 2022 was similar to recent years, with most expenditures going on shopping (32%), food and drink (23%), and transport (21%). In absolute values, in 2022, compared to 2021, the expenditure of domestic visitors on transport (by GEL 75.5 million), accommodation (by GEL 43.7 million), and food and drink (by GEL 38 million) increased significantly.

Despite the increase in the total expenditures of domestic visitors, it cannot be attributed to the length of stay of domestic visitors, as in 2022, the average nights spent per visit was equal to 1.9, which is 10.6% lower compared to the previous year and 5% lower compared to 2019 (i.e., pre-pandemic). Notably, since the pandemic broke out, the average number of nights spent per visit increased in 2020 and 2021.

Qualitative Analysis of Tourism Sector

The interviews with tourism industry representatives focused on the Ukraine war's impact on Georgia's tourism industry and the ITB Berlin, identified as the most significant factors affecting tourism in 2022 and beyond. According to the respondents, the drivers of international tourism following the full-scale war in Ukraine included a combination of tourism-related and non-tourism-related factors,

such as migration from conflict zones. During 2022 and beyond, tourism industry representatives observed several trends and findings that have both short-term and long-term effects on Georgian tourism:

Rapid and large-scale entry of foreign citizens from Russia, Ukraine, and Belarus into Georgia: Many foreign citizens arrived in Georgia due to war. They increased the demand for hotels and flats renting daily as a short-term effect. Later, some of them left the country for better alternatives to migrate. At the same time, another part decided to relocate to Georgia, causing a significant increase in accommodation prices rented monthly and prices of residential flats for sale. The large flow of migrants mainly affected Tbilisi and Batumi. They also used the hotels of Kazbegi and Gudauri on the way to their final destinations.

Safety concerns on traveling to Georgia by international visitors: Europeans and US visitors are sensitive to the political situation at the destination. Tour operators call for action from GNTA to position the country as a safe destination. According to them, the ITB Berlin platform could have been better used to attract visitors from Europe.

Disruptions in the characteristics of international visitors: Some tourism industry representatives argue that migrants brought their businesses to Georgia to work as tourism operators and focus on attracting visitors from CIS countries, changing the anatomy of Georgian tourism. According to the respondents, the strategy of Georgia is to focus on western high-value markets, and the country striving to adapt the service quality to these markets will develop faster. The visitors attracted by Russian operators will negatively affect the tourism industry, setting low standards for their service quality.

Disruptions in the structure of the primary purpose of international visits: Migrants boost the number of visitors traveling for visiting friends and relatives (VFR) purposes. According to industry representatives, migrants invite friends and relatives to their new homes boosting the VFR visitor segment in the country. According to the international visitor survey, the VFR segment spends lower than average as they seldom need to pay for accommodation during their stay.

Changes in domestic tourism pattern: Immigrants from the conflict zones will join domestic tourism by becoming residents of Georgia. The private sector reports about the new segment of visitors from Russia and Ukraine traveling from Tbilisi to the regions. Migrants travel to the regions to learn more about their new country of residence.

Changes in characteristics of visitors from Gulf States: Hospitality industry representatives observe the changes in the characteristics of visitors from Gulf countries. Previously traveling individually mainly for entertainment, they now travel with groups and family members. Their main destinations are the resorts of Samtskhe Javakheti Bakuriani, Borjomi, etc. The industry expects a high inflow from this segment in summer 2023.

Disruption of the inflow of visitors from Azerbaijan: The closed land border with Azerbaijan negatively affected the flow of international visitors. The recovery process would have been significantly faster if the border had remained open.

Labor force issues in the hospitality industry: Due to harsh economic conditions, Georgian hospitality sector representatives report a high drain of Georgian tourism service employees to other countries. The COVID-19 pandemic has caused many employees to transition to different fields and

never return to the tourism industry. Furthermore, other industries have intensified the competition for qualified personnel by offering higher salaries.

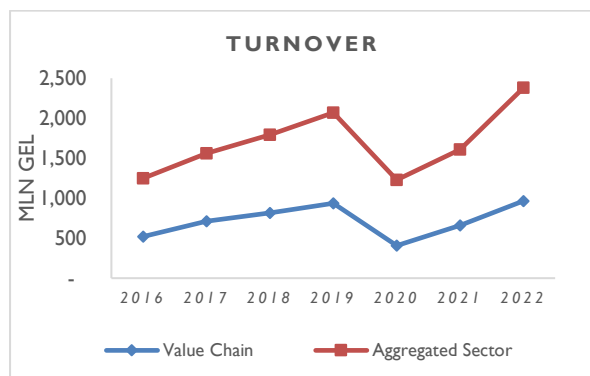
Increase in the input prices: The tourism representatives observe the increase in input prices. The high prices negatively affect the competitiveness of the Georgian tourism sector. The industry representatives argue that along with high prices, service quality also decreased. The explanation behind the quality decrease was that tourism service providers began adapting to the characteristics and expectations of Russian visitors, who are perceived to be less demanding than European visitors.

ACCOMMODATION VALUE CHAIN

The quarterly analysis of the accommodation value chain turnover and comparing it to the corresponding aggregated sector reveals that the value chain exceeded the pre-pandemic value in 2022³.

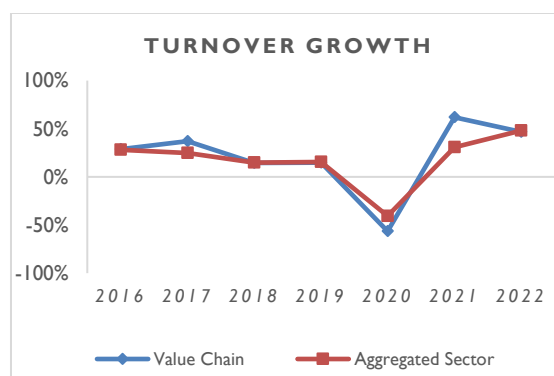
In particular, the accommodation value chain turnover reached GEL 975.6 mln in 2022, which is 4.4% higher compared to the corresponding value of 2019. Compared to the previous year, the value chain turnover increased significantly by 46.6% in 2022. This could be attributed to the rapid inflow of Russian, Ukrainian, and Belarusian travelers after the start of the Russia-Ukraine war and the generally increased length of stay of international visitors in the first half of 2022. It must also be noted that the aggregated sector of accommodation and food service facilities showed a more robust rebound in 2022 compared to the accommodation value chain.

Chart 1.7 Turnover of the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 1.8 Annual growth rate of turnover for the accommodation value chain and the corresponding aggregated sector



Output in the accommodation value chain has shared the dynamics of its turnover, having increased by 44.8% in 2022 compared to 2021 and by 4.4% compared to 2019. As in the case of turnover, the aggregated sector registered increases of relatively higher magnitude compared to pre-pandemic number and demonstrated higher output growth rate (47.4%) in 2022.

³ Note, that the values of 2022 are calculated through aggregating the quarterly data of 2022.

Chart 1.10 Output of the accommodation value chain and the corresponding aggregated sector

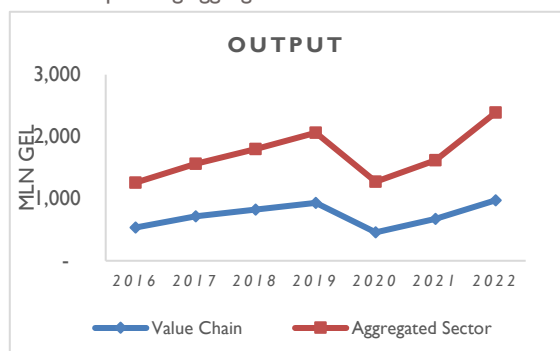
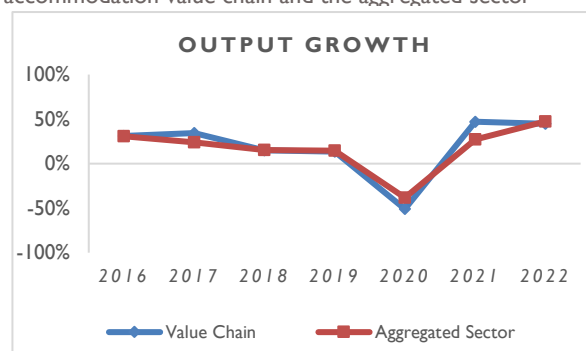


Chart 1.9 Annual growth rate of output for the accommodation value chain and the aggregated sector



Source: National Statistics Office of Georgia

Employment⁴ in the accommodation value chain seemed to be more resilient to the shock caused by the COVID-19 pandemic in 2020, compared to the abovementioned indicators, having decreased by 18.6% compared to 2019. In 2021, the decline continued in employment for both VC and aggregated, however, in 2022 employment increased by 19.3% compared to 2021 and the average quarterly employment reached 13,637 employees. **Notably, the number of employees did not recover fully in 2022 compared to 2019 and stayed 9.1% below the pre-pandemic number. Employment in the aggregate sector shared similar dynamic.**

Chart 1.11 Employment in the accommodation value chain and the corresponding aggregated sector

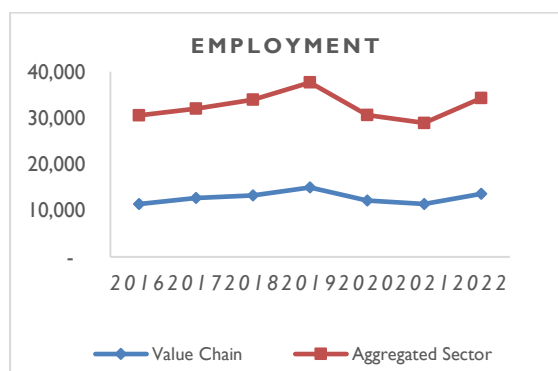
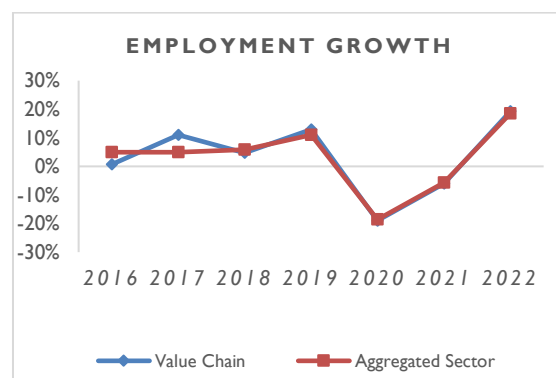


Chart 1.12 Annual growth rate of employment in the accommodation value chain and its aggregated sector



Source: National Statistics Office of Georgia

In 2022 the average monthly salary in VC showed a 17.8% YoY increase and exceeded the pre-pandemic value by 23.1%, reaching GEL 1,506. This increase could possibly be explained by rising costs due to the rising inflation, labor shortage in the accommodation value chain, and increased demand for accommodation services. Additionally, the total salary fund of VC has shown a significant 11.9% increase compared to 2019 and a 40.5% increase compared to 2021.

The productivity of the VC, as measured by output divided by the number of employed people, also showed positive dynamics in 2022. In particular, the productivity of the value chain increased by 21.4% compared to 2021 and exceeded the pre-pandemic (2019) number by 14.9%.

⁴ 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 rise in productivity could be attributed to a higher increase in output compared to the increase in employment. This is consistent with our qualitative findings that the sector suffers from a labor shortage; thus, it can be concluded that more output was produced by fewer people when compared to previous years. Changes in the productivity of the aggregate sector had a slightly lower magnitude.

Chart I.14 Average monthly salary in the accommodation value chain and the corresponding aggregated sector

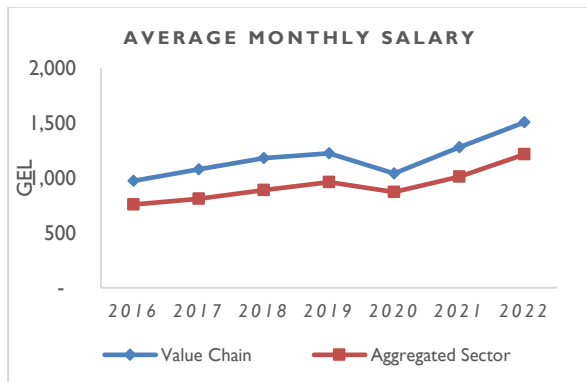
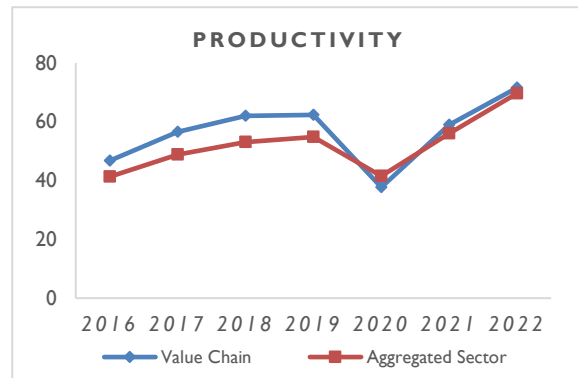


Chart I.13 Productivity in the accommodation value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Hotel price dynamics in Georgia

PMC Research Center conducts monthly research on accommodation prices⁵ based on www.booking.com and publishes the Hotel Price Index, which indicates average price changes in hotels,⁶ 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 prices⁷ 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. The prices in 2020 and early 2021 were the lowest in the analyzed period. However, since May 2021, the prices within each category have been rising, highlighting the recovery of prices 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 quarter of 2021; however, since then, prices declined significantly and showed a rising trend only in February 2022. On the other hand, among the categories, prices for the guesthouses have been relatively stable, with a slight increasing trend throughout 2021, followed by a minor decline in the

⁵ Note that the collected average prices and calculated HPI index do not account for inflation and USD/GEL exchange rate volatility.

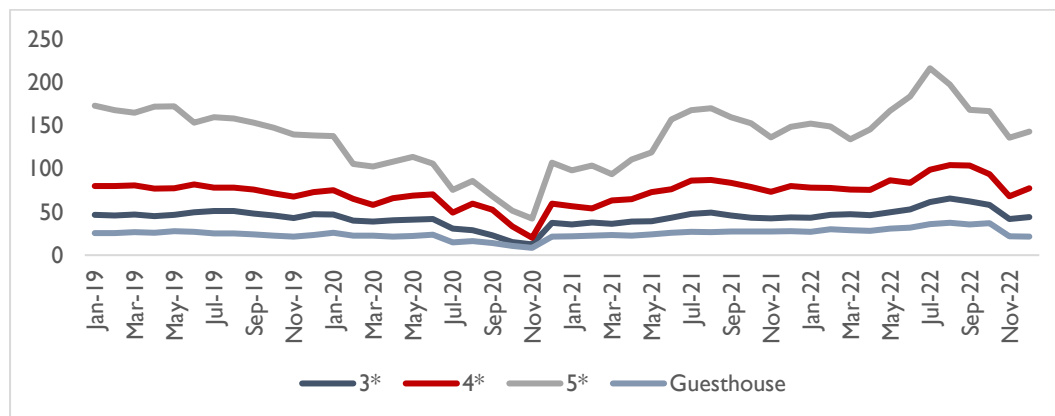
⁶ The study contains a random sample of 71% (312) of all 3, 4, and 5-star hotels and 25% (456 guesthouses) of all guesthouses registered on www.booking.com. The stars were assigned to the hotels due to the booking.com category and did not correspond to the international classification of hotels. The calculation of the Hotel Price Index is based on recommendations from the International Monetary Fund (IMF). The elementary aggregate price index is calculated according to the Jevons Index (Consumer Price Index Manual-Theory and Practice (2004), Practical Guide to Producing Consumer Price Indices (2009)).

⁷ Price is calculated for 2-person room per night

first quarter of 2022. Meanwhile, 3- and 4-star hotels shared similar recovery dynamics throughout 2021 and the beginning of 2022.

In total, the average hotel price in 2022 was equal to USD 61.3, which is 23.4% higher compared to 2021 and 33.6% higher compared to the pre-pandemic 2019 value, thus indicating a significant increase in average prices for hotels and hotel-type enterprises. Looking at specific categories, the YoY price increase throughout 2022 has been most significant for 3-star hotels (by 23.1% compared to 2021), while for 3-star hotels, the price increase has been least significant (by 16.7% compared to 2021). However, compared to 2019, the price increase was least significant for 5-star hotels (3.1% compared to 2019) and most significant for guesthouses (22.0%).

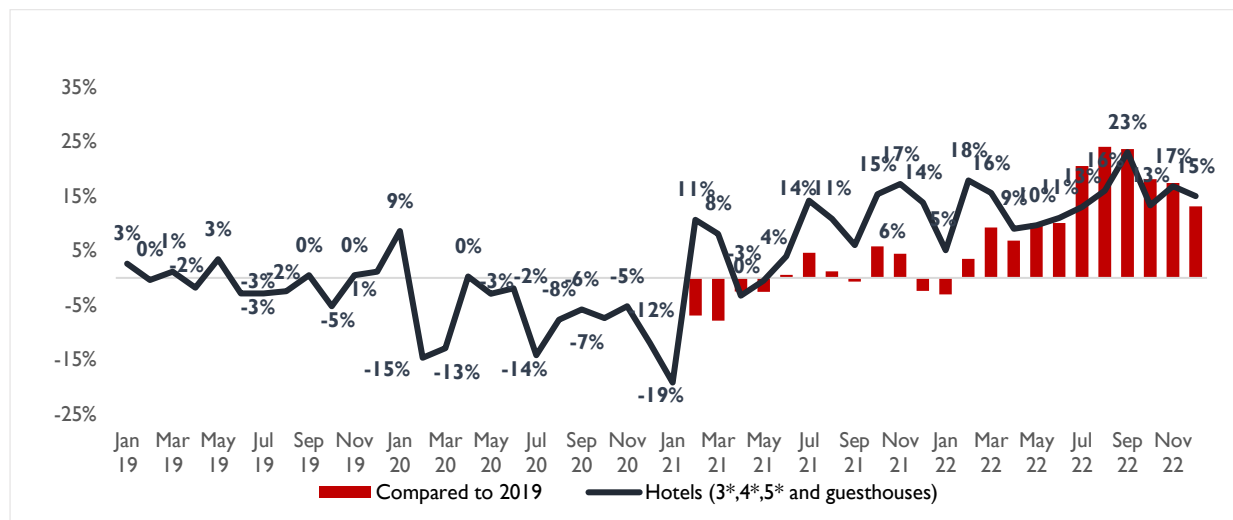
Chart I.15 Average hotel prices calculated in USD for 3, 4, and 5-star hotels



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 hotel prices have changed compared to previous years, allowing for month-on-month comparison (e.g., Dec 2020 vs. Dec 2021). As mentioned, the average prices peaked in 2018 before dropping in 2019 and 2020. This trend is also reflected in the HPI dynamics, registering a positive yearly index with only three months in 2019 and one month in 2020, recording an increase compared to the corresponding month of the previous year. The highest drops were reported in February, March, and July 2020. Because many hotels kept their prices unchanged during the lockdown, the index might understate the magnitude of the fall in prices in 2020.

Chart I.16 Yearly Hotel Price Index for 3, 4, and 5-star hotels



Source: PMC Research Center

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

Qualitative Analysis of Accommodation Value Chain

The problem of Decreased ADR in hotels and increased input prices after Covid-19

The Federation of Hotels and Restaurants has brought attention to the hospitality sector's lower Average Daily Rate (ADR) issue. Representatives from the industry attribute this decline to the low demand for hotel services, despite official statistics indicating a swift recovery of visitor numbers following the Covid-19 pandemic. They argue that many visitors, mainly migrants, opt for alternative accommodation options such as long-term rental flats or staying with relatives and friends who have already secured apartments.

Additionally, the prevalence of online meetings in the business segment has impacted hotels, as more companies opt for virtual interactions instead of in-person visits. As a result, hotels have had to rely more heavily on visitor arrivals traveling for rest and recreation, leading to a decrease in prices aimed at attracting visitors.

At the same time, accommodations have observed an increase in input prices following Covid-19. Some attribute this rise to the high demand generated by migration, while others point to a lack of competition in the input industry. The rising costs, low demand, and intense market competition have compelled hotels to reduce their prices to maintain competitiveness. The challenge for hotels lies in balancing ADR to cover rising costs and ensuring affordability to attract visitors.

Student Qualification vs. Bad Management Practices

The hospitality sector representatives have raised concerns about whether student qualifications or lousy management practices are the industry's main challenges. They emphasize the impact of management practices on employee retention, highlighting the reluctance of managers to invest in human resources through training, motivation, and favorable working conditions. This lack of investment leads to a significant outflow of employees from industry. While the specific human resource issues may vary among hotels based on their locations, they all share a common underlying problem: inadequate compensation. Many students and employees are primarily motivated by salary, and in most cases, they need to be adequately remunerated to encourage long-term commitment to their jobs. Additionally, better working conditions in other industries further contribute to the high turnover rate in the hospitality sector.

To address these challenges, some hotel representatives propose two key solutions. First, they suggest promoting hospitality professions among young individuals to attract fresh talent to the industry. This involves actively showcasing the benefits and opportunities of a career in hospitality and dispelling any misconceptions about the field. Second, they advocate for a change in recruitment practices by eliminating age-related biases and not exclusively hiring workers under 40. The industry can cultivate a more sustainable and motivated workforce by adopting these measures. In addition to promoting hospitality professions and addressing age-related biases, the hospitality sector must focus on investing in human resources. This includes providing comprehensive training programs, fostering a supportive and motivating work environment, and improving working conditions to attract and retain talented individuals. According to them, by prioritizing these initiatives, the industry can enhance employee satisfaction and ultimately improve the overall performance and reputation of the hospitality sector.

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

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

Hotel Industry Expectations for Summer Season

The Federation of Hotels and Restaurants has high expectations regarding visitors from Gulf countries for the upcoming summer season. They anticipate a significant rise in the presence of Gulf tourists, projecting their share in hotel occupancy to reach up to 60%. However, there is a concern regarding the frequent deportations without clear explanations. This issue, if persistent, could have negative consequences for the industry.

Another area of concern is the reduced border accessibility with Azerbaijan. On the other hand, it is expected that Armenian visitors will mainly concentrate on hotels in Kobuleti. Additionally, the improved relationship between Turkey and Armenia may lead to increased visitors to Turkey, adversely affecting the demand for Georgian resorts from Armenian tourists.

The association has noted an increased demand for group bookings from Europe and individual travelers. However, the overall demand remains relatively low compared to the pre-pandemic period. Nevertheless, it is anticipated that Russian tourists will increase the demand for hotels in Batumi during summer.

FOOD SERVICE VALUE CHAIN

In 2022 the turnover of the value chain has shown a 48.5% YoY increase compared to 2021, reaching GEL 1,224 mln. In addition to that, the turnover of the food service value chain exceeded the pre-pandemic value significantly – by 36.6%. In 2022, the aggregate sector showed a slightly lower YoY increase of 48.1% and a substantially lower increase (15%) compared to the pre-pandemic (2019) value, explained by the fact that the pandemic more heavily impacted the aggregate sector of accommodation and food services than the food services VC alone. Additionally, the higher level of recovery in the food service value chain rather than in the aggregate sector could be explained by the high demand for food services and increasing prices of commodities.

Chart I.17 Turnover of the food services value chain and the corresponding aggregated sector

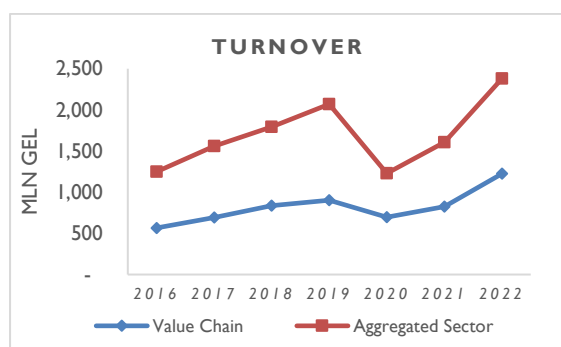
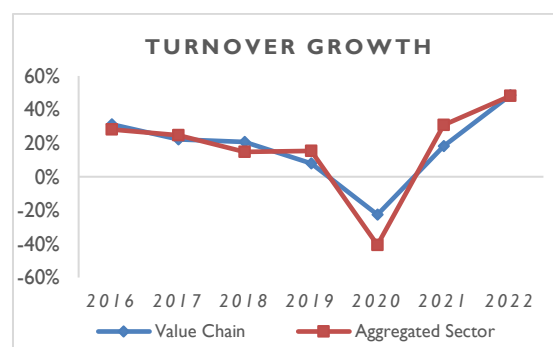


Chart I.18 The annual growth rate of turnover for the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

Output in the food services value chain mirrored the dynamics of the value chain's turnover in 2022, similar to the previous periods. In 2022 output reached GEL 1,224 mln growing by 48.6% compared to 2021 and by 36.6% compared to 2019. As in the case of turnover, the aggregate sector registered slightly lower YoY growth compared to 2020, also showing a smaller recovery scale compared to 2019.

Chart I.19 Output of the food services value chain and the corresponding aggregated sector

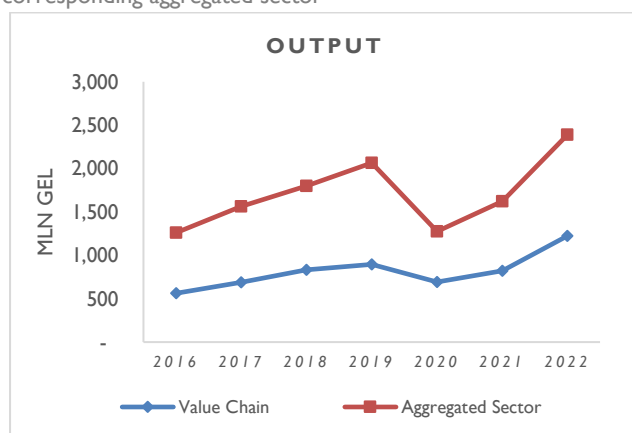
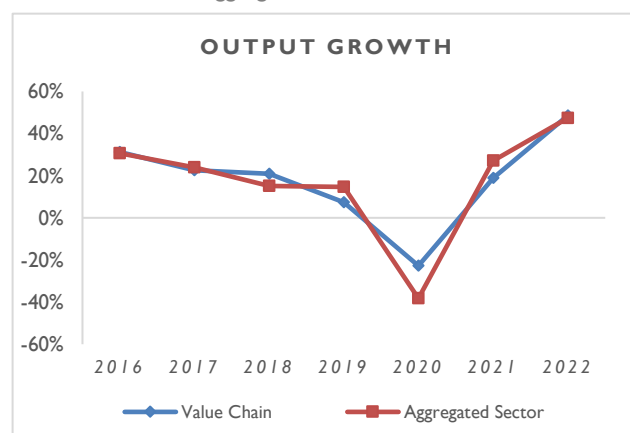


Chart I.20 Annual growth rate of output for the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

Employment⁸ in the food services value chain has been declining steadily from 2019 to 2021. However, **in 2022 the average quarterly employment has shown a 15.4% YoY increase reaching 17,266 employees, which is the maximum of the post-pandemic period.** Meanwhile, in 2022 a YoY increase in the aggregated sector was relatively higher, reaching 18.5%. Compared to 2019, the increase in employment of VC was 4.9%, which is significantly higher compared to the aggregated sector, which has shown an 8.9% decline.

Chart I.21 Employment in the food services value chain and the corresponding aggregated sector

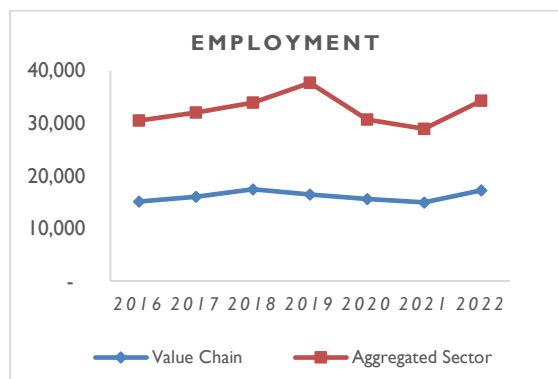
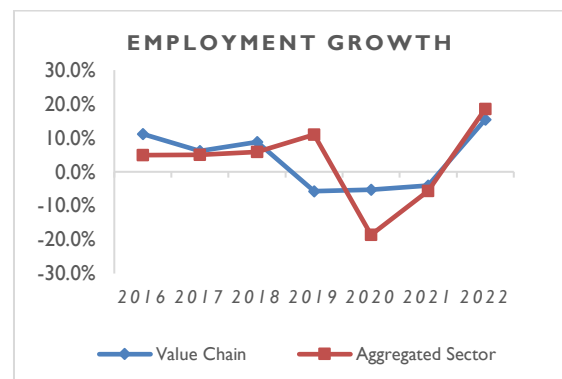


Chart I.22 The annual growth rate of employment in the food services value chain and the aggregated sector



Source: National Statistics Office of Georgia

In 2022 average monthly salary increased by 26.9% compared to 2021 and reached GEL 1,056, which is the 2016-2022 period maximum. Notably, compared to 2019, the increase in average monthly salary was also significant – 34.2%. Notably, the total salary fund of the value chain increased by 46.5% in 2022 compared to 2021 and by 40.8% compared to 2019.

In 2022, the productivity of the VC, as measured by output divided by the number of employed people, increased significantly compared to the previous year (by 28.9%) and 2019 (30.2%). The increase in productivity was lower for the aggregated sector compared to 2021 (24.3% YoY increase) and 2019 (27.1% increase). This sharp increase in productivity could be directly attributed to a higher magnitude increase in output of value chain and aggregated sector compared to the number of employed in 2022.

⁸ It has to be noted that a substantial amount of value chain employment is unobserved, as many food service facilities are not officially registered.; thus, the impact of the pandemic on the VC's employment is not fully reflected by the official statistics presented above.

Chart 1.23 Average monthly salary in the food services value chain and the corresponding aggregated sector

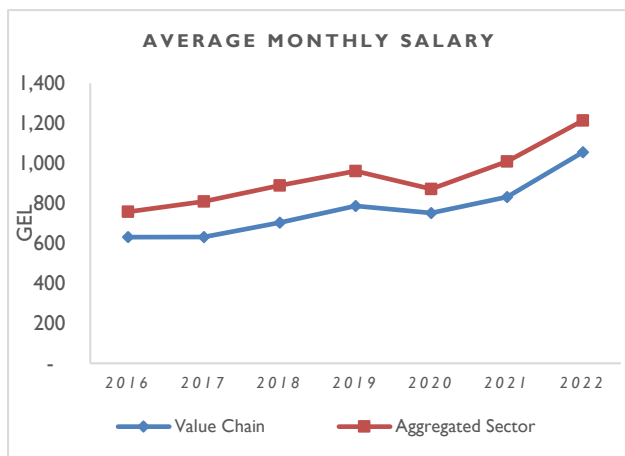
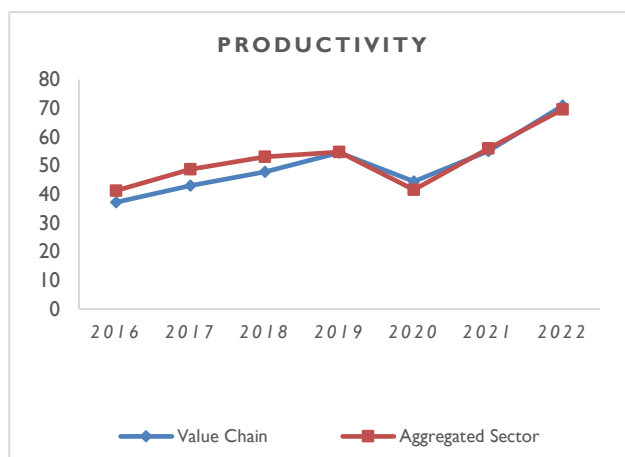


Chart 1.24 Annual growth rate of productivity in the food services value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Catering

Catering is one of the value chains for which Geostat business survey data were unavailable. Therefore, a survey of the value chain’s representatives was conducted to compensate for this. For the most part, the main economic activities of surveyed companies are providing food services as restaurants, with catering being their secondary economic activity.

The catering value chain has been devastated by the COVID-19 pandemic. The absence of events for the majority of 2020 brought the companies' operations in the value chain to a halt. All the surveyed companies declared a decline in turnover of more than 50% in 2020; meanwhile, in 2021, there were significant recoveries following the easing of restrictions on events since Q2 of 2021. However, the number of firms operating in the catering value chain have decreased as some operators decided not to reopen their catering divisions even after eased restrictions in 2021.

In 2022, most companies stated the improvement in their business operations compared to previous periods. In 2022, the majority of the companies stated that their turnover has increased compared to 2021, out of which a significant part noted that the turnover was between 10-20%. However, despite generally positive sector trends, some companies still stated a decline of more than 50%. Approximately half of the surveyed companies stated that their turnover was less than GEL 100,000, while the other half stated that it was between GEL 100,000-500,000.

The average employment rate of the surveyed catering companies was about 25 employees in the first half of the year. In contrast, in the second half of 2022, it reached 42 employees, which could be attributed to the seasonality of the sector and increased demand for catering and, generally, food provision services. In 2022, out of the employees, 70% were female, while the share of youth (aged 15-29) was only 25%. **Notably, the majority of the surveyed companies stated that the number of employees increased in their companies in 2022.** The average monthly salary of the employees also increased in 2022 and was equal to GEL 965, which is also higher compared to 2021.

Food Service Value Chain Qualitative Analysis

Service Quality Enhancement in Collaboration with Academic Sector in Regions

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

Promoting Gastronomy Tourism in Regions

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

The high expenditure on Food and Drink Expenditure

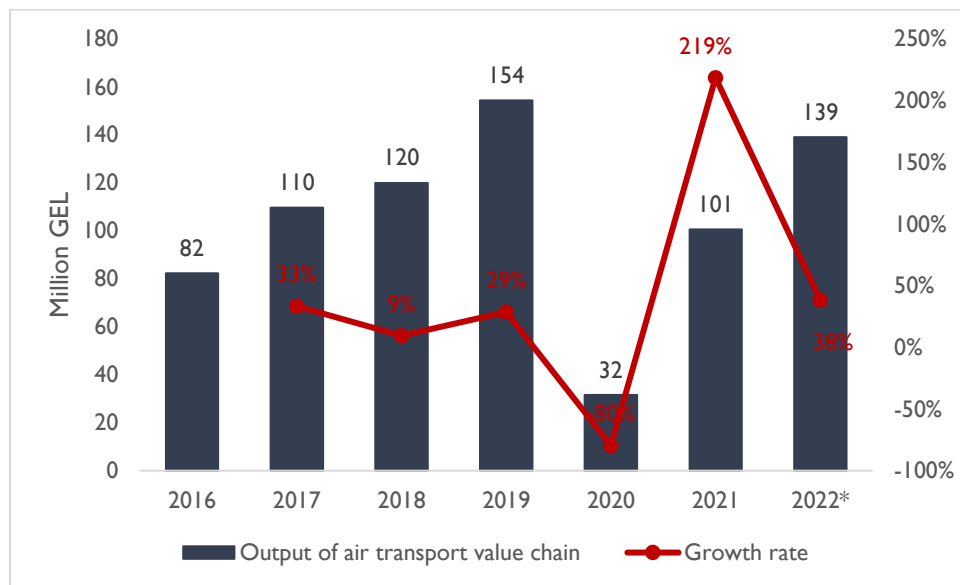
The Federation of Hotels and Restaurants has highlighted an interesting trend regarding the expenditure of migrants on restaurant services within the tourism industry. Although migration may have a minimal impact on other tourism activities, migrants tend to allocate a significant portion of their spending toward dining out. This is primarily because restaurant services are the only essential service they require during their stay in Georgia. Unlike other tourism-related services that can be replaced with longer-term alternatives, such as transitioning from short-term accommodation units to long-term flat rentals, dining out remains a constant necessity for migrants.

Supporting this observation, data from the International Visitor Survey indicates a notable increase in visitor expenditure on food and beverages. Specifically, between 2019 and 2022, food and drink expenditures rose by 1.2 billion Georgian Lari (GEL). The increased spending on food and drink can be attributed to several factors. Firstly, Georgia is known for its rich culinary traditions and diverse gastronomic offerings, attracting migrants who seek to explore and indulge in the local cuisine. Furthermore, the convenience and accessibility of restaurant services make them an attractive option for migrants, who may not have the means or desire to cook their meals during their stay.

TRAVEL AGENCIES' VALUE CHAIN

Among the tourism value chains, travel agencies' value chain contributes to a relatively lower share of the total output of the tourism sector. On average, throughout 2016-2022, travel agencies' value chain amounted to only 3% of the total tourism sector output.

Chart I.25 The output of land and water transport value chain and its growth rate



Source: Georgian National Tourism Administration

The output of travel agencies' value chain was strongly affected by the pandemic. In particular, after the growing dynamic throughout 2016-2019, the output of VC declined by 80% in 2020 compared to 2019. However, since then, travel agencies' value chain output has been increasing. **In 2022, it reached USD 139 million, which is 38% higher compared to 2021. However, in 2022 the output of travel agencies' value chain could not recover fully to pre-pandemic value (GEL 154 million) and amounted to 90% of it.**

Qualitative Analysis of Travel Agencies and Reservation Services Value Chain

ITB Berlin: Missed Opportunity or Success?

ITB Berlin, the first significant event held after the COVID-19 pandemic and during the war in Ukraine, presented an opportunity for the tourism industry to showcase Georgian tourism. While most tour operators argue that the Georgian National Tourism Administration made maximum efforts to promote the country's tourism industry, there were also criticisms raised by some stakeholders. Tour operators expressed solidarity with the protestors in Tbilisi and criticized the government for its inconsistent actions. They pointed out the contradiction between attempting to attract European Union visitors by showcasing Georgia as a safe destination while using force against protestors. Diverse opinions emerged among tour operators regarding the appropriate way to show support for the protestors. Some believed that demonstrating support near the stand of Georgia was not the best decision, as it did not contribute positively to the image of Georgian tourism. Conversely, others argued that it was the right decision to be sincere and openly address the situation in the country rather than pretending that nothing happened because potential tourists appreciate it.

The tourism industry is divided in its assessment of the potential consequences of ITB. Some of the respondents anticipate positive effects in the long run. In contrast, others believe that the government's actions against the protestors detracted from the country's ability to benefit fully from the event.

Tourism Law in the Final Stage of Development

Tourism association (Georgian Tourism Association and Georgian Incoming Tour Operators' Association) members actively participated in discussions on tourism law until November, but the progress has slowed down since then. The association asserts that several unresolved issues still require attention, as some comments from the association have yet to be addressed. Among the main concerns for members of the GITO (Georgian Incoming Tour Operators' Association) are the certification of cultural guides and the responsible organizations in charge of issuing these certificates. They raise uncertainties regarding the agencies responsible for certification, the required qualifications for guides to obtain certification, and the rights and responsibilities of guides. Furthermore, tour operators argue that unregulated guides contribute significantly to the shadow economy, prompting the need for regulation. They express concerns about guides becoming direct competitors to travel agencies, as there are instances where guides, after leading a tour, take away customers for their future visits. The quality of guides is also a concern, as travel agencies sometimes hire guides based on verbal assurances rather than proper documentation. Certification is a potential solution to address these issues. Another issue tour operators raise is the requirement for guides to accompany large foreign groups of tourists and the need for proper documentation for this purpose. Tour operators call upon the government to establish regulations to address infringements, which significantly affect Georgian tourism. The conceptual understanding of the algorithm of the Tourism Law is also a matter of concern for tour operators. They believe that experts have inappropriately applied the European Union (EU) law to Georgia as EU countries have different dynamics where travel agencies function as domestic trip providers within the EU framework. The tour operators stress that adopting the law without adjusting it to the Georgian reality would be a mistake and may cause further confusion among travel agencies. They suggest creating transitional regulations until the country aligns with EU regulations.

The Influx of Russian Tour Operators in the Georgian Market: Concerns and Implications

Tour operators in Georgia are increasingly concerned about the growing presence of Russian tour operators in the country's tourism market. According to them, Russian businesses are also capturing the other tourism businesses. As a result, Russians will gradually gain control over every tour aspect, with minimal contribution to the Georgian economy and shadow economy.

One of the significant concerns raised by tour operators is that this shift in market dynamics will have significant consequences. Firstly, attracting visitors primarily from CIS countries will change the visitor profile, leading to lower expenditure per visit. As these visitors typically prioritize cost over quality, it may negatively impact the overall revenue generated from tourism.

Additionally, tour operators express apprehension about the potential decline in service quality. The CIS segment generally does not demand or expect high-quality services. If the focus shifts towards catering primarily to this segment, it may compromise the quality of services provided in the tourism sector. This could be detrimental to the reputation of Georgian tourism, which has strived to achieve high service quality.

The concerns surrounding the increasing presence of Russian tour operators also extend to the broader goal of Georgian tourism. The country has prioritized quality over quantity and aimed to offer exceptional service to visitors. However, the influx of Russian operators and their focus on the CIS market might divert attention from this goal, resulting in a decline in the overall quality of the tourism experience and contribution per visitor to the economy.

Traffic Jams Are a Colossal Problem Not Only for Locals

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

Increasing Demand for Responsible and Sustainable Tourism

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

CULTURE AND RECREATIONAL ACTIVITIES VALUE CHAIN

Cultural Tourism

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

Visitors to national museums of Georgia⁹

Travelers who are interested in cultural tourism typically visit museums. Based on the data from the Georgian National Museum, a total of 102.9 thousand visitors explored museums managed by the Georgian National Museum in the first half of 2022, while this number was equal to 141.8 thousand in the second half of 2022 due to the seasonality of sector and increased demand on tourism activities by both international and domestic visitors. **In total, in 2022, the number of visitors that explored museums managed by the Georgian National Museum was equal to 244.7 thousand visitors, which is 113% higher compared to the corresponding value in 2021 (114.7 thousand). However, in 2022 the number of visitors was not recovered fully to pre-pandemic value and amounted to 73% of visitors in 2019 (335.6 thousand).**

⁹ In the first analytical report, we analyzed the number of visitors to Georgian museum-reserves from 2015 to 2019 (page #45).

Chart 1.26 . International visits that include visiting national parks, nature, landscape, and exploring remote and exotic places and their share in total international visits (2019 - 2022)



Source: Georgian National Museum

Among the museums, the Simon Janashia Georgian National Museum in Tbilisi, visited by 76.7 thousand visitors in 2022, was the most popular among visitors followed by the Dimitri Shevardnadze National Gallery in Tbilisi (51.1 thousand visits), the Tbilisi Open Air Museum of Ethnography (40.1 thousand), and the Svaneti Historical Ethnographical Museum (23.9 thousand).

Adventure Tourism

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

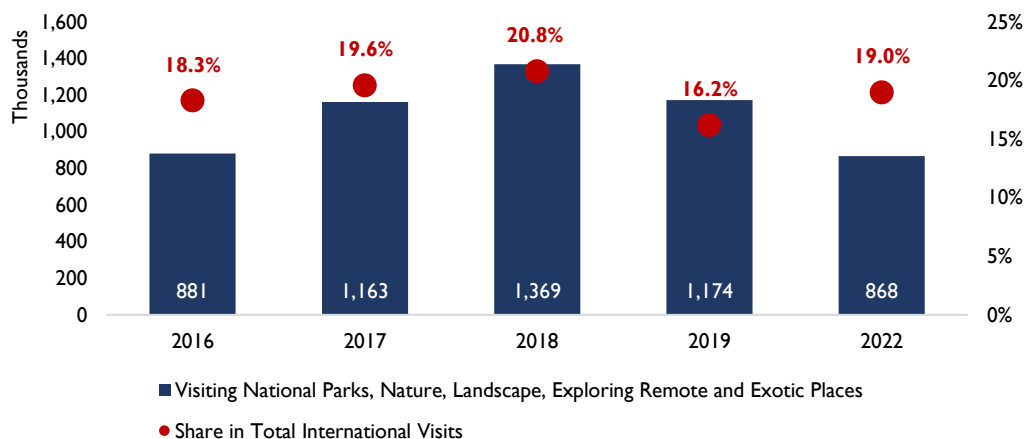
Visitors to national parks, natural monuments, and protected areas of the country

Many visitors interested in adventure tourism also tend to visit national parks, natural monuments, and the country's protected areas. Therefore, it is worth observing the evolution of the number of visitors to selected national parks, natural monuments, and managed reserves¹⁰.

The number of international visits that include visits to national parks, natural attractions, and landscapes, as well as those exploring remote and exotic places, is considerably higher than the number of domestic visits. For instance, in 2019, 16.2% of international visits included visits to natural attractions, while the corresponding figure for domestic visitors was 3.6%. In 2022, these numbers equal 19.0% for international visitors and 3.3% for domestic visitors.

¹⁰ In addition, adventure tourism includes skiing and winter sports as well. Please, see the analysis of Georgia's mountain resorts in the first analytical report, page #39.

Chart I.27 International visits that include visiting national parks, nature, landscape, and exploring remote and exotic places and their share in total international visits (2019 - 2022)

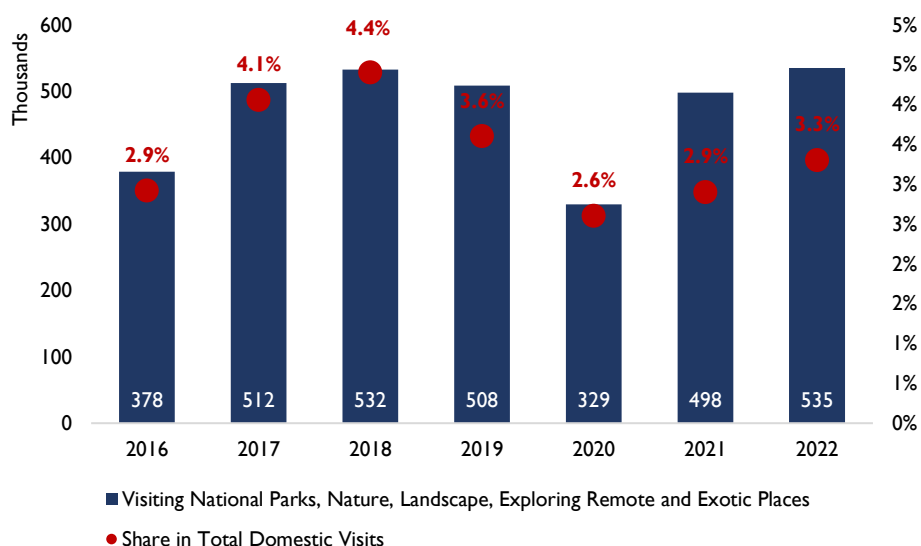


*Note, that international visitor survey was suspended for 2020,2021 years due to COVID-19 pandemic

Source: Georgian National Tourism Administration

In 2022, visits by international visitors to natural attractions in Georgia amounted 867,559 visits, which is equal to 73.9% of corresponding pre-pandemic (2019) value (1,173,928 visits). On the other hand, in 2022 domestic visits to natural attractions in Georgia exceeded the pre-pandemic value by 5.2%, which could be attributed to increased demand on variety of tourist activities by domestic visitors due to the behavioral changes caused by the pandemic.

Chart I.28 Domestic visits that include visiting the national Parks, nature, landscape, and exploring remote and exotic places and their share in total domestic visits (2019 - Q2 of 2022)

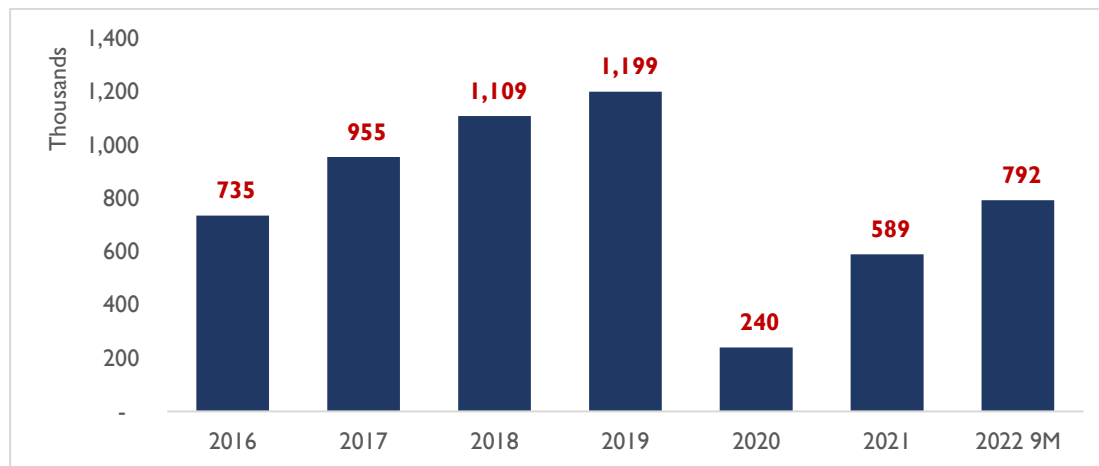


Source: Georgian National Tourism Administration

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

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

Chart I.29 The dynamics of the number of visitors to protected areas of Georgia (2016-2022 9M)



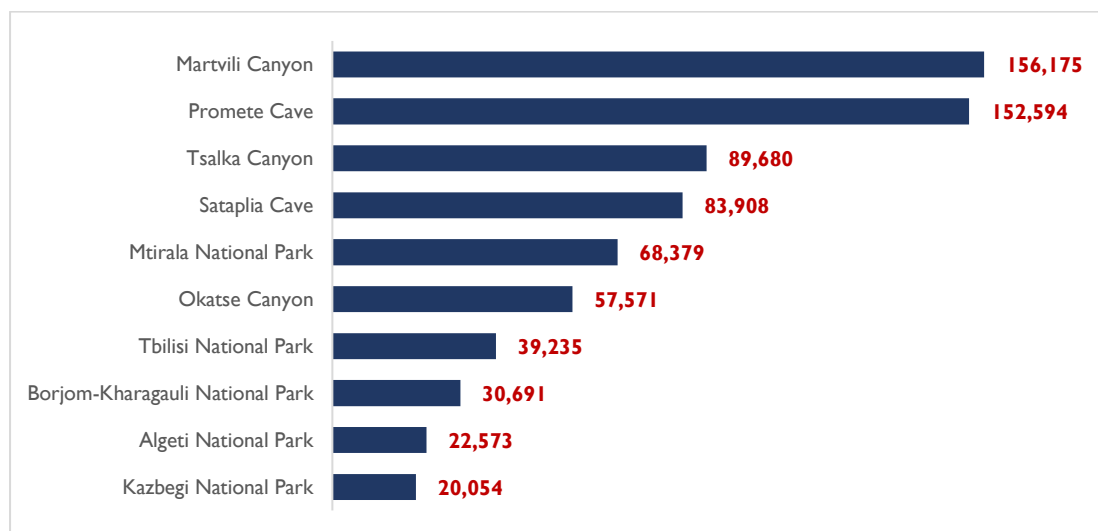
Source: Agency of Protected Areas

In the first nine months of 2022, most of the international visitors to the protected areas were from Russia (83 286 visitors), Belarus (48 422), United Arab Emirates (40 307), Kazakhstan (37 180), and Saudi Arabia (34 817). While, before the pandemic, in 2019, Russia was followed by Israel, Poland, Germany, and Ukraine as the main countries of origin for international visitors to Protected Areas.

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

¹¹ The statistics on the visitors of protected areas of Georgia was provided up until September of 2022, therefore the analysis is conducted on first nine months of 2022.

Chart I.30 Top 10 protected areas by number of visitors in the first nine months of 2022



Source: Agency of Protected Areas

Qualitative Analysis of Cultural, Sports, and Recreational Activities

Challenges of Fraud Near Tourism Attractions

The DMOs report fraud cases near the Martvili Canyon and argue that it became common practice near other attractions. The so-called "tourist hunters" offer the tourism groups arriving at Martvili Canyon alternative tours to nearby locations for the inflated prices and low quality of service. They convince visitors to avoid entering the attractions as their offer is much better. According to the DMOs, the guides responsible for taking tourist groups to the canyon are also part of the scheme. Such practice significantly drops the revenue of attractions and effects negatively service quality, including the destination's reputation.

The Adventure Tourism Effected by Migrants' Businesses

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

Service Quality in Adventure Tourism

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

The Supplemental Documents for Ecotourism Strategy

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

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

Cost Benefit Analysis will be a mandatory part of all ecotourism products. It will clearly show the benefits and costs of the project. The introduction of this document will lead to information-based decisions, which are rare in modern Georgian Tourism planning.

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

Ecotourism Committee Monitoring Body of Ecotourism Strategy

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

Guide Fest Way of Promoting Adventure Tourism Professions

With financial assistance from the US embassy, the Mountain Guide Association organized the first skills competition in Georgia. Inspired by the global competition WorldSkills, the association aims to include adventure skills as one of the disciplines in the international event. To kickstart this initiative, they initiated the Guide Fest, an event intended to be a significant milestone in promoting guides and showcasing the country's natural beauty as an integral part of adventure tourism products. The Guide Fest is envisioned as a landmark tourism event highlighting Georgia's captivating landscapes and emphasizing guides' importance in delivering exceptional adventure tourism experiences. The Mountain Guide Association plans to make this event an annual affair, using it as a platform to promote and raise awareness about adventure tourism professions.

Technological progress to have a significant effect on Adventure Tourism

According to the mountain guide Association, Technological progress is expected to impact adventure tourism profoundly. One significant consequence is the potential replacement of humans in certain aspects of the tourism industry, such as reception and other administrative tasks. With the introduction of artificial intelligence (AI) and advanced chatbot systems like ChatGPT, automation is becoming more prevalent, leading to increased efficiency and reduced costs for tourism businesses. However, despite the rise of technology, there remains a growing recognition of the importance of human interactions within the tourism value chain. While AI and automation can handle routine tasks, they often need a more personal touch and nuanced understanding that human interaction can provide. This recognition emphasizes delivering high-quality service and personalized experiences in tourism

services, particularly in adventure tourism. One crucial aspect of adventure tourism that cannot be easily replaced by technology is the role of mountain guides. Mountain guides play a vital role in ensuring the safety and enjoyment of adventure tourists in challenging terrains. Their expertise, local knowledge, and ability to navigate unpredictable situations are invaluable and cannot be easily replicated by technology. As such, their role is likely to become even more critical in the face of advancing technology.

Tourism Sectoral Skills Organization – Specific Outcomes for Adventure Tourism

The Tourism Sectoral Skills Organization (SSO) is in its final stage of development. It aims to identify the specific skills required in the industry, shape the skills policy, and actively participate in its implementation. One of its key objectives is to bridge the skills gap by establishing national vocational standards. The establishment of the SSO holds significant implications for vocational education in adventure tourism, as emphasized by tourism associations. It will consolidate various branches within adventure tourism and formalize the certification procedures for adventure tourism guides.

However, the development of the SSO has encountered obstacles as some stakeholders propose the establishment of multiple SSOs instead of a single one. The idea of separate SSOs for hospitality, tourism and travel agencies, and adventure tourism has gained traction, driven by the belief that the skills required for each sector differ significantly. The need for a coordinating agency will arise if multiple SSOs are established. Presently, discussions regarding the number of SSOs are ongoing, and if negotiations prove successful, the introduction of SSOs is anticipated by the end of 2023.

Mountain Lifeguard Qualifications to be introduced

Various field stakeholders, including the Mountain Guide Association, Georgian Mountaineering Federation, Ministry of Education, and Ministry of Interior Affairs, are collaborating to develop a Mountain Lifeguard qualification. With support from GIZ and the platform of the Georgian National Tourism Administration, they are working on creating the necessary standards. This qualification is an innovative initiative as it didn't previously exist. While the emergency service operates under the Ministry of Interior Affairs, there is a need to establish a systematic link with professionals like Mountainairs and mountain guides. This collaboration demonstrates a successful public-private sector partnership involving governmental bodies and private adventure tourism education institutions. The aim is to enhance safety and professionalism in adventure tourism by setting higher standards through the Mountain Lifeguard qualification.

Adventure Tourism Training in Western Georgia

The Mountain Guide Association has won the USAID industry-led skills development program for adventure tourism training in Western Georgia. The project aims to replicate successful training activities from Eastern Georgia to the Western region, creating two key adventure tourism destinations: Svaneti in the west and Gudauri in the east. Around 700 individuals will be retrained, with 50 trainers receiving training. This project is expected to significantly transform the adventure tourism landscape in Western Georgia over the next two years.

The portal of Mountain Guides is to be created

With USAID's financial assistance, an official portal for certified mountain guides will be created in Georgia. This centralized platform will allow tourism industry representatives to access quickly and book mountain guides. The portal aims to enhance the adventure tourism product in Georgia by emphasizing the crucial role of high-quality guides. This initiative highlights the commitment to providing a comprehensive and reliable platform for adventure tourists seeking skilled and certified guides.

Ecotourism Projects for the Sustainable Tourism Development

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

Within another project, "Mountain and Ecotourism Development in Samtskhe Javakheti region," financed by the US Embassy, the local DMO conducted several activities. As the first step, they marked the hiking routes within the region, followed by several marketing efforts to popularize the product. The activities included: the publication of the Guide of Hiking Routes in Georgian and English languages, marketing video of marked hiking routes, Hiking VLOG, which is available on YouTube, info tours, and the Hiking Application, which became available for Android and IOS operating systems. Furthermore, the hiking route was posted on the popular hiking website Wikiloc.

Tourist Routes as a Cultural Tourism Development Tool

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

Importance of Transnational Tourism Product Development and Promotion

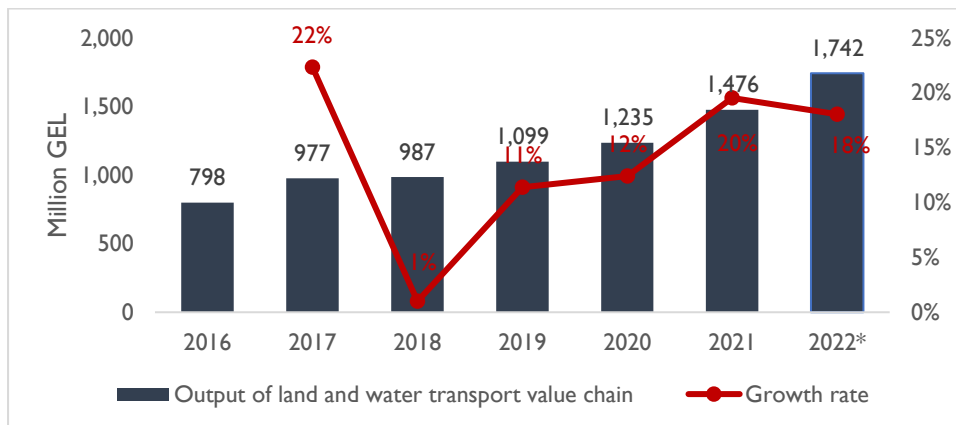
There is an increasing demand among tourists traveling to Georgia or other Caucasus countries to visit more than one regional tourism destination. In response to this trend, DMOs of two countries, Georgia (Samtskhe Javakheti, Kakheti), and Armenia (Shirak, Vayots Dzor, Syunik, and Lori) collaborated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

TRANSPORT VALUE CHAIN

Among the tourism value chains, the transport value chain amounts to the largest share of the total output of the tourism sector. In particular, throughout the 2016-2022 transport value chain, which includes land, water, and air transport, on average, amounted to 43% of the total tourism sector output. Notably, the output of the land and water transport value chain is significantly higher than that of the air transport value chain. In particular, the land and water transport value chain generates, on average, 11 times the output generated in the air transport value chain.

Looking at the output of the land and water transport value chain revealed that throughout 2016-2022 the output of VC has been increasing steadily. Notably, the output in land and water transport VC did not experience a drop throughout the pandemic, in contrast to other value chains of the tourism sector. **In 2022, the output of land and water transport VC reached GEL 1,742 million, which is 18% higher compared to the corresponding figure in 2021 and 59% higher compared to the pre-pandemic (2019) figure.**

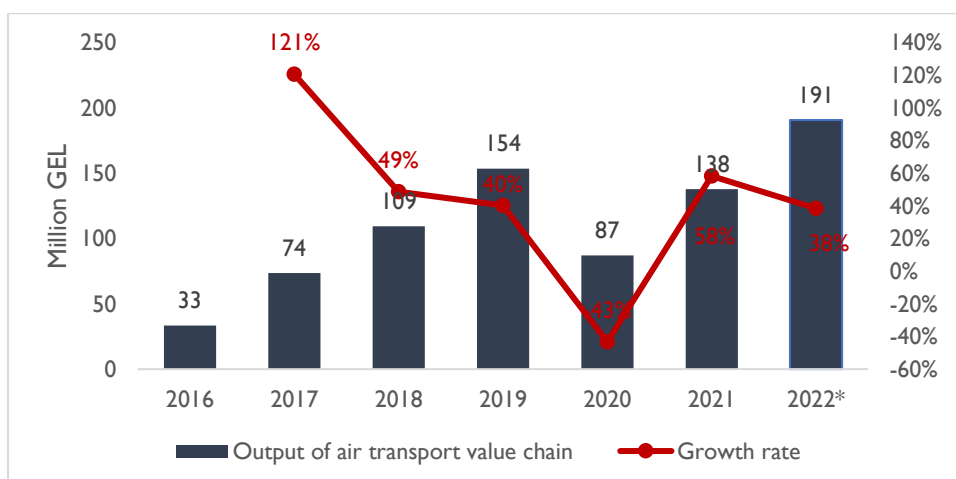
Chart 1.31 Output of land and water transport value chain and its growth rate



Source: Georgian National Tourism Administration

On the other hand, the output of the air transport value chain was strongly affected by the pandemic. In particular, after the growing dynamic throughout 2016-2019, the output of VC declined by 43% in 2020 compared to 2019. However, since then, the output of the air transport value chain has been increasing. **In 2022, the output of the air transport value chain reached USD 191 million, which is 38% higher compared to 2021. Notably, in 2022 the output of the air transport value chain not only recovered but also exceeded the pre-pandemic value significantly. In particular, the value chain output was 24% higher compared to 2019.**

Chart 1.32 Output of air transport value chain and its growth rate



Source: Georgian National Tourism Administration

Notably, according to Georgian Civil Aviation Agency¹², in 2022, the number of Georgian Airports' users amounted to 4,441,316 travelers, which is 78% higher compared to 2021 and 85% of the corresponding figure of 2019. Among the airports, the recovery to pre-pandemic figure was highest for Batumi (99% of 2019 figure – 61,885 travelers), followed by Kutaisi (91% - 796,063 travelers) and Tbilisi (81% - 2,998,785)

The number of flights in 2022 was equal to 21,430, which is 43% higher compared to 2021 and 88% of the corresponding figure in 2019. It must also be noted that in 2022, nine new directions and ten new airlines were added to the Georgian aviation market. Therefore, the full recovery of the air travel value chain was not achieved in 2022.

Qualitative Analysis of Transport Value Chain

Transport Infrastructure Challenges for European Tourists

During the ITB Berlin event, foreign tour operators expressed concerns about Georgia's transport infrastructure and its impact on European tourists. The major challenges highlighted included issues with bus stations, limited availability of public transport from airports, and slower train services. Georgian travel agencies further elaborated on the poor conditions and functionality of bus stations in Tbilisi and Kutaisi, stressing the need for improvements to enhance the overall experience for tourists, particularly backpackers from Europe. They also highlighted the limited availability of convenient and reliable public transport options from Kutaisi airport to the city centers, which posed difficulties for European visitors. Another significant concern raised by tour operators was the relatively slower train infrastructure compared to European standards. They underscored the importance of upgrading train services to meet international expectations and ensure efficient travel for tourists. Addressing these challenges in the transport infrastructure is essential for Georgia to attract and cater to European tourists effectively. By improving bus station facilities, enhancing public transportation options from airports, and upgrading train services, the country can create a more positive and seamless travel experience for European visitors.

High competition in the car rentals Industry

The car rental industry is highly competitive, with two main segments: car rentals without drivers and car rentals with drivers. Georgia's companies face intense competition in car rentals without drivers. As a result, they have shifted their focus towards car rentals with the driver sector. Instead of directly targeting individual visitors, these companies concentrate on business-to-business (B2B) services and indirectly serve visitors. The reason behind this strategic shift is the high cost associated with marketing and attracting visitors. In the car rental industry without drivers, established international companies already dominate the market, making it challenging for local companies to compete directly. The entrance marketing costs, such as advertising and promotions, required to attract visitors to the car rental services without drivers are significant and may not provide a sufficient return on investment.

By targeting B2B customers, such as tour operators, hotels, and other businesses in the tourism sector, car rental companies in Georgia can indirectly serve visitors. This approach allows them to leverage existing partnerships and distribution channels, which can help reduce marketing costs and increase their customer base. Focusing on B2B relationships also offers the advantage of establishing long-term partnerships and contracts, providing a more stable and predictable source of revenue for car rental companies. Additionally, by catering to businesses in the tourism industry, they can tap into a consistent flow of potential customers who require transportation services for their clients or guests.

¹² Georgian Civil Aviation Agency – [news](#) (January 16, 2023)

The Transport industry - most problematic within the Tourist Packages

The transport industry has been identified as the most problematic link in tourist packages, as indicated by Rento Group's research. Their survey of tour operators found that 80% of respondents experienced the most issues with the transport sector, leading to dissatisfaction among tourists. These problems range from fraudulent practices to subpar services, ultimately tarnishing the overall experience provided by tourist companies.

Rento Group has established an academy offering specialized training courses for drivers to address this prevalent issue. These courses focus on setting high standards for visitor services, including providing first aid assistance. By providing comprehensive training, the company aims to improve the skills and professionalism of drivers within the industry. Furthermore, Rento Group wants to extend these training programs to the entire transport industry. Recognizing the need for collaboration, they actively work with government organizations to achieve this goal. By partnering with relevant authorities, they hope to implement standardized training programs that enhance the quality of services provided by all transport companies catering to tourists.

The representative of the Rento group argues that tackling such challenges requires a comprehensive approach involving not only training programs but also strict regulations, monitoring mechanisms, and continuous evaluation of the transport industry's performance. By fostering a culture of excellence and accountability, the industry can work towards delivering seamless and satisfactory experiences to tourists, thereby strengthening the tourism sector's overall competitiveness and appeal.

Overview of the existing challenges and opportunities

Among the existing challenges and opportunities observed during the qualitative study, some of the most significant ones for each priority value chain are summarized below:

The effect of the Ukraine war on the Georgian Tourism Industry:

According to the respondents, the drivers of international tourism after the full-scale war in Ukraine included a mix of tourism-related and non-tourism-related (migration from conflict zones) factors. During 2022 and beyond, tourism industry representatives observed several trends and findings that have both short-term and long-term effects on Georgian tourism: Rapid and large-scale entry of foreign citizens from Russia, Ukraine, and Belarus in Georgia;

- Safety concerns on traveling to Georgia by international visitors;
- Disruptions in the structure of the main purpose of international visits;
- Lack of demand on tourist accommodation service providers;
- Changes in domestic tourism patterns;
- Changes in characteristics of visitors from the Gulf States;
- Disruption of the inflow of visitors from Azerbaijan;
- Labor force issues in the hospitality industry;
- Increase in the input prices.

Key points for the value chain of **travel agencies and reservation services** are summarized below:

ITB Berlin: The event presented an opportunity for the tourism industry to showcase Georgian tourism, but some stakeholders raised criticisms. Tour operators expressed solidarity with protestors and criticized the government's inconsistent actions, which could affect the country's ability to benefit from the event.

Tourism Law: The law is in the final stage of development, but unresolved issues concern tour operators. They raise concerns about the certification of cultural guides, unregulated guides contributing to the shadow economy, and the need for regulations to address infringements. There are also concerns about applying European Union (EU) law without adjusting it to the Georgian reality.

Influx of Russian Tour Operators: Tour operators are concerned about the growing presence of Russian tour operators in the Georgian market. They fear that attracting visitors primarily from CIS countries will lead to lower expenditure per visit and compromise service quality. This could impact the reputation of Georgian tourism and its focus on quality over quantity.

Traffic Jams: Worsened traffic jams in Georgia create a negative experience for visitors, who may have to stay in buses for hours to reach their destinations. Tour operators request permission for tourist cars to use bus lanes to alleviate the problem.

Increasing Demand for Responsible and Sustainable Tourism: There is an increased demand for sustainable tours in Georgia, mainly from European visitors. However, developing sustainable practices within the tourism industry needs improvement to meet this demand. Tour operators encourage service providers to adopt sustainable practices and take a green direction in their businesses.

Key points for the value chain of **Transport (Transportation)**:

Transport Infrastructure Challenges: European tour operators expressed concerns about Georgia's transport infrastructure, particularly bus stations, limited public transport options from airports, and slower train services. Improvements in these areas are necessary to enhance the travel experience for European tourists.

High Competition in Car Rentals: The car rental industry in Georgia is highly competitive, with international companies dominating the market for the car rental sector without drivers. Local companies have shifted their focus to the car rental sector with drivers, targeting B2B customers such as tour operators and hotels. This strategic shift helps reduce marketing costs and establishes long-term partnerships, providing a more stable revenue source.

Transport Industry Issues in Tourist Packages: The transport industry has been identified as the most problematic link in tourist packages, leading to tourist dissatisfaction. Issues range from fraudulent practices to subpar services. Rento Group is addressing this by offering specialized training courses for drivers and advocating for standardized training programs across the transport industry.

Comprehensive Approach to Address Challenges: Rento Group emphasizes the need for a comprehensive approach involving training programs, strict regulations, monitoring mechanisms, and continuous evaluation to improve the professionalism and quality of services provided by the transport industry. This aims to deliver seamless and satisfactory tourist experiences and enhance the tourism sector's competitiveness.

Key points for the value chain of **Accommodation (Hospitality)**:

Decreased ADR and Increased Input Prices: The hospitality sector has faced challenges with decreased Average Daily Rates (ADR) due to low demand for hotel services, particularly from migrants who opt for alternative accommodation options. Additionally, hotels have experienced increased input

prices following Covid-19, leading to the need to balance ADR to cover costs while remaining competitive.

Student Qualification vs. Bad Management Practices: Representatives from the hospitality sector debate whether student qualifications or poor management practices are the main challenges in the industry. They highlight the impact of management practices on employee retention, emphasizing the need for investment in human resources through training, motivation, and favorable working conditions.

Domestic Adventure Travelers: Georgian citizens, restricted by outbound travel during the pandemic, have explored their own country and engaged in adventure tourism. This behavior has continued even after the pandemic, contributing to domestic tourism and regional economies.

Expectations for Summer Season: The Federation of Hotels and Restaurants expects a significant rise in Gulf tourists during the upcoming summer, projecting their share in hotel occupancy to reach up to 60%. However, concerns exist regarding frequent deportations without clear explanations and reduced border accessibility with Azerbaijan. Demand from European group bookings and individual travelers is increasing, but overall demand remains relatively low compared to the pre-pandemic period. Increased demand from Russian tourists is anticipated in Batumi during the summer.

Key points for the value chain of **Food and Beverage** (Hospitality):

Service Quality Enhancement: Collaboration efforts involving academic institutions and destination management organizations (DMOs) are essential for addressing the challenge of service quality in Georgian tourism. Projects like the 'Khetsuriani Sommelier & Wine School | Caucasus University' in the Imereti region aim to provide training programs for hospitality, tourism, and wine industry representatives to enhance their skills and knowledge in areas such as sommelier training and wine cellar management.

Promoting Gastronomy Tourism: Georgian gastronomy's diversity is a key strength that can be leveraged to attract tourists. Projects like "Imeruli Gemo" promote authentic Imeretian cuisine and culture through marketing video clips featuring famous chefs. These initiatives aim to position the Imereti region on the world tourism map, highlighting its gastronomic offerings alongside other tourism segments.

High Expenditure on Food and Drink: Migrants within the tourism industry allocate a significant portion of their spending toward dining out. Unlike other tourism-related services that can be substituted with longer-term alternatives, dining out remains a constant necessity for migrants. The International Visitor Survey data indicates a notable increase in visitor expenditure on food and beverages, reflecting the appeal of Georgia's culinary traditions and the convenience of restaurant services.

Key points for the value chain of **Cultural, Sports, and Recreational Services:**

Fraud Near Tourism Attractions: Fraud cases near attractions, like Martvili Canyon, have become common, impacting revenue and service quality. "Tourist hunters" offer alternative tours to visitors at inflated prices, reducing revenue for attractions and compromising service quality. Guides responsible for taking tourists to these attractions are involved in the fraudulent scheme.

Adventure Tourism and Migrant Businesses: Migrants are bringing their tourism businesses, including adventure tourism services, to Georgia. This influx of migrant businesses increases diversity and competition in the adventure tourism sector.

Service Quality in Adventure Tourism: Efforts are being made to enhance service quality in adventure tourism. Training programs, such as the Training for Bird Watching Guides, aim to improve the skills and professionalism of adventure tour guides.

Supplemental Documents for Ecotourism Strategy: The Ecotourism Strategy in Georgia is supported by manuals like the Universal Design Strategy, Cost-benefit Analysis, and Trail Planning and Development Guidelines. These documents provide guidance for infrastructure development and decision-making in ecotourism.

Ecotourism Committee for Monitoring: Efficient coordination and monitoring of tourism activities are crucial. An ecotourism committee, consisting of relevant organizations, is proposed to address challenges, promote regional development, and monitor the implementation of the ecotourism strategy.

Guide Fest: The Guide Fest event aims to promote adventure tourism professions and highlight the role of guides in delivering exceptional experiences. It serves as a platform to raise awareness about adventure tourism and showcase Georgia's natural beauty.

Impact of Technological Progress: Technological advancements, such as AI and automation, are expected to impact adventure tourism significantly. While automation can handle routine tasks, the role of mountain guides remains crucial in providing personalized experiences and ensuring safety in challenging terrains.

Tourism Sectoral Skills Organization (SSO): The development of the SSO aims to bridge the skills gap in adventure tourism and establish vocational standards for adventure tourism guides. Discussions are ongoing regarding the number of SSOs to be established.

Mountain Lifeguard Qualifications: Efforts are underway to develop Mountain Lifeguard qualifications to enhance safety and professionalism in adventure tourism. Collaboration between relevant stakeholders is driving this initiative.

Adventure Tourism Training and Certification: Training programs and initiatives, supported by organizations like the Mountain Guide Association and USAID aim to provide adventure tourism training and certifications. These programs raise the skill level and professionalism of adventure tourism professionals.

Ecotourism Projects for Sustainable Development: Various ecotourism projects focus on sustainable tourism development, such as marking hiking routes and creating interpretive routes. These projects contribute to the growth of ecotourism and promote economic benefits for local communities.

Cultural Routes for Tourism Development: Developing cultural routes is an effective tool to boost cultural tourism, diversify tourism products, and stimulate economic benefits for local communities. GNTA and DMOs play a role in coordinating and promoting these routes.

Transnational Tourism Product Development: Collaboration between Georgia and Armenia aims to develop transnational tourism products, catering to tourists interested in visiting multiple regional destinations. This collaboration aims to create cultural, adventure, and gastronomy tourism products.

The qualitative analysis of tourism led to the following insights:

The interviews with tourism industry representatives focused on the Ukraine war's impact on Georgia's tourism industry and the ITB Berlin, identified as the most significant factors affecting tourism in 2022 and beyond. According to the respondents, the drivers of international tourism following the full-scale war in Ukraine included a combination of tourism-related and non-tourism-related factors, such as migration from conflict zones. During 2022 and beyond, tourism industry representatives observed several trends and findings that have both short-term and long-term effects on Georgian tourism:

- **Rapid and large-scale entry of foreign citizens from Russia, Ukraine, and Belarus into Georgia:** Many foreign citizens arrived in Georgia due to war. They increased the demand for hotels and flats renting daily as a short-term effect. Later, some of them left the country for better alternatives to migrate. At the same time, another part decided to relocate to Georgia, causing a significant increase in accommodation prices rented monthly and prices of residential flats for sale. The large flow of migrants mainly affected Tbilisi and Batumi. They also used the hotels of Kazbegi and Gudauri on the way to their final destinations.
- **Safety concerns on traveling to Georgia by international visitors:** Europeans and US visitors are sensitive to the political situation at the destination. Tour operators call for action from GNTA to position the country as a safe destination. According to them, the ITB Berlin platform could have been better used to attract visitors from Europe.
- **Disruptions in the characteristics of international visitors:** Some tourism industry representatives argue that migrants brought their businesses to Georgia to work as tourism operators and focus on attracting visitors from CIS countries, changing the anatomy of Georgian tourism. According to the respondents, the strategy of Georgia is to focus on western high-value markets, and the country striving to adapt the service quality to these markets will develop faster. The visitors attracted by Russian operators will negatively affect the tourism industry, setting low standards for their service quality.
- **Disruptions in the structure of the primary purpose of international visits:** Migrants boost the number of visitors traveling for visiting friends and relatives (VFR) purposes. According to industry representatives, migrants invite friends and relatives to their new homes boosting the VFR visitor segment in the country. According to the international visitor survey, the VFR segment spends lower than average as they seldom need to pay for accommodation during their stay.
- **Changes in domestic tourism pattern:** Immigrants from the conflict zones will join domestic tourism by becoming residents of Georgia. The private sector reports about the new segment of visitors from Russia and Ukraine traveling from Tbilisi to the regions. Migrants travel to the regions to learn more about their new country of residence.
- **Changes in characteristics of visitors from Gulf States:** Hospitality industry representatives observe the changes in the characteristics of visitors from Gulf countries. Previously traveling individually mainly for entertainment, they now travel with groups and family members. Their main destinations are the resorts of Samtskhe Javakheti Bakuriani, Borjomi, etc. The industry expects a high inflow from this segment in summer 2023.
- **Disruption of the inflow of visitors from Azerbaijan:** The closed land border with Azerbaijan negatively affected the flow of international visitors. The recovery process would have been significantly faster if the border had remained open.

- **Labor force issues in the hospitality industry:** Due to harsh economic conditions, Georgian hospitality sector representatives report a high drain of Georgian tourism service employees to other countries. The COVID-19 pandemic has caused many employees to transition to different fields and never return to the tourism industry. Furthermore, other industries have intensified the competition for qualified personnel by offering higher salaries.
- **Increase in the input prices:** The tourism representatives observe the increase in input prices. The high prices negatively affect the competitiveness of the Georgian tourism sector. The industry representatives argue that along with high prices, service quality also decreased. The explanation behind the quality decrease was that tourism service providers began adapting to the characteristics and expectations of Russian visitors, who are perceived to be less demanding than European visitors.

Travel agencies and reservation services

ITB Berlin: Missed Opportunity or Success?

ITB Berlin, the first significant event held after the COVID-19 pandemic and during the war in Ukraine, presented an opportunity for the tourism industry to showcase Georgian tourism. While most tour operators argue that the Georgian National Tourism Administration made maximum efforts to promote the country's tourism industry, there were also criticisms raised by some stakeholders. Tour operators expressed solidarity with the protestors in Tbilisi and criticized the government for its inconsistent actions. They pointed out the contradiction between attempting to attract European Union visitors by showcasing Georgia as a safe destination while using force against protestors. Diverse opinions emerged among tour operators regarding the appropriate way to show support for the protestors. Some believed that demonstrating support near the stand of Georgia was not the best decision, as it did not contribute positively to the image of Georgian tourism. Conversely, others argued that it was the right decision to be sincere and openly address the situation in the country rather than pretending that nothing happened because potential tourists appreciate it.

The tourism industry is divided in its assessment of the potential consequences of ITB. Some of the respondents anticipate positive effects in the long run. In contrast, others believe that the government's actions against the protestors detracted from the country's ability to benefit fully from the event.

Tourism Law in the Final Stage of Development

Tourism association members actively participated in discussions on tourism law until November, but the progress has slowed down since then. The association asserts that several unresolved issues still require attention, as some comments from the association have yet to be addressed. Among the main concerns for members of the GITO (Georgian Incoming Tour Operators' Association) are the certification of cultural guides and the responsible organizations in charge of issuing these certificates. They raise uncertainties regarding the agencies responsible for certification, the required qualifications for guides to obtain certification, and the rights and responsibilities of guides. Furthermore, tour operators argue that unregulated guides contribute significantly to the shadow economy, prompting the need for regulation. They express concerns about guides becoming direct competitors to travel agencies, as there are instances where guides, after leading a tour, take away customers for their future visits. The quality of guides is also a concern, as travel agencies sometimes hire guides based on verbal assurances rather than proper documentation. Certification is a potential solution to address these issues. Another issue tour operators raise is the requirement for guides to accompany large foreign groups of tourists and the need for proper documentation for this purpose. Tour operators call upon the government to establish regulations to address infringements, which significantly affect Georgian tourism. The conceptual understanding of the algorithm of the Tourism Law is also a matter of concern for tour operators. They believe that experts have inappropriately applied the European Union (EU)

law to Georgia as EU countries have different dynamics where travel agencies function as domestic trip providers within the EU framework. The tour operators stress that adopting the law without adjusting it to the Georgian reality would be a mistake and may cause further confusion among travel agencies. They suggest creating transitional regulations until the country aligns with EU regulations.

The Influx of Russian Tour Operators in the Georgian Market: Concerns and Implications

Tour operators in Georgia are increasingly concerned about the growing presence of Russian tour operators in the country's tourism market. According to them, Russian businesses are also capturing the other tourism businesses. As a result, Russians will gradually gain control over every tour aspect, with minimal contribution to the Georgian economy and shadow economy.

One of the significant concerns raised by tour operators is that this shift in market dynamics will have significant consequences. Firstly, attracting visitors primarily from CIS countries will change the visitor profile, leading to lower expenditure per visit. As these visitors typically prioritize cost over quality, it may negatively impact the overall revenue generated from tourism.

Additionally, tour operators express apprehension about the potential decline in service quality. The CIS segment generally does not demand or expect high-quality services. If the focus shifts towards catering primarily to this segment, it may compromise the quality of services provided in the tourism sector. This could be detrimental to the reputation of Georgian tourism, which has strived to achieve high service quality.

The concerns surrounding the increasing presence of Russian tour operators also extend to the broader goal of Georgian tourism. The country has prioritized quality over quantity and aimed to offer exceptional service to visitors. However, the influx of Russian operators and their focus on the CIS market might divert attention from this goal, resulting in a decline in the overall quality of the tourism experience and contribution per visitor to the economy.

Traffic Jams Are a Colossal Problem Not Only for Locals

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

Increasing Demand for Responsible and Sustainable Tourism

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

Transportation

Transport Infrastructure Challenges for European Tourists

During the ITB Berlin event, foreign tour operators expressed concerns about Georgia's transport infrastructure and its impact on European tourists. The major challenges highlighted included issues with bus stations, limited availability of public transport from airports, and slower train services. Georgian travel agencies further elaborated on the poor conditions and functionality of bus stations

in Tbilisi and Kutaisi, stressing the need for improvements to enhance the overall experience for tourists, particularly backpackers from Europe. They also highlighted the limited availability of convenient and reliable public transport options from Kutaisi airport to the city centers, which posed difficulties for European visitors. Another significant concern raised by tour operators was the relatively slower train infrastructure compared to European standards. They underscored the importance of upgrading train services to meet international expectations and ensure efficient travel for tourists. Addressing these challenges in the transport infrastructure is essential for Georgia to attract and cater to European tourists effectively. By improving bus station facilities, enhancing public transportation options from airports, and upgrading train services, the country can create a more positive and seamless travel experience for European visitors.

High competition in the car rentals Industry

The car rental industry is highly competitive, with two main segments: car rentals without drivers and car rentals with drivers. Georgia's companies face intense competition in car rentals without drivers. As a result, they have shifted their focus towards car rentals with the driver sector. Instead of directly targeting individual visitors, these companies concentrate on business-to-business (B2B) services and indirectly serve visitors. The reason behind this strategic shift is the high cost associated with marketing and attracting visitors. In the car rental industry without drivers, established international companies already dominate the market, making it challenging for local companies to compete directly. The entrance marketing costs, such as advertising and promotions, required to attract visitors to the car rental services without drivers are significant and may not provide a sufficient return on investment.

By targeting B2B customers, such as tour operators, hotels, and other businesses in the tourism sector, car rental companies in Georgia can indirectly serve visitors. This approach allows them to leverage existing partnerships and distribution channels, which can help reduce marketing costs and increase their customer base. Focusing on B2B relationships also offers the advantage of establishing long-term partnerships and contracts, providing a more stable and predictable source of revenue for car rental companies. Additionally, by catering to businesses in the tourism industry, they can tap into a consistent flow of potential customers who require transportation services for their clients or guests.

The Transport industry - most problematic within the Tourist Packages

The transport industry has been identified as the most problematic link in tourist packages, as indicated by Rento Group's research. Their survey of tour operators found that 80% of respondents experienced the most issues with the transport sector, leading to dissatisfaction among tourists. These problems range from fraudulent practices to subpar services, ultimately tarnishing the overall experience provided by tourist companies.

Rento Group has established an academy offering specialized training courses for drivers to address this prevalent issue. These courses focus on setting high standards for visitor services, including providing first aid assistance. By providing comprehensive training, the company aims to improve the skills and professionalism of drivers within the industry. Furthermore, Rento Group wants to extend these training programs to the entire transport industry. Recognizing the need for collaboration, they actively work with government organizations to achieve this goal. By partnering with relevant authorities, they hope to implement standardized training programs that enhance the quality of services provided by all transport companies catering to tourists.

The representative of the Rento group argues that tackling such challenges requires a comprehensive approach involving not only training programs but also strict regulations, monitoring mechanisms, and continuous evaluation of the transport industry's performance. By fostering a culture of excellence and accountability, the industry can work towards delivering seamless and satisfactory experiences to tourists, thereby strengthening the tourism sector's overall competitiveness and appeal.

Accommodation

The problem of Decreased ADR in hotels and increased input prices after Covid 19

The Federation of Hotels and Restaurants has brought attention to the hospitality sector's lower Average Daily Rate (ADR) issue. Representatives from the industry attribute this decline to the low demand for hotel services, despite official statistics indicating a swift recovery of visitor numbers following the Covid-19 pandemic. They argue that many visitors, mainly migrants, opt for alternative accommodation options such as long-term rental flats or staying with relatives and friends who have already secured apartments.

Additionally, the prevalence of online meetings in the business segment has impacted hotels, as more companies opt for virtual interactions instead of in-person visits. As a result, hotels have had to rely more heavily on visitor arrivals traveling for rest and recreation, leading to a decrease in prices aimed at attracting visitors.

At the same time, accommodations have observed an increase in input prices following Covid-19. Some attribute this rise to the high demand generated by migration, while others point to a lack of competition in the input industry. The rising costs, low demand, and intense market competition have compelled hotels to reduce their prices to maintain competitiveness. The challenge for hotels lies in balancing ADR to cover rising costs and ensuring affordability to attract visitors.

Student Qualification vs. Bad Management Practices

The hospitality sector representatives have raised concerns about whether student qualifications or lousy management practices are the industry's main challenges. They emphasize the impact of management practices on employee retention, highlighting the reluctance of managers to invest in human resources through training, motivation, and favorable working conditions. This lack of investment leads to a significant outflow of employees from the industry. While the specific human resource issues may vary among hotels based on their locations, they all share a common underlying problem: inadequate compensation. Many students and employees are primarily motivated by salary, and in most cases, they need to be adequately remunerated to encourage long-term commitment to their jobs. Additionally, better working conditions in other industries further contribute to the high turnover rate in the hospitality sector.

To address these challenges, some hotel representatives propose two key solutions. First, they suggest promoting hospitality professions among young individuals to attract fresh talent to the industry. This involves actively showcasing the benefits and opportunities of a career in hospitality and dispelling any misconceptions about the field. Second, they advocate for a change in recruitment practices by eliminating age-related biases and not exclusively hiring workers under 40. The industry can cultivate a more sustainable and motivated workforce by adopting these measures. In addition to promoting hospitality professions and addressing age-related biases, the hospitality sector must focus on investing in human resources. This includes providing comprehensive training programs, fostering a supportive and motivating work environment, and improving working conditions to attract and retain talented individuals. According to them, by prioritizing these initiatives, the industry can enhance employee satisfaction and ultimately improve the overall performance and reputation of the hospitality sector.

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

According to tourism industry representatives, despite all the adverse effects of the pandemic on Georgian tourism, it still had some positive influences on domestic visitors' behavior. During the pandemic, Georgian citizens learned a lot about the rich nature of Georgia as they traveled within the country due to COVID-19-related restrictions on outbound travel. Their traveling behavior did not change after the end of the pandemic. They mostly travel for adventure tourism stimulating domestic tourism and contributing to regional economies. Some hospitality industry representatives think the

increase in domestic tourism resulted from establishing the middle class in Georgia, ready to pay the average price and stay in regional hotels. Tourism industry representatives expect this trend to continue in the long term.

Hotel Industry Expectations for Summer Season

The Federation of Hotels and Restaurants has high expectations regarding visitors from Gulf countries for the upcoming summer season. They anticipate a significant rise in the presence of Gulf tourists, projecting their share in hotel occupancy to reach up to 60%. However, there is a concern regarding the frequent deportations without clear explanations. This issue, if persistent, could have negative consequences for the industry.

Another area of concern is the reduced border accessibility with Azerbaijan. On the other hand, it is expected that Armenian visitors will mainly concentrate on hotels in Kobuleti. Additionally, the improved relationship between Turkey and Armenia may lead to increased visitors to Turkey, adversely affecting the demand for Georgian resorts from Armenian tourists.

The association has noted an increased demand for group bookings from Europe and individual travelers. However, the overall demand remains relatively low compared to the pre-pandemic period. Nevertheless, it is anticipated that Russian tourists will increase the demand for hotels in Batumi during summer.

Food and Beverage

Service Quality Enhancement in Collaboration with Academic Sector in Regions

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

Promoting Gastronomy Tourism in Regions

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

The high expenditure on Food and Drink Expenditure

The Federation of Hotels and Restaurants has highlighted an interesting trend regarding the expenditure of migrants on restaurant services within the tourism industry. Although migration may have a minimal impact on other tourism activities, migrants tend to allocate a significant portion of

their spending toward dining out. This is primarily because restaurant services are the only essential service they require during their stay in Georgia. Unlike other tourism-related services that can be replaced with longer-term alternatives, such as transitioning from short-term accommodation units to long-term flat rentals, dining out remains a constant necessity for migrants.

Supporting this observation, data from the International Visitor Survey indicates a notable increase in visitor expenditure on food and beverages. Specifically, between 2019 and 2022, food and drink expenditures rose by 1.2 billion Georgian Lari (GEL). The increased spending on food and drink can be attributed to several factors. Firstly, Georgia is known for its rich culinary traditions and diverse gastronomic offerings, attracting migrants who seek to explore and indulge in the local cuisine. Furthermore, the convenience and accessibility of restaurant services make them an attractive option for migrants, who may not have the means or desire to cook their meals during their stay.

Cultural, Sports, and Recreational Services

Challenges of Fraud Near Tourism Attractions

The DMOs report fraud cases near the Martvili Canyon and argue that it became common practice near other attractions. The so-called "tourist hunters" offer the tourism groups arriving at Martvili Canyon alternative tours to nearby locations for the inflated prices and low quality of service. They convince visitors to avoid entering the attractions as their offer is much better. According to the DMOs, the guides responsible for taking tourist groups to the canyon are also part of the scheme. Such practice significantly drops the revenue of attractions and effects negatively service quality, including the destination's reputation.

The Adventure Tourism Effected by Migrants' Businesses

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

Service Quality in Adventure Tourism

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

The Supplemental Documents for Ecotourism Strategy

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

The Universal Design Strategy is the methodological manual for developing ecotourism infrastructure. It includes information about suggested building materials, design, and other relevant issues. The

document also includes high technological solutions, such as augmented reality, in places where historical traces are wiped out.

Cost Benefit Analysis will be a mandatory part of all ecotourism products. It will clearly show the benefits and costs of the project. The introduction of this document will lead to information-based decisions, which are rare in modern Georgian Tourism planning.

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

Ecotourism Committee Monitoring Body of Ecotourism Strategy

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

Guide Fest Way of Promoting Adventure Tourism Professions

With financial assistance from the US embassy, the Georgian Mountain Guide Association organized the first skills competition in Georgia. Inspired by the global competition WorldSkills, the association aims to include adventure skills as one of the disciplines in the international event. To kickstart this initiative, they initiated the Guide Fest, an event intended to be a significant milestone in promoting guides and showcasing the country's natural beauty as an integral part of adventure tourism products. The Guide Fest is envisioned as a landmark tourism event highlighting Georgia's captivating landscapes and emphasizing guides' importance in delivering exceptional adventure tourism experiences. The Mountain Guide Association plans to make this event an annual affair, using it as a platform to promote and raise awareness about adventure tourism professions.

Technological progress to have a significant effect on Adventure Tourism

According to the mountain guide Association, Technological progress is expected to impact adventure tourism profoundly. One significant consequence is the potential replacement of humans in certain aspects of the tourism industry, such as reception and other administrative tasks. With the introduction of artificial intelligence (AI) and advanced chatbot systems like ChatGPT, automation is becoming more prevalent, leading to increased efficiency and reduced costs for tourism businesses. However, despite the rise of technology, there remains a growing recognition of the importance of human interactions within the tourism value chain. While AI and automation can handle routine tasks, they often need a more personal touch and nuanced understanding that human interaction can provide. This recognition emphasizes delivering high-quality service and personalized experiences in tourism services, particularly in adventure tourism. One crucial aspect of adventure tourism that cannot be easily replaced by technology is the role of mountain guides. Mountain guides play a vital role in ensuring the safety and enjoyment of adventure tourists in challenging terrains. Their expertise, local knowledge, and ability to navigate unpredictable situations are invaluable and cannot be easily replicated by technology. As such, their role is likely to become even more critical in the face of advancing technology.

Tourism Sectoral Skills Organization – Specific Outcomes for Adventure Tourism

The Tourism Sectoral Skills Organization (SSO) is in its final stage of development. It aims to identify the specific skills required in the industry, shape the skills policy, and actively participate in its implementation. One of its key objectives is to bridge the skills gap by establishing national vocational standards. The establishment of the SSO holds significant implications for vocational education in adventure tourism, as emphasized by tourism associations. It will consolidate various branches within adventure tourism and formalize the certification procedures for adventure tourism guides.

However, the development of the SSO has encountered obstacles as some stakeholders propose the establishment of multiple SSOs instead of a single one. The idea of separate SSOs for hospitality, tourism and travel agencies, and adventure tourism has gained traction, driven by the belief that the skills required for each sector differ significantly. The need for a coordinating agency will arise if multiple SSOs are established. Presently, discussions regarding the number of SSOs are ongoing, and if negotiations prove successful, the introduction of SSOs is anticipated by the end of 2023.

Mountain Lifeguard Qualifications to be introduced

Various field stakeholders, including the Mountain Guide Association, Georgian Mountaineering Federation, Ministry of Education, and Ministry of Interior Affairs, are collaborating to develop a Mountain Lifeguard qualification. With support from GIZ and the platform of the Georgian National Tourism Administration, they are working on creating the necessary standards. This qualification is an innovative initiative as it didn't previously exist. While the emergency service operates under the Ministry of Interior Affairs, there is a need to establish a systematic link with professionals like Mountainairs and mountain guides. This collaboration demonstrates a successful public-private sector partnership involving governmental bodies and private adventure tourism education institutions. The aim is to enhance safety and professionalism in adventure tourism by setting higher standards through the Mountain Lifeguard qualification.

Adventure Tourism Training in Western Georgia

The Mountain Guide Association has won the USAID industry-led skills development program for adventure tourism training in Western Georgia. The project aims to replicate successful training activities from Eastern Georgia to the Western region, creating two key adventure tourism destinations: Svaneti in the west and Gudauri in the east. Around 700 individuals will be retrained, with 50 trainers receiving training. This project is expected to significantly transform the adventure tourism landscape in Western Georgia over the next two years.

The portal of Mountain Guides is to be created

With USAID's financial assistance, an official portal for certified mountain guides will be created in Georgia. This centralized platform will allow tourism industry representatives to access quickly and book mountain guides. The portal aims to enhance the adventure tourism product in Georgia by emphasizing the crucial role of high-quality guides. This initiative highlights the commitment to providing a comprehensive and reliable platform for adventure tourists seeking skilled and certified guides.

Ecotourism Projects for the Sustainable Tourism Development

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

Within another project, "Mountain and Ecotourism Development in Samtskhe Javakheti region," financed by the US Embassy, the local DMO conducted several activities. As the first step, they marked the hiking routes within the region, followed by several marketing efforts to popularize the product. The activities included: the publication of the Guide of Hiking Routes in Georgian and English languages, marketing video of marked hiking routes, Hiking VLOG, which is available on YouTube, info tours, and the Hiking Application, which became available for Android and IOS operating systems. Furthermore, the hiking route was posted on the popular hiking website Wikiloc.

Tourist Routes as a Cultural Tourism Development Tool

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

Importance of Transnational Tourism Product Development and Promotion

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

2. CREATIVE INDUSTRIES

SECTOR SUMMARY

The creative industries were significantly affected by the pandemic. Media content production and post-production value chain, despite showing considerable growth in 2021 and 2022, as the recovery began from record-low numbers, most of the key indicators of the value chain were unable to return to the pre-pandemic levels. For example, the turnover of media content and post-production value chain increased by 73.1% compared to 2021 but remained 22.7% below turnover recorded in 2019. Interestingly, the number of people employed in the media content production and post-production value chain continued to grow in 2020 (though only by 5.5%) but substantially declined in 2021 (-20.0%). A similar trend is observed in the average monthly salary within the value chain. This could be explained by the hesitance of the companies to let go of their employees at the early stage of the pandemic. In 2022, employment in the value chain saw a return to growth, albeit at a modest YoY increase of 3.8%, primarily driven by a low base effect. However, employment remained 16.9% lower compared to 2020 and 12.4% lower compared to 2019. Regarding the average salary in the value chain in 2022 (GEL 1,714), it remained nearly the same as in 2021 (GEL 1,709), indicating that it still fell below the salaries of 2019 and 2020.

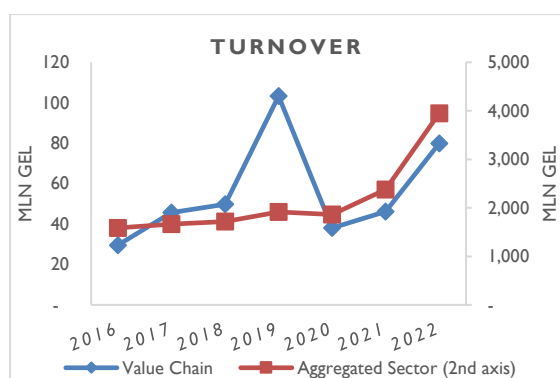
Meanwhile, the aggregated sector of information and communication, which had already recovered and surpassed pre-2020 levels in 2021, recorded remarkably high growth in 2022. This growth is attributed to the pandemic, as the restrictions imposed during the pandemic stimulated changes in customer habits and accelerated digitalization in companies.

The artisan value chain also experienced significant positive changes in 2022. Approximately 90% of the surveyed companies reported an increase in turnover compared to 2021. Moreover, the majority of these companies reported a high growth in turnover, ranging from 10% to 50% increase. Interestingly, most companies indicated no change in the number of employees, and none reported a decrease in the number of employed people in the second two quarters of 2022 compared to the same period in 2021.

MEDIA CONTENT PRODUCTION AND POST-PRODUCTION

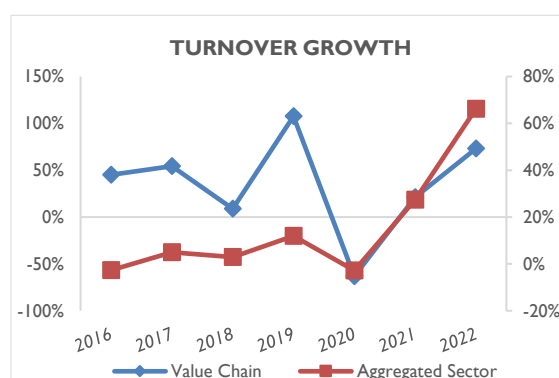
Media content production and post-production value chain demonstrated consistent expansion before 2020, outpacing the growth of its aggregated sector (ICT sector). However, the value chain was suffered significant damage due to the pandemic in 2020. Despite showing growth in 2021 and 2022, it remains one of the few value chains analyzed in the report that has not been able to fully recover to pre-pandemic levels, even by 2022.

Chart 2.2 Turnover of the media content production and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 2.1 Changes in turnover for the media content production and post-production value chain and the corresponding aggregated sector



Before the pandemic, the turnover of the media content and production value chain showed positive growth, with a remarkable increase of 107.6% in 2019. In Comparison, the ICT sector (the aggregated sector), recorded a growth rate of only 11.9% during the same period. However, the onset of the pandemic led to a sharp contraction in the content media production value chain, experiencing a significant decline of 63.2% in turnover, dropping from GEL 103.3 mln to GEL 38.0 mln in 2020. In 2021, the value chain turnover of t began a slow recovery, showing a growth rate of 21.2% compared to 2020. Although there was a considerable YoY growth of 73.1% in 2022, the turnover still remained 22.7% below its pre-pandemic performance.

In comparison, the aggregated sector experienced minor decline of 2.8% in 2020. However, in subsequent years, it was boosted as a result of the pandemic and the changes in customer habits and digitalization trends prompted by the pandemic-related restrictions. The turnover of the aggregated sector demonstrated substantial growth in 2022, with a 66.3% increase compared to 2021 and an impressive 105.3% increase compared to 2019. This indicates that, unlike the media content and production value chain, the aggregated sector's turnover not only recovered but exceeded pre-pandemic performance significantly.

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

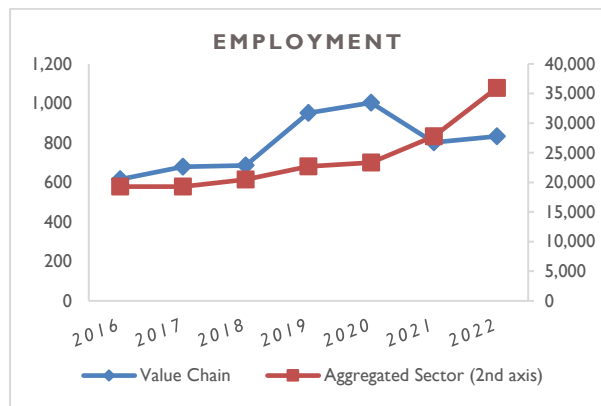
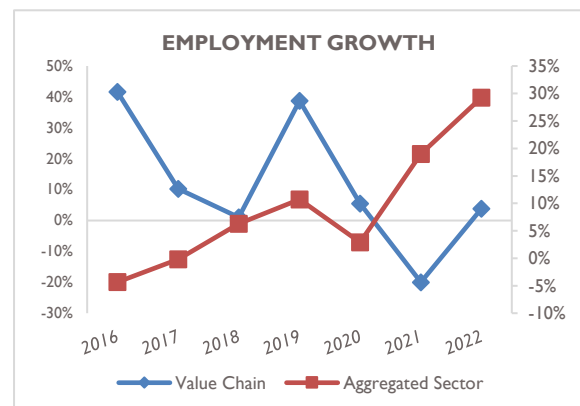


Chart 2.4 Changes in turnover for the media content production and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Before the pandemic, the number of people employed in the media content production and post-production value chain displayed steady growth, with a significant YoY increase of 38.8% in 2019. In 2020, despite the challenging circumstances, employment in the value chain continued to grow in 2020 (though only by 5.5%). However, in 2021, there was a substantial decline in employment, amounting to a decrease of 20.0%. This decline can be attributed to companies' hesitate to lay off employees during the early stages of the pandemic. In 2022, the employment in the value chain returned to growth, though with a modest YoY increase of 3.8%. It is important to note that this increase was mainly due to the low base effect resulting from the decline in employment in 2021. Nevertheless, despite the growth in employment in 2022, the number of people employed in the value chain remained 16.9% lower compared to 2020 and 12.4% lower compared to 2019.

Conversely, the aggregate sector expanded its number of laborers not only in 2020 (2.9%) but showed high growth of employees in 2021 (19.0%) and 2022 (29.3%) as well.

Chart 2.6 Average monthly salary in the media content production and post-production value chain and the corresponding aggregated sector

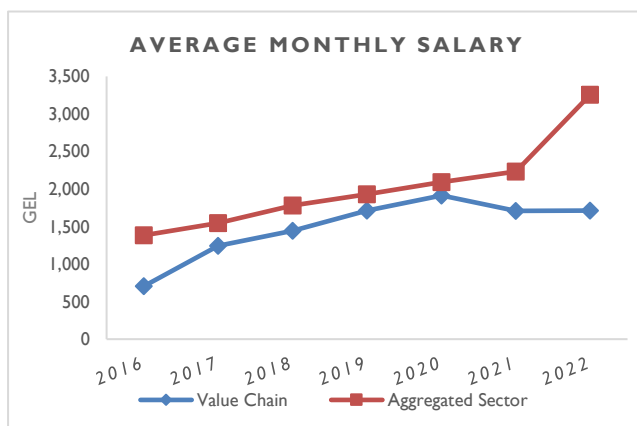
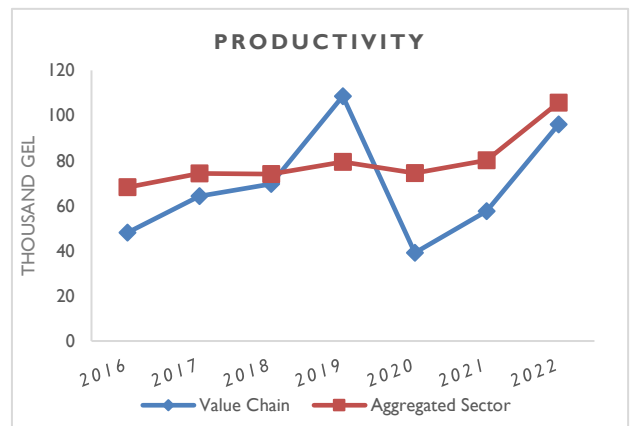


Chart 2.5 Media content production and post-production value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average salaries in the media content production and post-production value chain were not immediately affected by the pandemic. In 2020, the average salary did not decline, but in 2021, the

salary declined by YoY 10.7%. In 2022, the average salary (GEL 1,714) in the value chain remained almost unchanged compared to 2021 (GEL 1,709). This indicates that in the media content production and post-production value chain the average salary in 2022 is higher than the salaries recorded in 2019 and 2020.

The productivity of the media production and post-production value chain was significantly affected by the COVID-19 pandemic, resulting in a 64.0% decrease in 2020. However, in 2021, the productivity of the value chain began to recover, showing an increase of 47.2%. In 2022, productivity continued to rise, further increasing by 66.9% compared to 2021. Despite this recovery, the productivity of the value chain in 2022 remained 11.5% lower than its pre-pandemic level in 2019.

ARTISAN

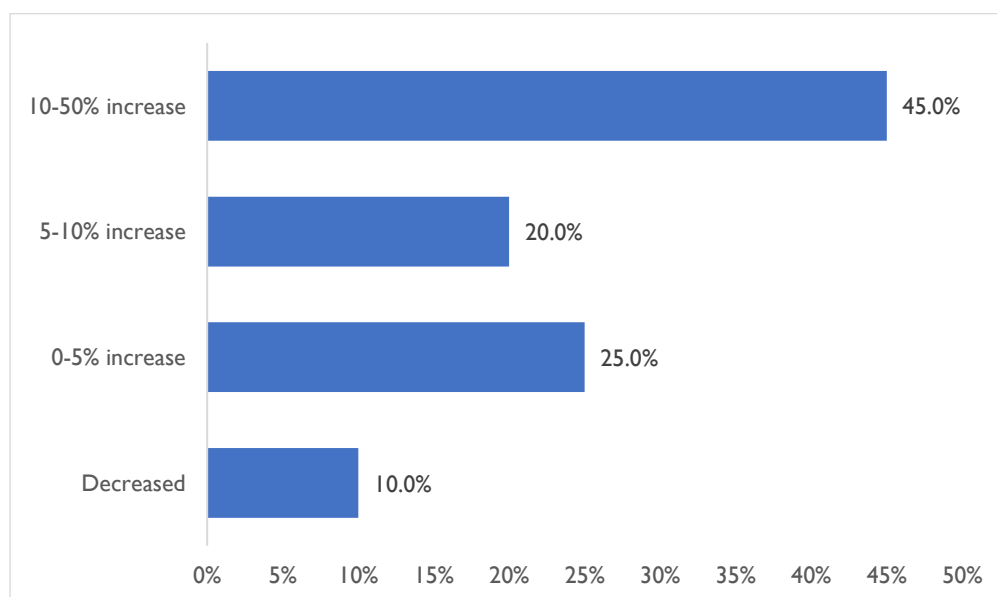
Due to the unavailability of specific data for the artisan value chain, a survey was conducted to gather insights about the trends of this value chain. Most of the surveyed companies are sole entrepreneurs operating from Tbilisi. The artisans produce a diverse range of products, including ceramics, jewelry, custom furniture, and miniature figures, with custom furniture and miniature figures being the most common.

As noted in the previous reports, the artisan value chain faced significant challenges during the pandemic, with many businesses at risk of halting their activities. Issues such as high freight costs, insufficient advertisement, and lack of foreign customers were highlighted by the surveyed artisans as their main concerns. However, with the relative rebound of tourism in Georgia in 2021, the harsh conditions were eased for the abovementioned businesses. In 2022, the survey results improved further, suggesting that the value chain survived the pandemic and has been positively influenced by the tourism rebound.

The size of companies in the artisan value chain is relatively small. All of the surveyed companies indicated that their turnover in 2022 was lower than GEL 200,000.

Majority of companies (around 90%) in the artisan value chain reported increase in turnover in 2022, compared to 2021. As the chart below shows, most of the surveyed companies (45.0%) had a high turnover growth (10-50% increase in turnover), 20.0% reported 5-10% turnover growth, and 25.0% had a turnover growth of less than 5% in the second half of 2022.

Chart 2.7 Percentage distribution of turnover growth rates in the artisan value chain, the second half of 2022 (y-o-y)

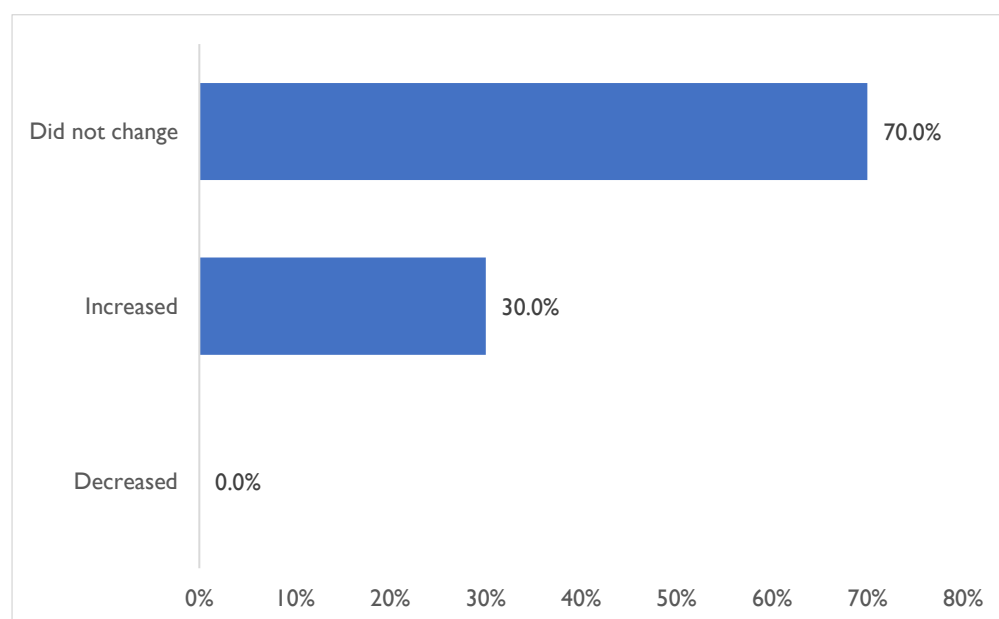


Source: Authors' calculations

In 2022, the number of employed personnel in surveyed artisan companies varied from 1 to 10. About half of the surveyed respondents are sole entrepreneurs with no additional employees. Women accounted for 77% of employed individuals on average in the second half of 2022, while the share of young people (under 30 years old) made up just 17% of the total employees of the surveyed companies.

Most companies (70%) indicated no change in the number of employees in the second half of 2022 (Chart 2.8). On average, 30% of firms reported an increase in employment. At the same time, none experienced a decrease in the number of employed people in the last two quarters of 2022 compared to the same period of 2021. The average salary amongst the surveyed companies equaled GEL 920.5 in the first half of 2022 and GEL 840 in the second half of 2022.

Chart 2.8 Average Change in Employment, the second half of 2022 (y-o-y)



Source: Authors' calculations

Media Content Production and Post-production

The commercialization program for Georgian films was launched under the initiative of "Enterprise Georgia" in cooperation with the Georgian National Film Center (GNFC). The goal of the program is to promote the screening of Georgian films at international festivals. Through a competition, two films were selected to participate in the program, and their market screenings will be held at the Cannes Film Festival. International sales agents and distributors will be invited to the screenings, which will increase the chances of success of the films in the international market.

Important steps have been taken towards developing the capabilities of Georgian film production companies. A 5-day training was organized by the Enterprise Georgia agency for representatives of 21 Georgian companies to raise their competencies and bring them closer to international standards. The training was led by Hollywood trainers, location scout and manager Becky Brake, and producer Janet Milo, who has 20 years of experience in production. The training was developed in active collaboration with representatives of the film industry and tailored to their needs. According to the program's representative, the training will contribute to raising the qualifications of Georgian filmmakers and attract more projects to Georgia.

The cash rebate program is undergoing important changes, as Enterprise Georgia is expected to approve the program soon, including offering cash rebate on post-production (previously, the program only offered cash rebates of 20-25% on qualified expenses incurred during film production). Under the existing cash rebate program, three international projects have already been registered and are currently in production.

According to the stakeholders, American production is still hesitant to enter the Georgian due to ongoing war in Ukraine. Presently, most productions are from European countries, along with some from Israel. Even India, which previously preferred Georgia as a filming location, has shifted to other markets such as Ukraine and Serbia, which is damaging for Georgian production companies that were previously gaining significant income and experience by working on Indian projects.

To increase the international recognition of Georgian film production, the GNFC organized a selection trip for the first time. Selectors from Venice, Locarno, and San Sebastian film festivals visited Georgia to screen feature, documentary, full-length, and short films that have been completed or are in progress. The selection results are expected to be announced by the end of July. This initiative aims to boost the awareness of Georgian film production in the global market and facilitate future collaborations between Georgian and European filmmakers.

Georgia at the Cannes Film Festival: it is planned to set up a Georgian pavilion at the Cannes Film Festival, supported by the GNFC and Enterprise Georgia. This pavilion will serve as a platform for Georgian producers and directors to establish connections and seek future collaborations. Most importantly, Elene Naveriani's third feature film, „Blackbird Blackbird Blackberry,“ produced by Alva Film and Takes Film, will premiere in the Directors' Fortnight section of the Cannes Film Festival. This achievement is a great success for the film and Georgia's film industry.

Georgia is taking important steps to become a post-production hub in the region. Post-production is becoming global, which may be due to the following reasons: advancement of digital technology, which has made it easier for filmmakers to collaborate remotely and for post-production work to be done from anywhere in the world; the rise of international co-productions. As filmmakers

increasingly work with partners in different countries, post-production work may be done in different locations to take advantage of different talents, resources, and cost efficiencies; the growth of the entertainment industry has led to increased demand for content from all corners of the world. Furthermore, the time difference of 9-12 hours with North America allows for a continuous 24-hour work cycle, making the Georgian market highly competitive. Postred, the leading post-production company in Georgia, is currently working on numerous large international projects including Euphoria and Scream and has recently ventured into the video game sector through a partnership with a major player in the market. Postred is also actively contributing to developing a skilled workforce in the country by operating an academy that provides training in various post-production specializations. There are plans to expand the academy in the near future. The academy also aims to build a community of post-production professionals. Postred also frequently hosts industry meetups and workshops to discuss industry challenges and opportunities, as well as to facilitate networking among professionals. A career in post-production is particularly captivating and challenging among youth not only due to the attractive salaries that are comparable to those in the IT sector but also due to their interest in the nature of the work involved.

Artisan

Artisan's value chain remained largely unchanged during the reporting period, as reported by sector representatives. However, they anticipate a strong sales growth during the upcoming summer tourist season as the value chain continues to recover from the pandemic disruptions and return to its pre-pandemic state. The industry experienced a successful year in 2022, with record sales of 100,000 GEL at the Christmas fair organized by the Georgian Heritage Crafts Association, compared to 85,000 GEL the previous year.

The Artisan Sector Skills Organization (SSO) is being developed by the Georgian Heritage Crafts Association, along with other sectoral associations like Abkhazian Wood Processors, Wooden Furniture Manufacturers Association, and Furniture Cluster, with support from USAID's industry-led skill development program. The organization is expected to be legally established by July, and the initiative team is currently working on its charter, governance structure, mission, and goals. As part of this effort, a sectoral map is being created to guide the qualification formation/revision process, ensuring that qualifications and relevant competencies are consistent within the sector. The sectoral map will also facilitate the transfer of information from professional and vocational education standards. The future SSO intends to create a map of enterprises that have been linked to vocational education colleges with artisan entrepreneurs, so that graduates can pursue internships with them. For enterprises that don't meet the current requirements for internships, the association will provide recommendations to improve their capabilities and become included in the system as internship providers and potential employers.

During the reporting period, the Georgian Heritage Crafts Association completed the preparation of an export manual^[1] with the assistance of USAID. The guide, which is a detailed illustrated document, covers a range of topics such as Western market trends, consumer preferences, and demand. Additionally, it includes a guide to HS codes, which explains how these codes are assigned to specific artisanal products. The manual was introduced to the artisans at the Ethno Fest, conducted in October 2022.

[1] <https://crafts.ge/assist/images/XPMjIV0hqBTy3ewOw4YcnWvko5YkDC.pdf>

3. LIGHT MANUFACTURING

SECTOR SUMMARY

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

The following section provides a detailed economic analysis of the furniture, packaging, and construction materials value chains based on quarterly enterprise survey data from Geostat, while for the wooden toys business activity and the PPE value chain, phone surveys were conducted, the result of which are also presented. Data are put in annual perspective to examine the tendencies observed during the year 2022 in the respective VCs.

According to the quarterly data, turnover in all value chains in this sector demonstrated positive nominal growth in 2022 compared to 2021, with the highest growth observed in the construction materials value chain (21.6%). Employment has also increased in 2022 in every value chain, the only exception being furniture VC where employment decreased slightly by 0.3%. The highest number of hired employees as of 2022 was registered in the construction materials value chain, while the lowest was observed in furniture value chain. Improved performance in 2022 should be partly attributed to the base effect.

The average monthly salary for 2022 ranged between GEL 1,132 (in the furniture VC) and GEL 1,693 (in packaging VC). Moreover, the furniture VC has been characterized by the lowest productivity¹³ (GEL 90,758), while the highest productivity was identified in the packaging value chain (GEL 204,273).

Survey results for the PPE value chain and the wooden toys business activity suggest that the majority of PPE and all Wooden Toys manufacturers report increased turnover in both halves of 2022, compared to the first half of 2021. As for employment, most of PPE value chain manufacturers reported no YoY change in their number of employees in 2022, while most wooden toys manufacturers reported an increase in the first half and no change in the second half of 2022.

The qualitative assessment has revealed that there are some overarching impediments that restrict growth in all VCs/business activities of the light manufacturing sector. The most prevalent and persistent challenge seems to be the shortage of workforce. As interviewees suggest, there is a general scarcity of human resources, in addition to the lack of qualifications in the labor force. This is explained by two core factors. The first contributing factor is the high turnover of employees within and between sectors, mainly due to uncompetitive wage offerings. Additionally, especially during the post-pandemic period, there is a clear tendency for labor migration from Georgia to Europe and the United States further restricting employee retention.

Speaking of workforce availability, there have been some attempts championed by the Georgian Skills Agency in partnership with the private sector. The agency, along with sector-based organizations, aims to formulate national standards required for the workforce operating in certain fields (such as construction materials, furniture, etc.). Agreed-upon standards will then be utilized to run dual VET programs co-managed by existing VET schools and the private sector. Some tangible results have already been achieved in this regard as of this reporting period. Nevertheless, the severity of the problem still remains largely unaddressed. Businesses operating in this sector have the potential to

¹³ Annual output per hired employee.

expand both in local and international markets. For further expansion in the local market, several challenges are mentioned. Primarily, the local manufactured products might lack a competitive advantage against imported products. In this regard, there is not much that can be done except, if needed, to support these businesses in improving their technological base (some of them, for instance, from wooden toys manufacturing, report a lack of effective technologies that might improve quality along with the quantity of their manufacture). Additionally, there is also a lack of information regarding local players across the supply chains – some potential Georgian purchasers of light manufacturing products do not know much regarding local production. Thus, raising awareness regarding domestic manufacturing has some potential to develop the light manufacturing sector further. As of this reporting period, more companies highlight the impacts that Russia’s war in Ukraine has had on the Georgian light manufacturing sector. On the positive side, participants report growing demand for Georgian production across regional countries as supply routes have been suspended since the start of the war. The most visible results are seen for packaging manufacturers, some of which report almost a twofold increase in revenues by the end of 2022. Along with the positive impacts, however, it seems that the Georgian market has become more saturated with low-priced Russian products such as, affordable wooden raw materials, and this has negatively impacted certain producers, decreasing their competitiveness. Overall, according to a conducted qualitative assessment, there is a positive projection for a future increase in demand for Georgian production of the light manufacturing sector. One contributing factor to this expectation is the strong appreciation tendency of the Georgian Lari, which significantly reduces the price for inputs utilized in the production processes by Georgian companies in the light manufacturing sector.

FURNITURE

In the following section we provide quantitative economic indicators for the furniture VC and for its corresponding aggregate sector (manufacturing). Indicators are based on Geostat’s quarterly enterprise survey data, which is then aggregated to present annual tendencies.

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):

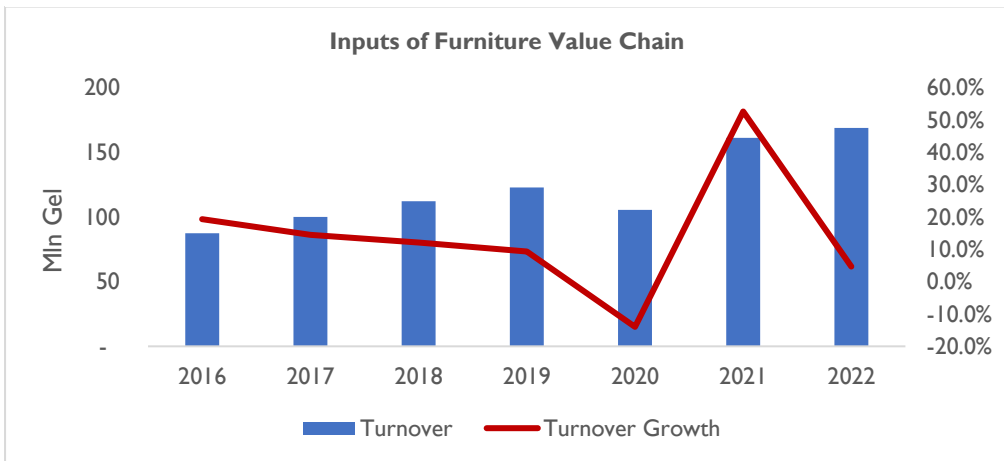
Table 3.1 Economic activities included in furniture value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code in Geostat quarterly survey	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 ¹⁴	Manufacture of products of wood, cork, straw and plaiting materials	
16.22	Manufacture of assembled parquet floors			

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

16.29	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials			
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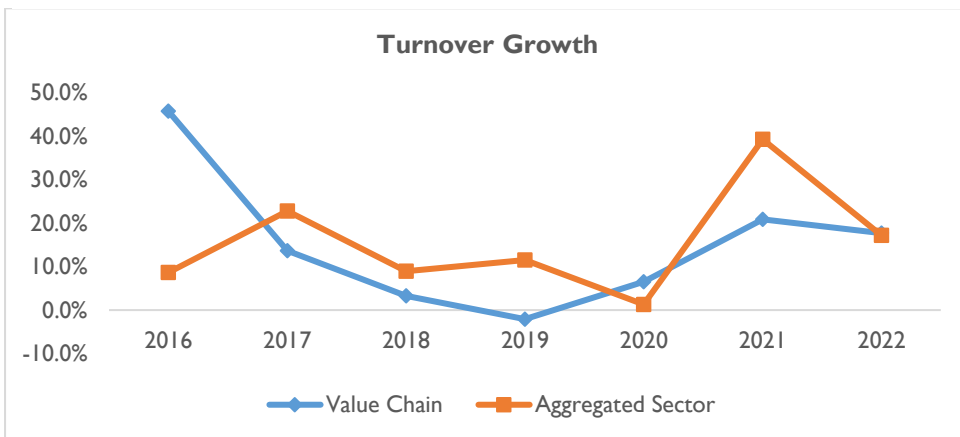
Chart 3.1 Turnover of the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Following the post-Covid rebound in furniture VC when turnover increased to 249 million GEL in 2021 (20.9% growth), the growth rate moderated to 17.7% in 2022 as turnover reached 293 million GEL. The identical trend has been observed in the aggregate sector, characterized by 17.2% turnover growth in 2022, reaching almost GEL 17 billion (Chart 3.1 and 3.2).

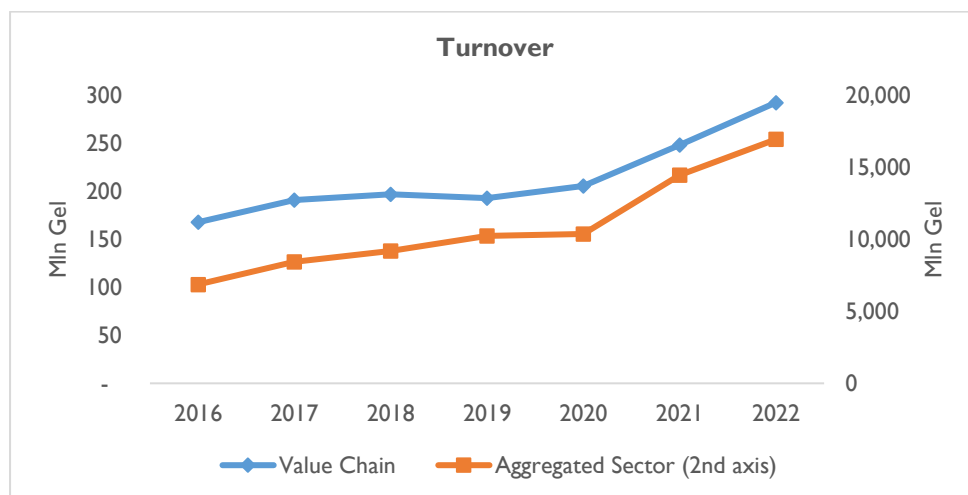
Chart 3.2 YoY Growth rate of turnover in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

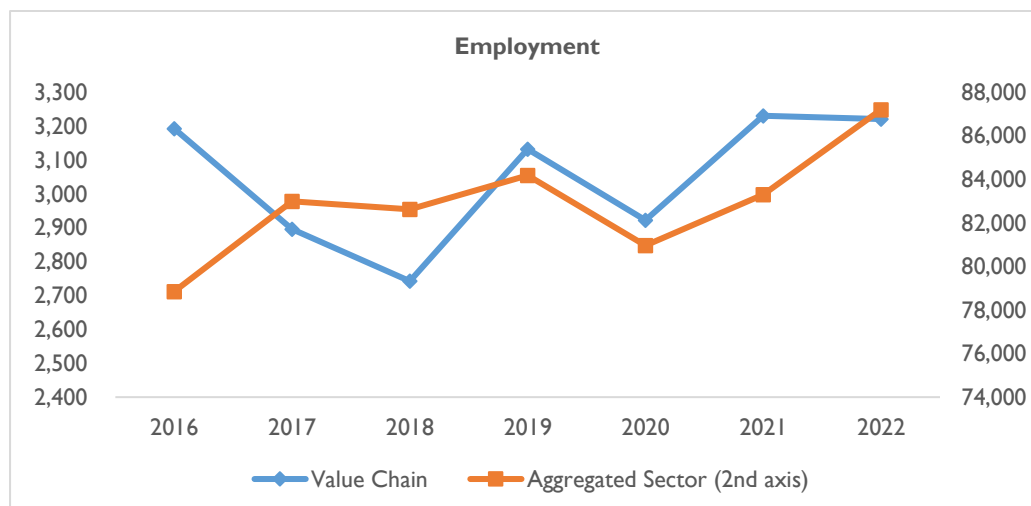
Turnover of the furniture inputs VC has experienced a drastic increase in 2021 (52.7%), but the growth rate moderated to 4.7% in 2022, as turnover reached GEL 169 million (Chart 3.3).

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



Source: National Statistics Office of Georgia

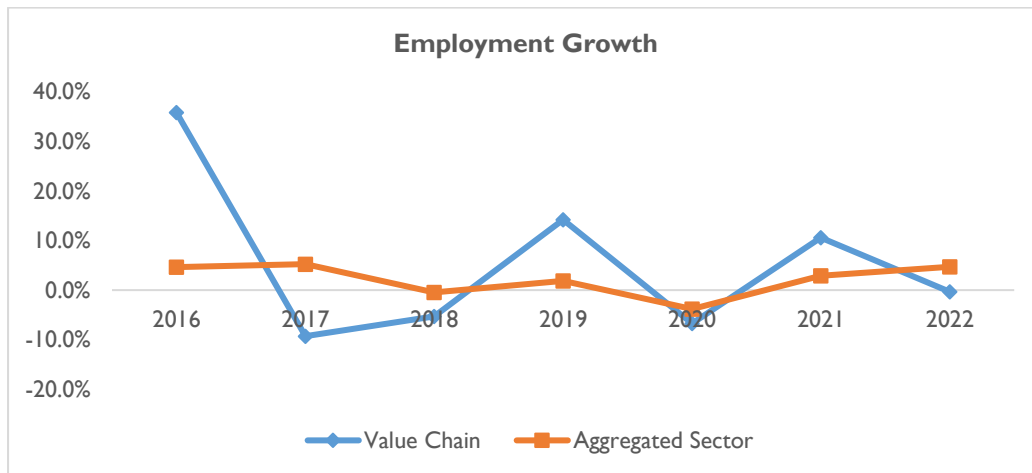
Chart 3.4 Employment of the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Following the post-Covid economic rebound, the growth rate surged downward to a negative 0.3% as employment decreased slightly to 3,221 in 2022 compared to 2021. Meanwhile, somewhat different tendencies were observed in the aggregate sector, where a lower growth rate in 2021 (2.9%) was followed by a higher annual increase in 2022 (4.7%). As a result, employment reached 87,200 workers (Chart 3.4 and 3.5).

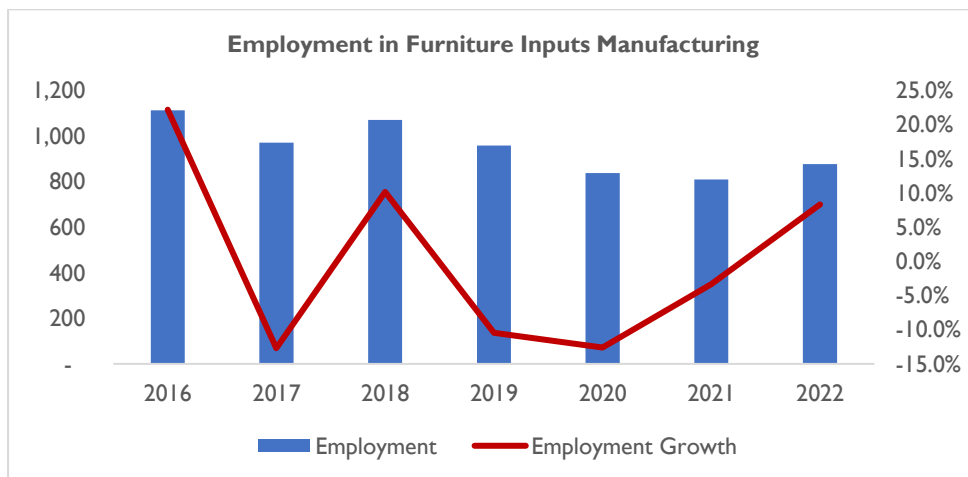
Chart 3.5 YoY growth rate of employment in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

After reaching the lowest number of employed people, 810, in the decade, the trend was reversed in the furniture inputs VC in 2022, as employment increased by 8.3% to 877 workers (Chart 3.6).

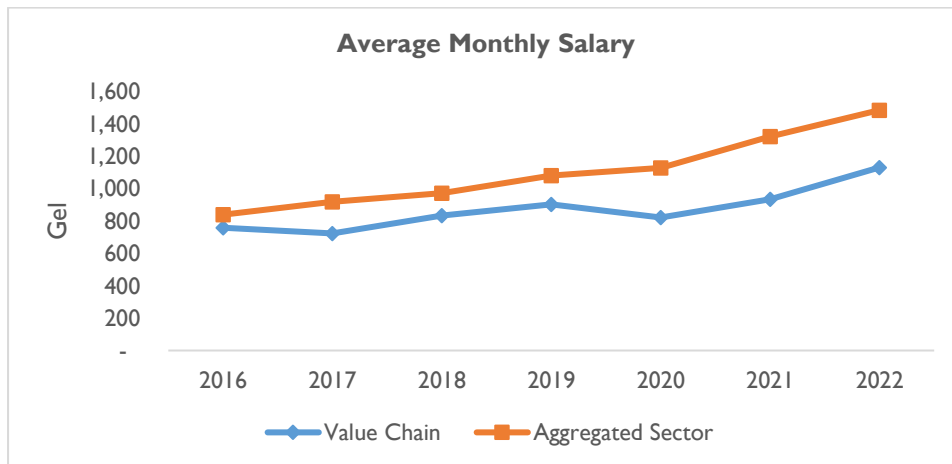
Chart 3.6 Employment and YoY growth rate of employment in furniture inputs manufacturing



Source: National Statistics Office of Georgia

In line with the economic recovery, the growth rate of average monthly salary accelerated in 2022 as wages increased by 20.9% and reached 1,132 in 2022. As for the aggregated sector, the average salary amounted to GEL 1,487 in 2022, which represents a 12.4% increase compared to 2021 (Chart 3.7).

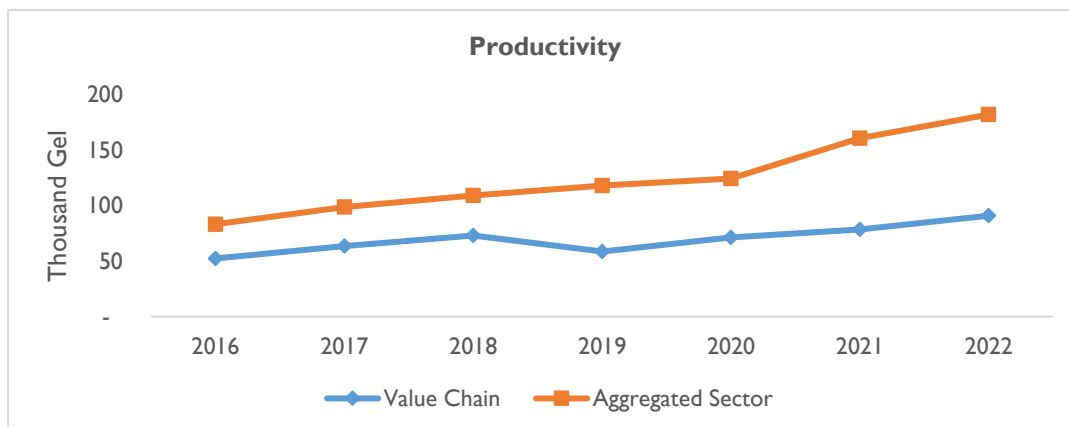
Chart 3.7 Average monthly salary in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

Similar to average monthly salary, productivity for the furniture value chain increased in 2022 (15.6%) and reached GEL 90,758. As for the aggregate sector, productivity also increased albeit at a somewhat lower rate (13.2%) and amounted to GEL 181,817 (Chart 3.8).

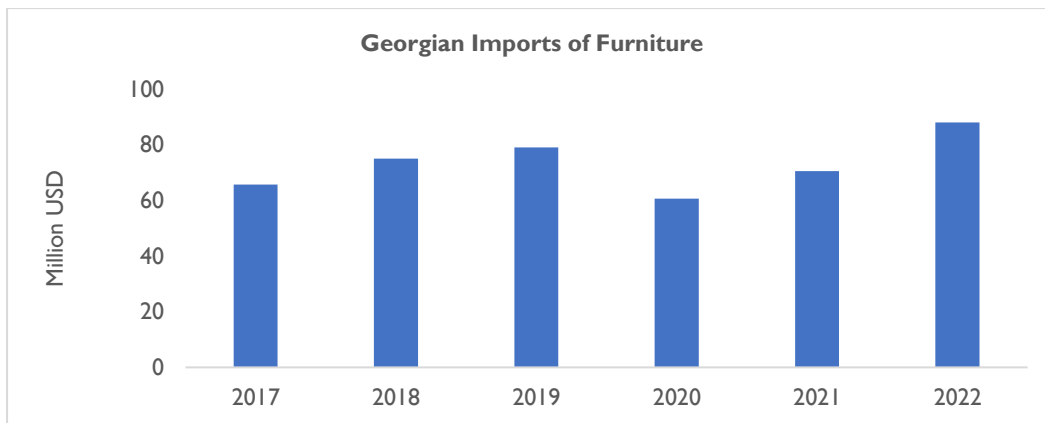
Chart 3.8 Labor productivity (annual output per hired employee) in the furniture value chain and the corresponding aggregate sector



Source: National Statistics Office of Georgia

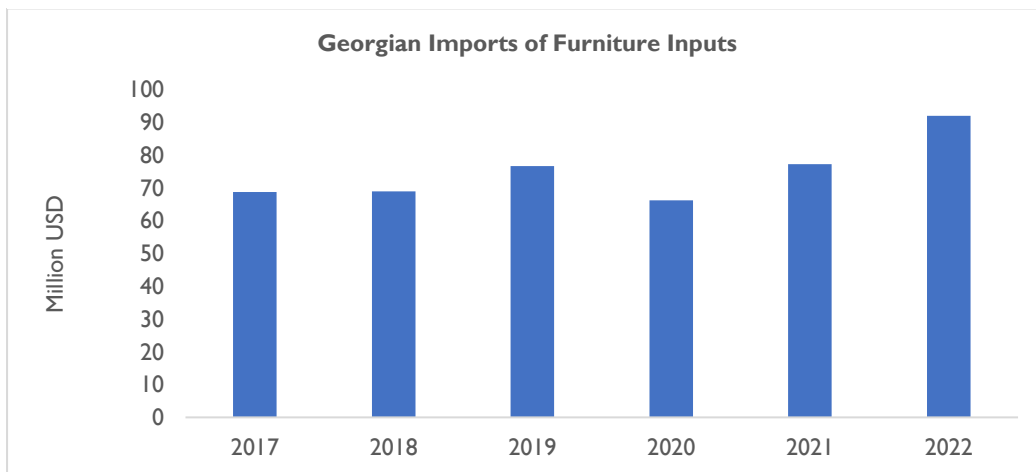
Based on the observed trade tendencies in the furniture value chain, Georgia's imports of furniture increased in 2022, reaching USD 88 million. Imports of furniture inputs followed the same trend in 2022, constituting USD 92 million. These represent 24.8% and 19.1% growth compared to 2021, for furniture and furniture inputs, respectively (Charts 3.9 and 3.10).

Chart 3.9 Georgian Imports of Furniture



Source: National Statistics Office of Georgia

Chart 3.10 Georgian Imports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.12 and Chart 3.13 below show the top importing countries of furniture and its inputs in 2022. In the case of furniture import, the main trade partners for Georgia were Türkiye (50%) and China (10%). Meanwhile, the main importing partners for furniture inputs during 2022 were Türkiye (54%), Russia (12%), and Belarus (6%).

Chart 3.12 Georgian Imports of Furniture Inputs by Trade Partners (2022)

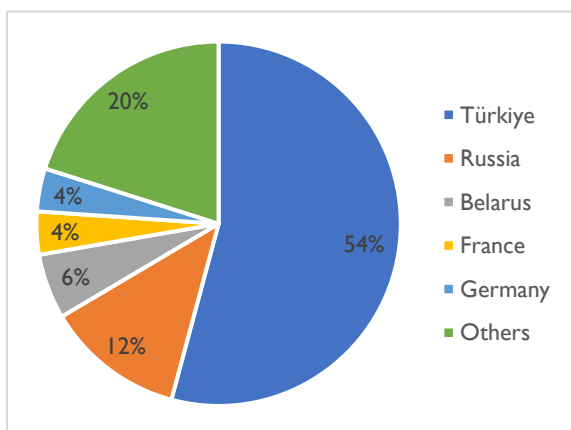
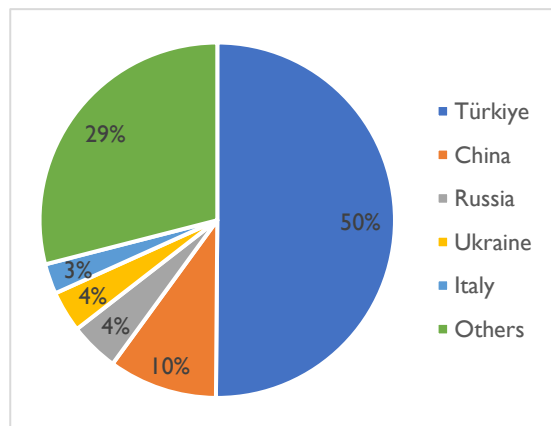


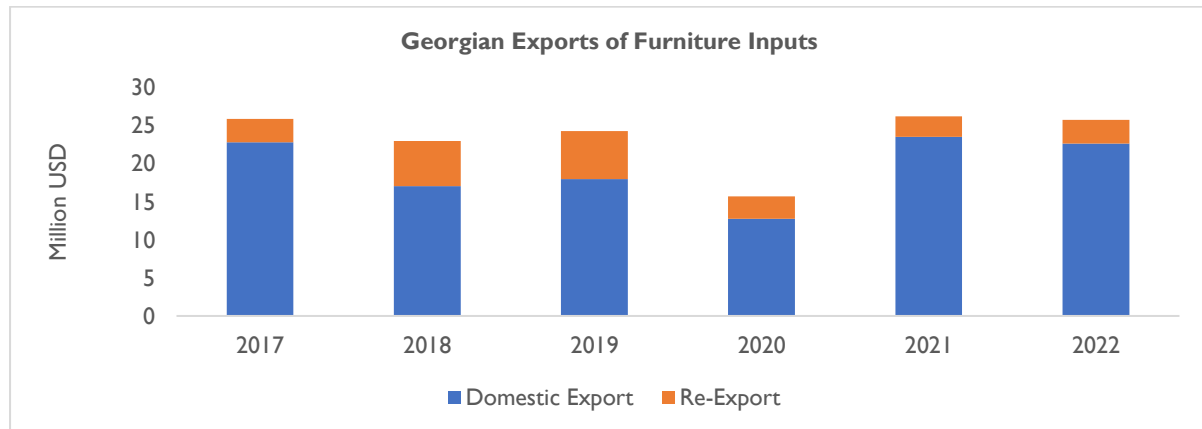
Chart 3.11 Georgian Imports of Furniture by Trade Partners (2022)



Source: National Statistics Office of Georgia

In 2022, domestic exports¹⁵ of furniture inputs slightly diminished, while the re-export has increased. More specifically, domestic exports and re-exports amounted to USD 22.7 million and USD 3.1 million, which is a drop of 3.8% and increase of 16.6%, respectively, compared to 2021.

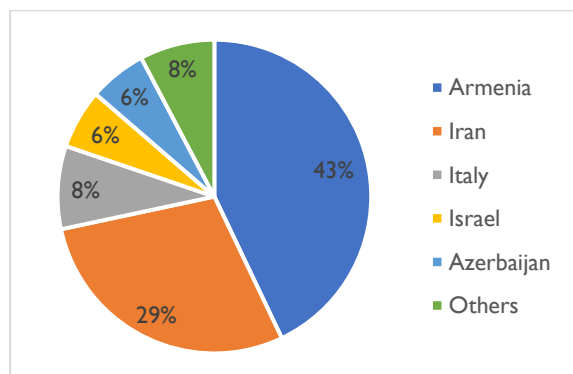
Chart 3.13 Dynamics of Georgian Exports of Furniture Inputs



Source: National Statistics Office of Georgia

Chart 3.14 shows the top exporting markets for Georgian furniture inputs for 2022. Armenia (43%) and Iran (29%) are the leading export destinations, followed by Italy (8%), Israel (6%), and Azerbaijan (6%).

Chart 3.14 Georgian Domestic Exports of Furniture Inputs by Trade Partner (2022)



Source: National Statistics Office of Georgia

Following the peak experienced by Georgian furniture exports during the economic rebound in 2021, growth rate turned negative in 2022 as domestic exports decreased to USD 2.3 million. Meanwhile, sharp growth tendencies persisted in furniture re-exports as it experienced 93.6% growth and reached USD 4.1 million in 2022 (Chart 3.15).

¹⁵ Domestic exports are defined as exported goods that are manufactured in Georgia as well as commodities of foreign origin that have been changed, enhanced in value or further improved in condition within the territory of Georgia.

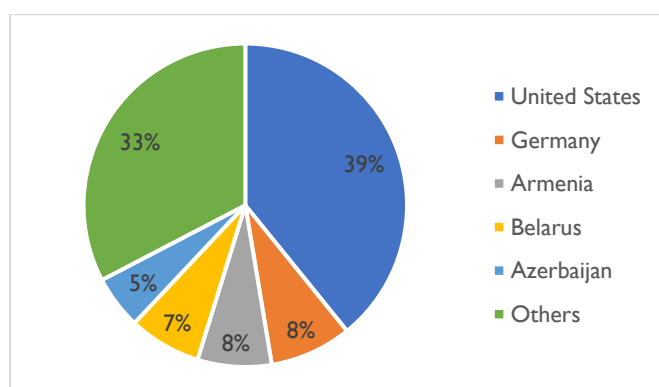
Chart 3.15 Georgian Exports of Furniture



Source: National Statistics Office of Georgia

Chart 3.16 shows the top trading partner countries in 2022 for Georgia’s domestic exports of furniture output. The major export destinations during 2022 were the United States (39%) and Germany (8%), followed by Armenia (8%), Belarus (7%) and Azerbaijan (5%).

Chart 3.16 Georgian Domestic Exports of Furniture by Trade Partner (2022)

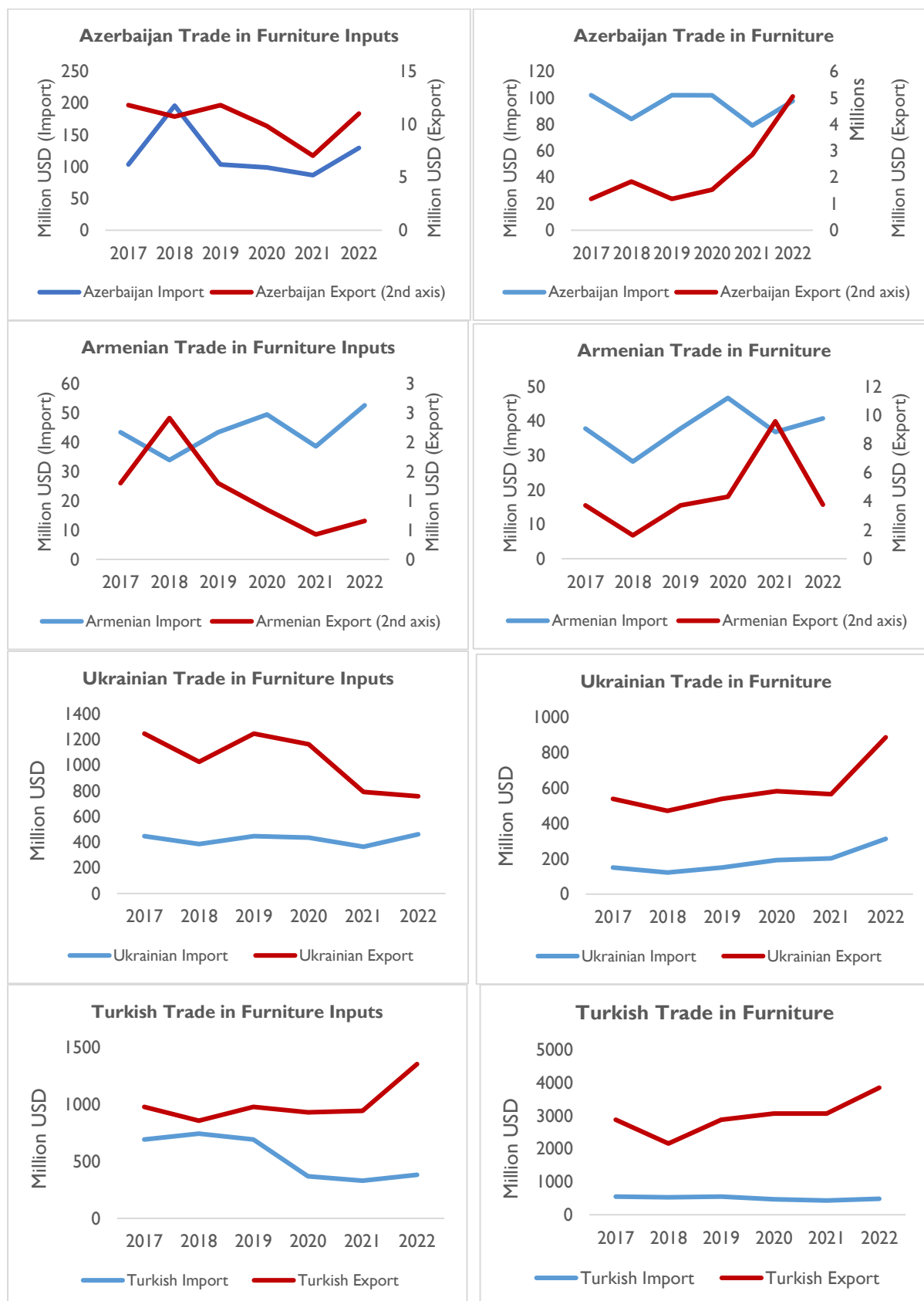


Source: National Statistics Office of Georgia

To analyze regional trade flows, the following countries are considered in the following section: Armenia, Azerbaijan, Türkiye, and Ukraine. Exports of furniture have increased for Azerbaijan, Ukraine and Türkiye, while Armenia experienced a sharp decline in 2022 compared to 2021. Meanwhile, import of furniture expanded in all four countries considered (Chart 3.17).

Exports of furniture inputs increased for Armenia, Türkiye and Azerbaijan in 2022 and slightly decreased for Ukraine. Meanwhile, positive tendencies were observed in terms of imports of furniture inputs across all countries.

Chart 3.17 Regional trade patterns in the furniture value chain



Source: UN Comtrade

Overview of Existing Challenges and Opportunities

Insights from focus group discussions and individual interviews suggest that the developmental pace of the Georgian furniture value chain has been slow. Overall, furniture production in the country has a clear orientation on the domestic market and is characterized by a high dependency on imported inputs. There is some import replacement potential that upgrades the value chain on the local level, but there is no significant capacity for global expansion.

Most Georgian producers face similar persisting challenges related to the unavailability of a skilled workforce, low access to finance, lack of relevant technologies, and limited access to high-quality raw materials. There are some steps taken to address these obstacles. However, no tangible results have been observed yet.

The unavailability of the workforce remains one of the most pressing challenges for this value chain. Business sector representatives face a consistent lack of human resources to ensure stable business operations. The sector is characterized by a high internal turnover of staff. Due to the insufficient skills of vocational school graduates, manufacturers usually train and impart technical knowledge onto their employees at their own expense, only for many such employees to then leave and start their own enterprises, frequently working as unregistered individual entrepreneurs, thereby giving them what could be considered an unfair competitive advantage versus their corporate counterparts.

What else, according to interviewed furniture manufacturers, over time not only skilled workforce but any type of workforce has become scarcer in Georgia. The high level of human outflow to the East European countries (e.g., Poland, Czech Republic, etc.), engendered by non-competitive wages, was named as an additional challenge. The latter hindrance has become more critical in the post-pandemic period, as borders have been reopened. According to the interviewees, there is a need for a state-coordinated, actionable strategy for managing the labor shortage in the country.

In this regard, recent attempts championed by the Skills Agency are worth highlighting. The agency aims to contribute to human capital development in Georgia by partnering with the private sector and creating sector-based organizations. These organizations unify several major associations from respective industries and work on creating national qualification standards for vocational jobs, including jobs in the furniture value chain. Agreed standards are envisaged to be then utilized to launch dual VET programs, co-managed by authorized VET colleges and the private sector. As of now, national standards have been agreed upon, and sector-based organizations are trying to raise funds for dual programs development in practice. The latter initiative seems promising as it is praised by several industry players.

According to our interviewees, the problem concerning low access to high-quality local wooden raw materials is still relevant for this value chain. The arrangement of “business yards” under the new Forest Code adopted in May 2020 seems to have provided no significant relief for manufacturers so far in this regard. According to the interviewed stakeholders, the processing of wood to be placed in business yards is often delayed. It is not immediately delivered to sawmills for processing; this results in a low-quality raw materials obtained from the business yards, making them less attractive for furniture manufacturers. As stated, it frequently happens when inadequately processed wooden inputs damage the credibility of Georgian furniture manufacturers, as over time, low-quality raw materials damage finished furniture.

As discussed during the qualitative interviews, well-processed wooden inputs are available locally. Still, they are frequently exported from Georgia and sold for a higher price in foreign markets. The outflow of Georgian high-quality wooden inputs has increased recently in parallel with Russia’s war in Ukraine. Due to war, stable input supply from Russia and Ukraine to foreign markets has been hampered,

contributing to increased demand for Georgian raw materials across the region. As interviewed respondents claim, demand is growing, however, the capacity of Georgian manufacturers to supply is undoubtedly limited.

With respect to input materials utilized in Georgian furniture products, such as laminates, medium-density fiberboard (MDF), veneer, textile, and other components, these are largely imported. Such tendency often makes Georgian furniture vulnerable to any disturbance in supply of imported inputs. For example, Turkey's recent limitation on furniture raw materials export (e.g. MDF, particle boards) adversely affected some Georgian manufacturers. Russia's war in Ukraine seems to have further impacted the availability of inputs. In the first half of 2022, the war caused logistical difficulties in the delivery of imported raw materials.

For this reporting period, input availability has substantially increased while prices for imported raw materials have stabilized. This trend can be attributed to the strong appreciation of the Georgian Lari, which has led to a decrease in the prices of imported raw materials and is expected to result in a significant increase in the sales volumes of finished furniture products for 2023, according to private sector representatives interviewed.

Replacing imported inputs with local materials would be impossible without substantial investments in this sector. In this regard, the production of veneered panels is considered to have good potential for Georgia as it is made of beech wood (a prevalent species in Georgia). At the same time, its production requires significant labor resources and therefore, potentially generating vast employment opportunities in the country.

Although the competition among Georgian producers was rated as moderate by respondents, Georgian furniture products face stiff competition from imported goods, especially those imported from countries where manufacturers have easy access to inputs domestically and have cheap per-unit price due to economies of scale (mainly Turkey and China). It was stated that the competition was extremely significant regarding bedroom and office furniture. It was widely stated during the stakeholder interviews that Georgia has the potential to replace imported furniture to some extent, especially when it comes to cabinet furniture, internal doors, kitchens, or wooden panels that are later used to construct furniture or for interior design work. This potential has been vivid following the pandemic-driven disruptions to global supply chains (involving China, Turkey, and Europe especially) and the subsequent increase in transportation costs when domestic demand for Georgian furniture increased. Such a tendency continues to be in place for April 2023.

Further, according to the interviewed representatives of this value chain, recent trends show that Georgian small hotels and real estate developers are more likely to opt for local supplies when it comes to, for example, cabinet furniture. Such trends are extremely promising, as focus group participants highlight. It is frequent in the value chain that, due to the absence of information regarding local production, developers import furniture that could have been easily provided by domestic suppliers. More local partnerships and awareness-raising about the capacity of the value chain will boost such precedents of collaboration, interviewees report. Besides orientation on the local market, there are several companies in Georgia that stably export internationally. One such producer is Madera Georgia, which has been a continuous success story, currently exporting to several destinations, including Europe and Israel. The company attempts to position itself on the US market additionally. Madera reports a continual increase in demand for its production from international trade partners. On the other hand, LTD Madera launched a workbench knife-sharpening service in Western Georgia in February 2022. The existence of such equipment and services is of particular importance in wood processing. Currently, the company plans to significantly expand its operations as it will soon open a new factory in Western Georgia. The new factory site will enable the company to unify its

panel production and knife-sharpening service in one space and upscale its current panel production. In addition, the company will supply the market with its own in-house wood-drying service.

Other than Madera, there are several producers that have successful exporting experience. Some of these producers reach international markets by utilizing e-commerce sales. In general, there has been a clear tendency towards sales digitization in this value chain. The focus group participants claimed to benefit from operating online not only at the international level but also at the local level. In this regard, representatives of the private sector seem to have been benefiting from several business consultation services on e-commerce development, delivered by various donor organizations (e.g., EU, USAID). However, it was noted that sometimes support services promoting e-commerce development are delivered only in English, which might restrict certain producers from benefiting from such offerings. It has been once again highlighted that Georgia cannot export large-scale production to foreign markets due to several structural barriers, such as the unavailability of domestic inputs, logistical difficulties in reaching foreign markets, and a lack of local capacity to create high value-added furniture products. In order to become established in global markets, it is vital for Georgian furniture producers and designers to work together and offer niche and innovative products of high quality. A good example and successful case of such niche production are that of Rooms Studio, which is already well-established on the European market and exports products to the US. The company has already established significant partnerships on the international level; it is represented on top exhibitions on Western markets and has a growing demand for its niche, designer furniture. According to many interviewees, fostering collaboration between furniture manufacturers and designers is necessary to promote such instances. This has intensified lately; more manufacturers begin to employ designers at their production sites and more designers become motivated to associate with furniture manufacturers. However, this tendency is not universal across the value chain. Most of furniture producers still refuse to integrate furniture designers into the manufacturing process.

In this regard, private sector efforts are supported by the Association Design Georgia, which has been operating in the field since 2019. The association increased its membership with 5-6 companies during the last reporting period. Currently, the association has up to 25 members, consisting of private companies as well as individual members. Besides its permanent members, the association partners with up to 50 companies, which are constantly informed regarding the ongoing opportunities of the association. The association used to be solely oriented towards unifying furniture designers, however, it has recently expanded its membership to further include other designers that work in the direction of interior design or kids wear design. Among other services, the association actively supports the private sector in creating a Georgian identity and niche directions in furniture design and assists the value chain's members to participate in international exhibitions (such as the recent exhibition in Estonia). Benefitting from donor support, the association was about to launch a new concept store for niche design products created by the association members. Nevertheless, due to the recent surge in real estate prices, the association is no longer able to deliver the project. Elsewhere, the Georgian Heritage Crafts Association operates in a wider field and enhances networking opportunities between different crafts actors, including those working on furniture. However, its main focus is still on handmade and cultural crafts. Such initiatives, connecting designers to furniture manufacturers, need to be developed further, though since there are still many Georgian manufacturers who instead produce copies of famous furniture brand items and supply them to the local market.

The Association Design Georgia cooperates with the Georgian Furniture Cluster (established in 2017), which currently unites 40 member companies, with no further additions in the last reporting period. The cluster's declared mission is to enhance the competitiveness and profitability of its members on local and export markets. At the same time, it should act as a platform for dialogue between public and private sectors. However, as of now, the cluster's positioning in the value chain is weak – no active projects engage furniture manufacturers. Advocacy efforts of the cluster are also evaluated as

inactive. The organization functions through membership fees and has no solid institutional capacity on its side.

Along with the Furniture Cluster, the Georgian Woodworkers and Furniture Manufacturers Association have also operated in this value chain since 2014, aiming to help local manufacturers to make higher quality and more competitive products. Furthermore, with the support of the Government of the Autonomous Republic of Abkhazia, another separate platform was established in 2020, prioritizing wood processing as a separate business activity known as the “Abkhazian Wood Processors’ and Wooden Furniture Manufacturers’ Association.” Cooperation between these organizations is absent due to the limited scope of their operations and apparent differences in their advocacy interests.

More generally, the research revealed that the value chain lacks strong stakeholders with the will and resources necessary to undertake needed actions. Moreover, the level of cooperation in the value chain was evaluated as quite limited. The initiatives from the government, companies and different stakeholders are often too scattered and fail to induce significant progress.

CONSTRUCTION MATERIAL

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). Indicators are based on Geostat’s quarterly enterprise survey data, which is then aggregated to present annual tendencies.

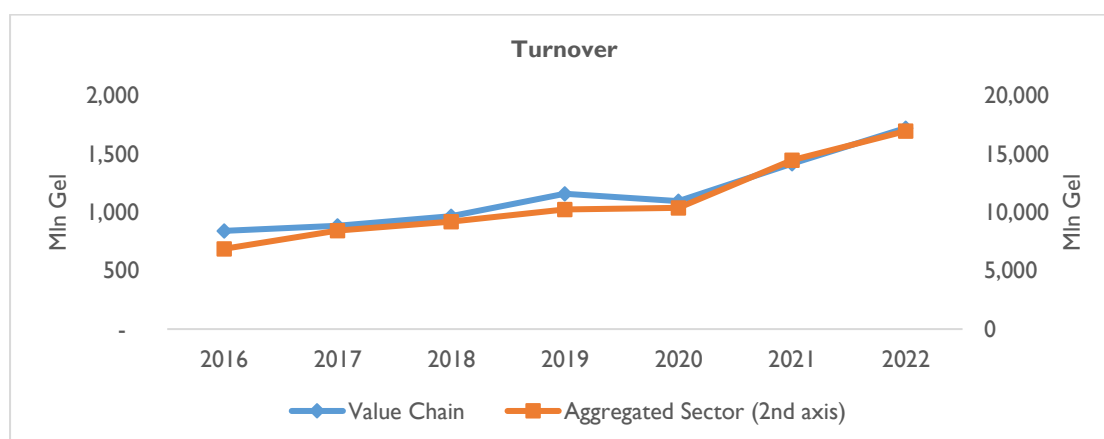
Table 3.2 summarizes the economic activities within construction materials manufacturing. In addition, the table demonstrates the limitation of our study by comparing preferred/inquired data with the available/gathered information.

Table 3.2 Economic activities included in the construction materials value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code in Geostat quarterly survey	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

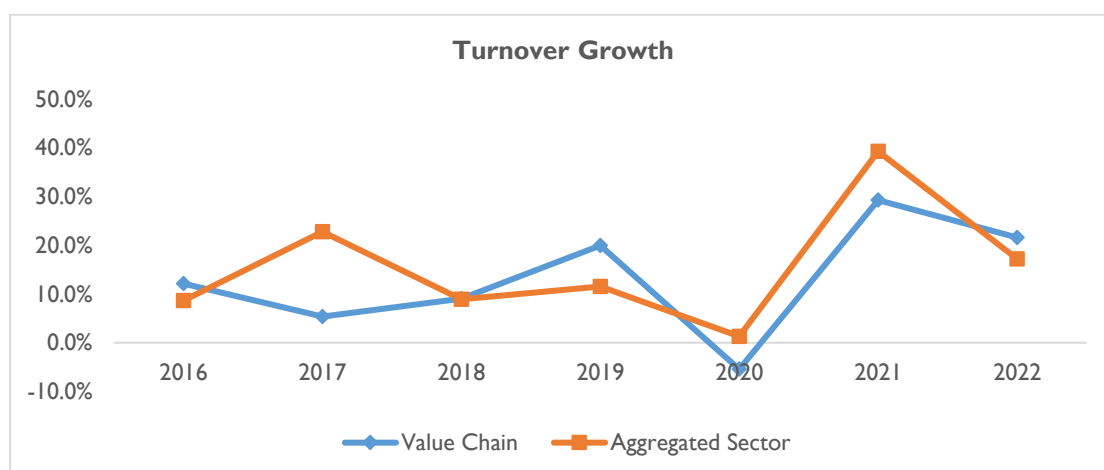
Charts 3.19 and 3.20 present the dynamics of turnover and its annual growth for the construction materials value chain. The increasing trend of post-pandemic economic rebound in construction materials VC was maintained in 2022, however the growth rate decelerated somewhat in 2022 when turnover grew by 21.6% and reached GEL 1.7 billion. The turnover of the aggregated sector also increased in 2022 (17.2%) compared to the previous year, amounting to GEL 17 billion.

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



Source: National Statistics Office of Georgia

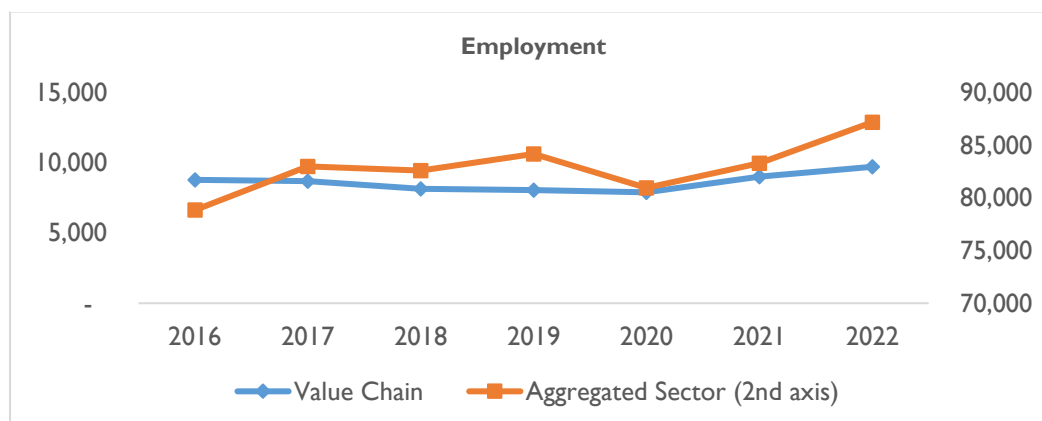
Chart 3.19 Growth rate of turnover for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

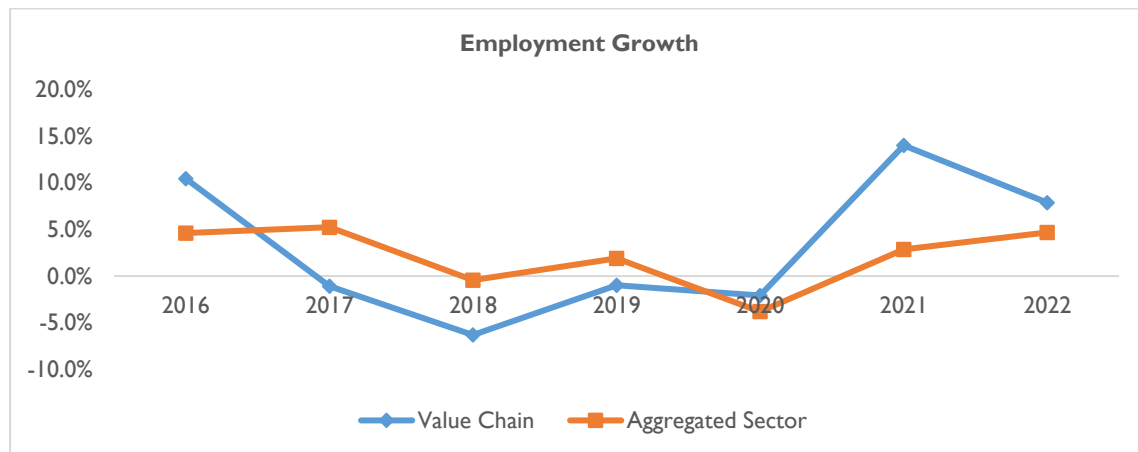
Charts 3.21 and 3.22 present the number of hired employees and its growth rate in the construction materials value chain and the respective aggregated sector. According to the data, the number of hired employees in 2022 has increased in the value chain, compared to 2021 (7.9%) and amounted to 9,723 individuals. A similar trend has been observed in the aggregated sector as employment rose in 2022, compared to 2021 (4.7%).

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



Source: National Statistics Office of Georgia

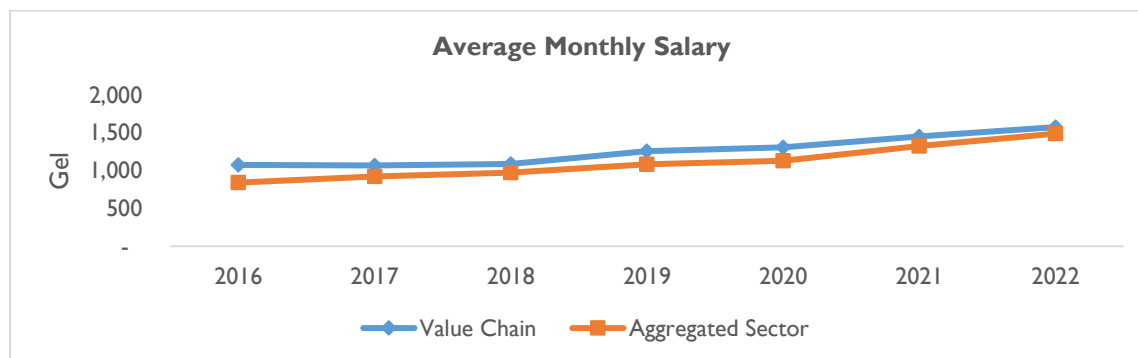
Chart 3.21 YoY growth rate of employment for the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the construction materials value chain increased to GEL 1,574 in 2022, compared to GEL 1,450 in 2021. The aggregated sector presented a lower average monthly salary in 2022 (GEL 1,487), compared to the value chain (Chart 3.23).

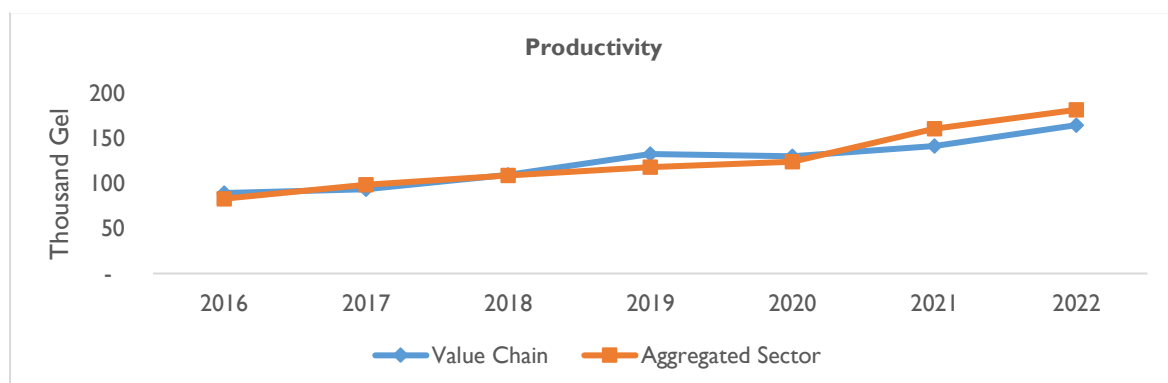
Chart 3.22 Average monthly salary in the construction materials value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 3.24 shows, labor productivity in the construction materials value chain increased (16.5%) in 2022 as opposed to 2021 and amounted GEL 164,831. Productivity for the aggregated sector also increased compared to 2021, recording higher YoY growth of 13.2%.

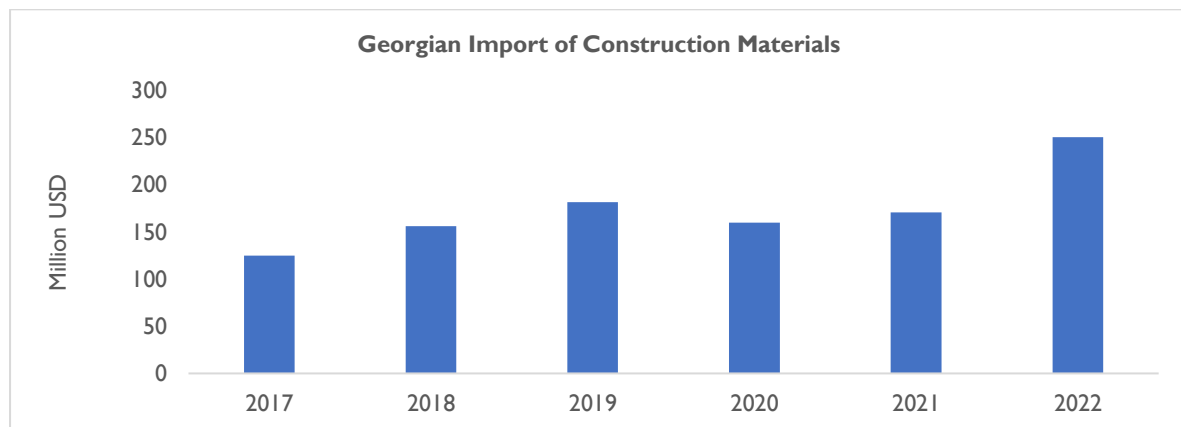
Chart 3.23 Labor productivity (annual output per hired employee) in the construction material value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

In the following charts, the trade dynamics of the construction materials value chain is presented. Chart 3.25 depicts the figures regarding Georgian imports of construction materials. Following the rebound in the growth of Georgian economy in 2021, the value of imports increased further by 46.6% in 2022 and reached USD 250 million.

Chart 3.24 Georgian Imports of Construction Materials



Source: National Statistics Office of Georgia

Georgian domestic exports of construction materials surged downward in 2022 (-19%) and reached USD 15.4 million, while re-exports diminished by 20.4%, amounting to USD 3.8 million (Chart 3.26).

Chart 3.25 Georgian Exports of Construction Materials



Source: National Statistics Office of Georgia

Charts 3.27 and 3.28 below present Georgia’s top trading partner countries for construction materials in 2022. The main trade partners for imports were Türkiye (39%), Russia (23%), Iran (7%), Armenia (6%), and Austria (4%) (Chart 3.27). Meanwhile, the main destinations for domestic exports during 2022 were Armenia (59%), Azerbaijan (22%), Turkmenistan (8%), Russia (2%), and United States (2%) (Chart 3.28).

Chart 3.26 Georgian imports of construction materials by trade partner (2022)

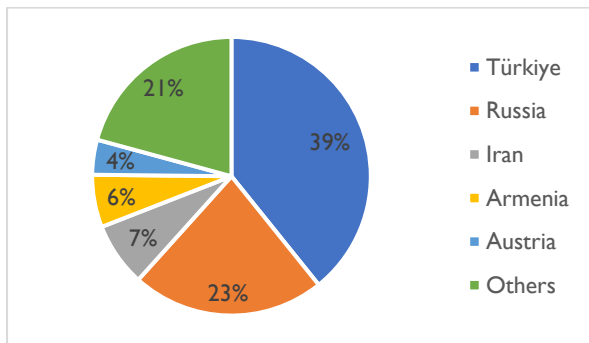
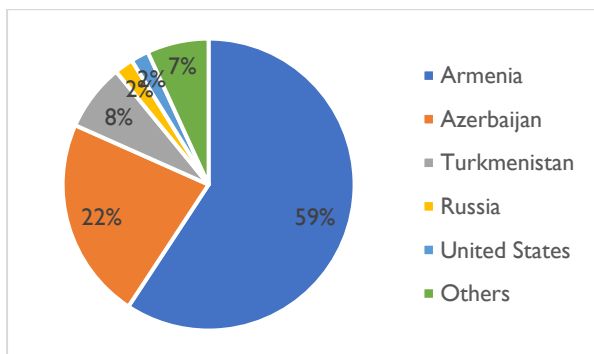


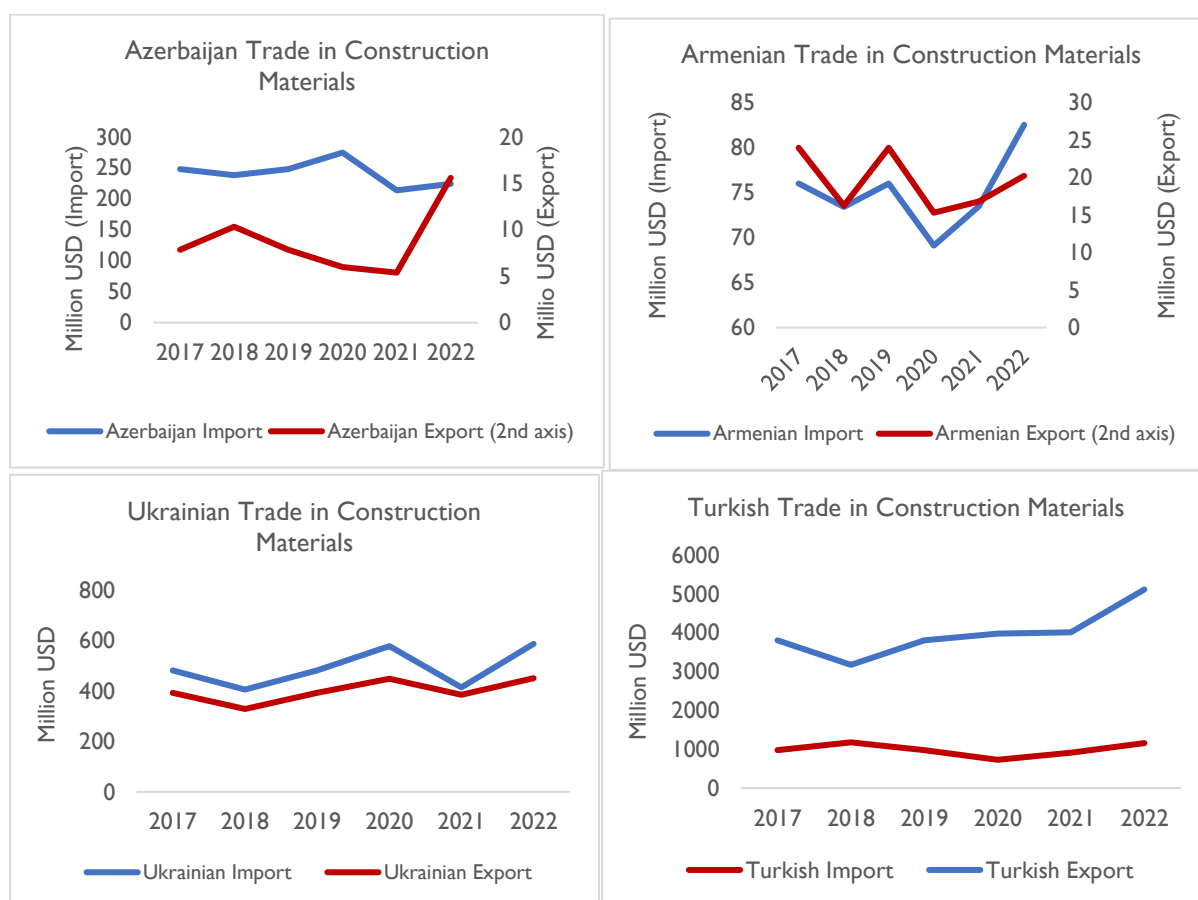
Chart 3.27 Georgian domestic exports of construction materials by trade partner (2022)



Source: National Statistics Office of Georgia

Below (Chart 3.29), we overview the construction materials value chain's regional trade patterns for Armenia, Azerbaijan, Türkiye, and Ukraine. Exports displayed an increase for all four countries in 2022 compared to 2021, most significant growth observed for Azerbaijan. Likewise, imports have followed the same increasing pattern for every country in 2022, with Ukraine characterized by the highest growth rate compared to 2021.

Chart 3.28 Regional trade patterns of construction materials



Source: UN Comtrade

Overview of Existing Challenges and Opportunities

The construction materials value chain consists of several distinctive business activities. Even though similarities between these areas exist, challenges and prospects in the value chain, mostly, are business activity specific. As of 2022, interviewed businesses report stable growth in their business activity parameters. Some value chain representatives indicate certain disruptions in their operations during the first months of the war in Ukraine. Nevertheless, according to conducted analysis, in the course of the year, demand on Georgian construction materials manufacture increased.

This value chain faces some persistent challenges that cannot be overcome shortly. Some of these impediments are being actively addressed and advocated by the Georgian Construction Materials Cluster (GCMC). Though the institution grows slowly in its size, it attempts to address the constraints of the value chain thoroughly. The cluster was first launched in December 2020 with the support of the European Union and the German Agency for International Cooperation (GIZ). The cluster has unified 17 companies. GCMC has recently introduced membership fees, which has contributed to the outflow of certain businesses from the association. In parallel with this trend, nevertheless, some new members joined the cluster. Overall, membership numbers have not changed for this reporting period.

The cluster works in several directions that relate to pressing obstacles of this value chain and contributes to its upgrade. The organization aims to foster cross-selling and facilitate collaboration instances between its member companies. The cluster also facilitates dialogue between the private and public sectors. One such advocacy instance is Cluster's effort to enlist Construction Materials in the priority directions of export component of Enterprise Georgia. No final results were made in this regard at the time of this report. However, if actualized, this collaboration will be associated with

some promising developments for this value chain. Further, the Cluster aims to strengthen import replacement capacity of Georgian producers. In this direction, it attempts to develop supply chain linkages between development companies and construction materials manufacturers. Here, GCMC organizes local exhibitions (e.g., Caucasus Build). Furthermore, GCMC supports exposure of Georgian companies to foreign networking events, such as recently organized trade missions to Armenia and Poland, with some tangible results. In the upcoming period, the cluster companies also plan to attend Astana Build to further expand their trade ties in the broader region. Under its innovation direction, GCMC additionally ensures that its members have access to innovative technologies to improve their productivity and the quality of manufacture.

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

The value chain has faced a few noticeable obstacles:

Lack of a qualified workforce was named as a core hindrance. Georgia does not have functional training programs in place that would target the needs of business activities in this value chain. Frequently, the firms train the workforce themselves, which is associated with significant expenses. The situation worsens when seeking a workforce with specific technical knowledge. Some interviewed manufacturers declared that they constantly have open calls for certain technical positions (e.g., engineers).

Regarding upskilling the workforce, initiatives led by Skills Agency are worth highlighting. The agency has aimed to contribute to human capital development in the country through partnering with the private sector. Through the project, several significant sectoral associations, together with the Agency, have collaborated in the working group to agree on national standards related to qualification requirements that are in demand for the construction materials value chain. The agreed national qualification standards will then be utilized to launch dual VET programs co-managed by authorized VET colleges and private sector representatives. As for this reporting period, piloted qualification standards for heavy equipment operators are created with the funding provided by USAID.

Dependence on imported inputs was named as yet another important barrier that restricts the chances of the value chain upgrading. Apart from some exceptions, most business activities largely depend on imported inputs. Such dependence is inevitable for the majority of business streams under the construction materials value chain, with some exceptions. For instance, certain interviewed firms pointed out that amidst the pandemic, they modified their product profile and switched to utilizing those raw materials that can be mined domestically. This should be considered a positive development for this value chain. Nevertheless, such a tendency represents an exception, and it cannot be generalized for the value chain as a whole.

Limited accessibility to product certification represents another persistent impediment. Nevertheless, the severity of this impediment differs from one producer to another as the certification process is often product-specific, and different construction materials necessitate different certifications. Such a hindrance makes it quite costly to address the problem through a concerted effort. GCMC works in this direction, offering certification services to its member companies. The essence of the certification challenge is as follows: a majority of necessary product certifications, often a precondition for

exporting construction materials, cannot be obtained in Georgia. Moreover, depending on the product, there are not enough local experts in the country that can help the manufacturers to comply their production with certification requirements. At the same time, hiring foreign experts is quite costly. As a result, obtaining product certification is associated with substantial costs. To this end, some business operators emphasized the need for co-financing the certification process for those producers with high growth potential. Moreover, while obtaining certification abroad, some Georgian producers might be misinformed about the quality of the issued certificate or the validity of the issuing organization. Difficulty in obtaining certification represents a core hindrance, especially when attempting to penetrate European and US markets.

Limited capacity for international networking was named as another challenge in relation to impeded exports. The interviewees pointed out that Georgian firms often lack the relevant information and capacity to search for potential clients abroad. However, sometimes, when networks are found, Georgian businesses still struggle to actualize their potential due to their lack of capacity to meet international quality standards.

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

Notwithstanding the abovementioned challenges, representatives of this value chain have exporting experience. When entering international destinations, for most of the interviewed companies, regional, central Asian, Arabic, and African markets represent the main destinations to where Georgian manufacturers have export orientation. This is because Georgian manufacturing has competitive advantage in these markets in terms of its price and quality. Also, these markets are less regulated and are thus easier to enter. Furthermore, expansion on the regional markets seems especially feasible during Russia's war in Ukraine, which disrupted the stable distribution of construction materials to the South Caucasus and created additional demand for replacing supply cuts.

The interviewed respondents also name US and EU markets as having high attractiveness for Georgian manufacturers of construction materials. Regarding the EU, there are several significant changes enacted recently that might serve as a window of opportunity to further enter these markets. First, the trilateral agreement between the EU, Turkey, and Georgia – diagonal cumulation is worth highlighting. Agreement activates free trade regime with the EU market for products exported from Georgia but made of Turkish raw materials. Second, the opening of the EU's public procurement market for Georgian production is yet another opportunity for Georgian manufacturers to grow there.

Some of the interviewed businesses have already established trade ties with European and overseas partners. For instance, LTD Kamara has entered foreign markets such as the US and Portugal. LTD Basalt Fibers has penetrated the South African market successfully competing with Chinese product. Moreover, the company has stably exported to Germany and Netherlands. Basalt Fibers further attempts to enter the US market, and from this point, the regular partnership seems more realistic as Russian competitors are no longer able to have an advantage in this market. This company also has plans to penetrate the Turkish, Canadian, and Australian markets. Elsewhere, JSC Panex has had a one-off experience of exports to the US. According to the company representative, there is a growing demand from the US for Georgian production, especially in light of the war in Ukraine. Nevertheless, standardization and certification challenged hinder the company from fully exploiting this potential.

In parallel with challenges related to international expansion, absorbing local demand seems more realistic and more significant at this point. Especially because, in many instances, Georgian construction materials are claimed to have a competitive advantage domestically in terms of high-quality and/or customized products, affordable payment schedules, flexible supply, and full-service offerings that cover everything from realization to installation of the product. However, there are some impediments restricting local growth. According to interviewed expert, awareness regarding local construction materials production is primarily low in the country, and purchasers lack information about benefits of Georgian produce. The latter challenge loses relevance with time through the help of activities initiated by GCMC.

What else, final goods of the value chain face stiff competition from imported products. In the case of construction materials, Georgian customers tend to opt for cheaper imported alternatives. For certain producers, the lack of standardization requirements creates an additional challenge. This does not allow manufacturers to adjust their operations to domestic regulations, and they often become subject to unfair, unforeseen fines issued by inspection. Some private sector representatives believe that, in the longer term, local production has much higher import replacement potential. Nevertheless, at this stage, expanding on the domestic market is limited.

In order to absorb local demand, participation in public procurement seems significant. However, the procurement process has been evaluated as unhealthy to a certain extent, with cheaper bids offering lower quality given priority. According to the interviewees, the public procurement system does not prioritize local production over imported goods. Sometimes even certified Georgian construction materials lack a competitive advantage in public procurements as their goods have higher prices compared to uncertified production. In this direction, there are significant changes announced that will be facilitated by changing local law on public procurements from 2025 under EU's Association Agreement requirements. Nevertheless, some sector representatives remain skeptical about these changes as they might not address the lack of political will to define clear and result-oriented terms for Georgian procurement procedures.

PACKAGING

The analysis below will cover quantitative assessment of the economic tendencies in the packaging value chain and the corresponding aggregated sector (manufacturing). Indicators are based on Geostat's quarterly enterprise survey data, which is then aggregated to present annual tendencies.

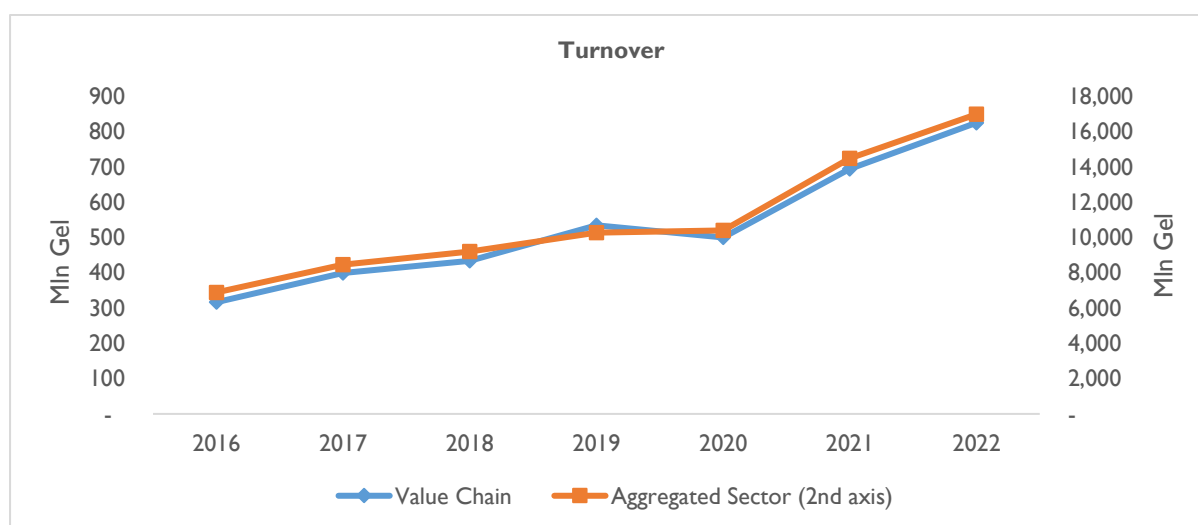
Table 3.3 below presents the available best-matching aggregation level from Geostat.

Table 3.3 Economic activities included in the packaging value chain

Inquired/ Preferred NACE Code	Description of Economic Activity	Available NACE Code in Geostat quarterly survey	Description of Economic Activity
16.24	Manufacture of wooden containers	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	17.2 ¹⁶	Manufacture of 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
23.13	Manufacture of hollow glass	23.1	Manufacture of glass and glass products
25.92	Manufacture of light metal packaging	<i>Not used in the analysis due to data availability only at a very high-level aggregation</i>	

Following the recovery of the economy, positive tendencies were maintained in packaging VC as turnover increased by 18.8% in 2022 compared to 2021 and amounted to GEL 824 million. It should be mentioned that the aggregated sector recorded slightly lower turnover growth compared to the packaging materials value chain (17.2% increase), amounting to GEL 17 billion (Chart 3.31 and 3.32).

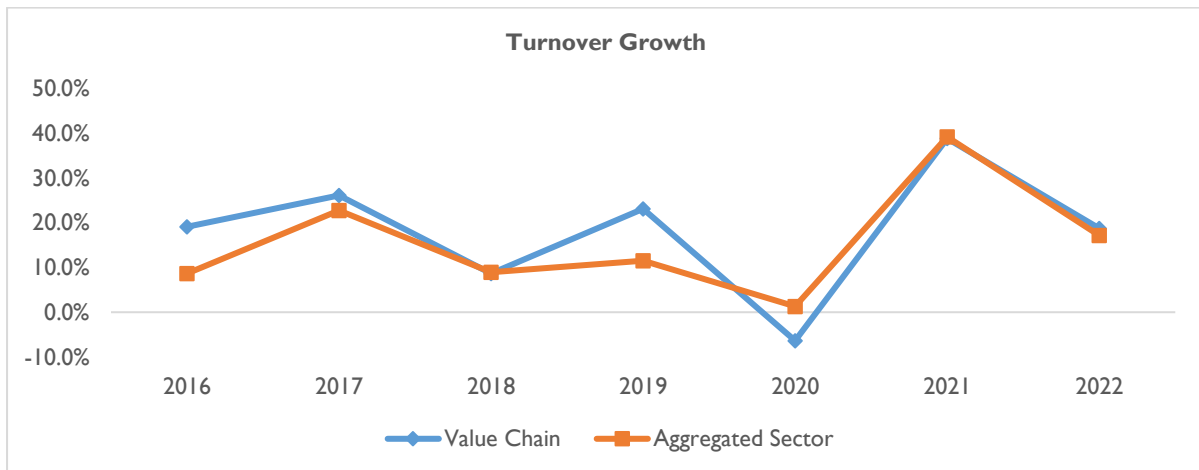
Chart 3.29 Turnover of the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

¹⁶ This group also includes: 17.22 Manufacture of household and sanitary goods and of toilet requisites; 17.23 Manufacture of paper stationery; and 17.24 Manufacture of wallpaper.

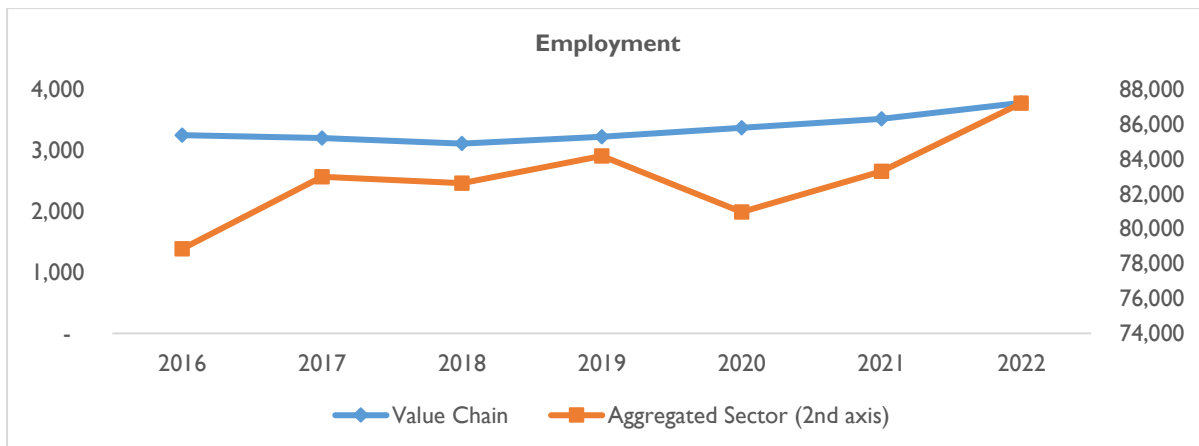
Chart 3.30 Growth rate of turnover for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

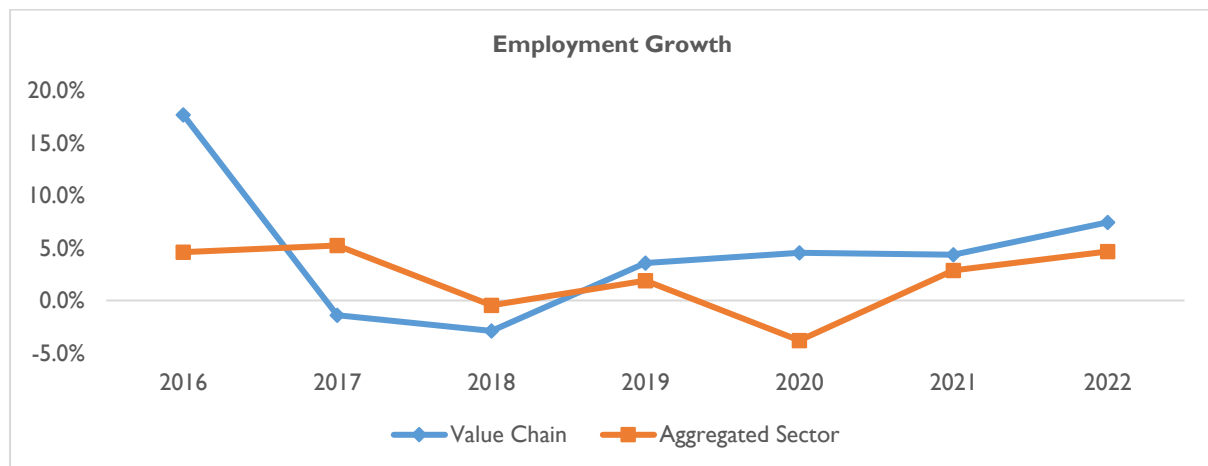
Employment in packaging VC increased in 2021 (4.4% growth). A positive change continued and even accelerated in 2022, and the annual growth rate of employment amounted to 7.5%. The employment constituted 3,777 hired individuals in 2022. A similar trend has been observed in the aggregated sector where employment grew by 4.7% and amounted to 87,200.

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



Source: National Statistics Office of Georgia

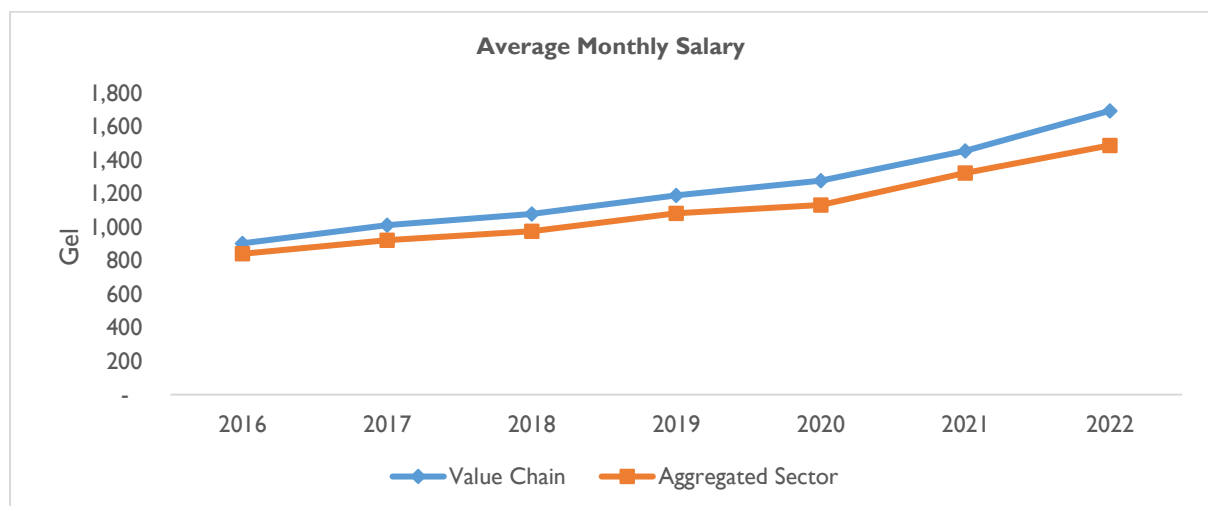
Chart 3.32 YoY growth rate of employment for the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The average monthly salary in the packaging value chain increased significantly in 2022, compared to 2021 and reached GEL 1,693 (16.4% growth), which is higher than the average salary of the respective aggregated sector (GEL 1,487) (Chart 3.35).

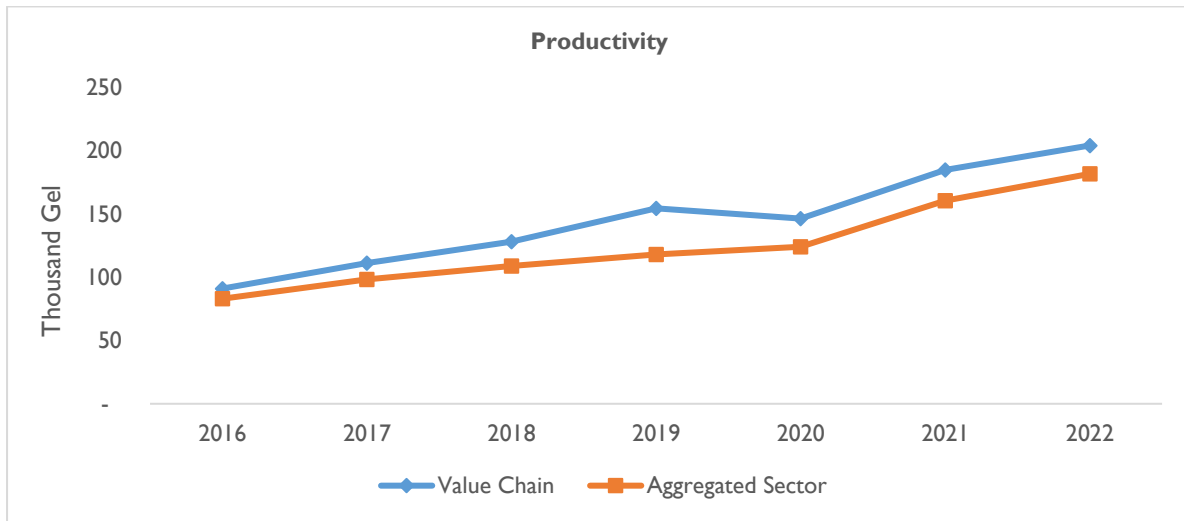
Chart 3.33 Average monthly salary in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Chart 3.36 demonstrates the dynamics of productivity for both the packaging value chain and the aggregated sector. Productivity for the packaging value chain increased (10.4%) in 2022 compared to 2021 and settled at GEL 204,273. At the same time, productivity for the aggregated sector increased by 13.2% compared to the previous year. Productivity in the packaging value chain still exceeds that of the aggregated sector (GEL 181,817).

Chart 3.34 Labor productivity (annual output per hired employee) in the packaging value chain and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The charts below provide the analysis of trade tendencies of packaging materials. In 2022, both Georgian domestic export and re-export surged upward, compared to 2021, amounting to USD 16.3 million and USD 25.4 million, respectively (25.6% and 46% growth) (Chart 3.37).

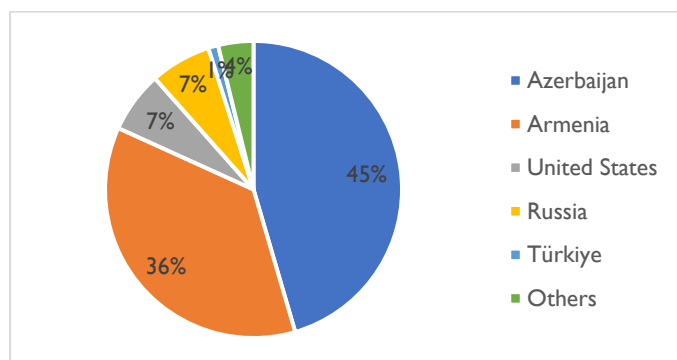
Chart 3.35 Georgian Exports of Packaging Goods 2017-2022



Source: National Statistics Office of Georgia

Of the total exported volume, 45% of Georgian packaging goods were shipped to Azerbaijan, 36% to Armenia and 7% to the US (Chart 3.38). Top three trade partners in exports were followed by Russia (7%), and Türkiye (1%).

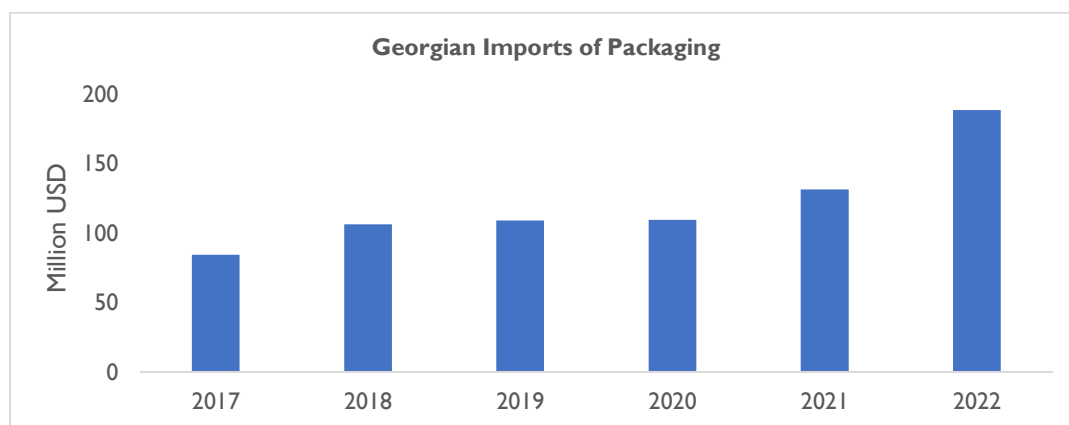
Chart 3.36 Georgia's Domestic Exports of Packaging Goods by Trade Partner (2022)



Source: National Statistics Office of Georgia

Following the post-pandemic economic recovery, Georgian imports of packaging goods-maintained growth tendencies (43.4%) in 2022 and reached USD 188 million (Chart 3.39).

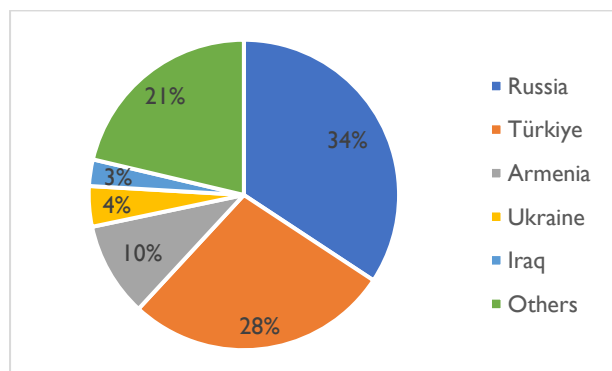
Chart 3.37 Georgian Imports of Packaging Goods 2017-2022



Source: National Statistics Office of Georgia

The profile of trade partners for Georgian packaging goods imports in 2022 was somewhat more diversified than for exports. 34% of packaging goods imported in Georgia in the previous year were produced in Russia, 28% in Türkiye and 10% in Armenia, while 4% of imports were shipped to Georgia from Ukraine and 3% from Iraq (Chart 3.40).

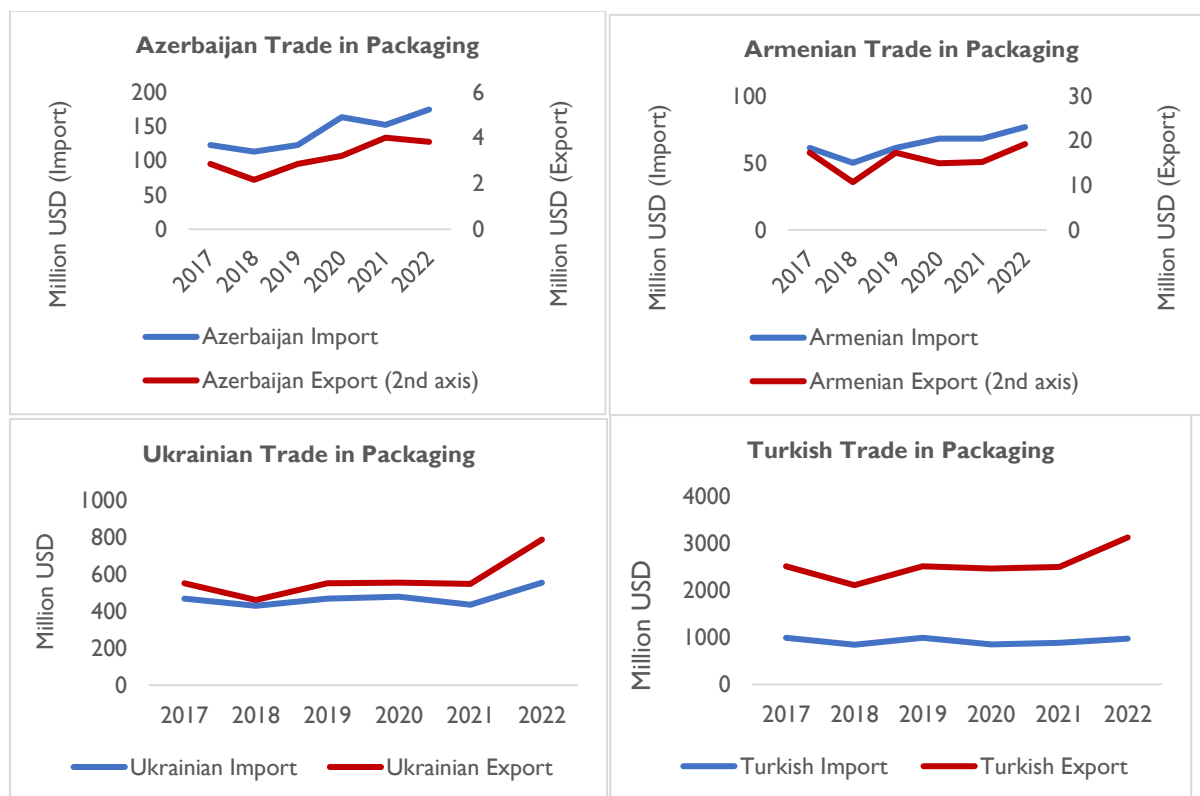
Chart 3.38 Georgian Imports of Packaging Goods by Trade Partner (2022)



Source: National Statistics Office of Georgia

Trade flows for Georgia's regional partners are analyzed below. The results show that exports increased for Armenia, Ukraine and Türkiye and declined for Azerbaijan. On the other hand, imports of packaging commodities increased for all four countries in 2022 compared to 2021 (Chart 3.41).

Chart 3.39 Regional trade dynamics in the packaging value chain



Source: UN Comtrade¹⁷

Overview of Existing Challenges and Opportunities

The year 2022 was important for the packaging value chain in Georgia, as both domestic and international demand increased, as reported by sector representatives. The war in Ukraine and the subsequent sanctions on Russia resulted in a growing demand for Georgian packaging products, and local companies were able to demonstrate their potential as viable alternative suppliers. Many companies responded to the increased demand by expanding their production capacities, investing in new machinery, and upgrading their quality control processes. However, despite their success, many Georgian packaging producers remain dependent on imported raw materials, which limits their ability to fully meet the increased demand.

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

The PMAG cluster currently unifies 77 upstream and downstream value chain companies. While the number of companies in the cluster has decreased since the end of the grant program, the cluster continues its active presence in the value chain. PMAG promotes value chain competitiveness through various service offerings, such as assisting members in communication; advocating the value chain needs; issuing micro financial grants; auditing regulatory compliance; organizing and managing

¹⁷ 2021 trade data for Türkiye is not yet reported on UN Comtrade.

networks; gathering and analyzing industry-specific knowledge; and building partnerships at various levels. The PMAC cluster has also initiated an effort to digitalize the products of its member companies recently. Furthermore, in partnership with Enterprise Georgia, which lists packaging as one of its priority directions, PMAG organizes its member companies' visits to international exhibitions. Lately, Georgian packaging manufacturers attended a significant packaging exhibition in Nuremberg – Fachpack. A visit to another exhibition – Interpack is also planned for May 2023.

This value chain's overall development is conditional on the growth of other economic areas that require packaging products, such as food and beverage, agriculture, fast food services, restaurants, and supermarket chains. Demand on Georgian packaging products has been positively affected recently by the war in Ukraine during which many industries, especially in Georgia's region, began seeking alternative packaging supplies. Local demand for packaging has also increased, considering high migration trends. As a result, one interviewed producer reported a remarkable 150% increase in demand for their products during the period of July to December 2022.

Despite recent increase in demand, Georgian packaging manufacturers still face stiff competition from imports on the domestic market. Imports from Turkey and China are most worrisome due to competitive pricing. Qualitative research has also revealed that Iranian packaging producers pose a significant challenge to Georgian manufacturers, despite the complications arising from US economic sanctions on Iran that have made money transfers difficult. According to key informants, Iranian producers are also able to offer lower prices due to the availability of cheaper raw materials and electricity in Iran. Although VAT and import taxes are added, Iranian products remain highly competitive.

Overall, recently, and especially during the pandemic, Georgian packaging manufacturers have shown promising import replacement potential, mostly due to meeting domestic demand quickly and without delay. Increasing quality, the opportunity to offer more flexible payment schedules, and the ease of communication between buyer and seller within production process were named as additional factors contributing to the growing domestic demand for Georgian packaging products.

As of this reporting period, the leading players in the packaging value chain stably export their products mainly to the neighboring markets of Armenia, Azerbaijan, and CIS countries. Some of them have stable exports to the US, Canada, and Panama. Recent trends also indicate a shift towards expanding on EU markets, as some active negotiations are currently underway.

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

Significantly, both paper- and plastic-based packaging manufacturers utilize imported raw materials in their production processes. High dependence on imported raw materials is considered one of the major impediments to the packaging value chain. Seasonal price fluctuations can further exacerbate this issue, as manufacturers may be forced to purchase raw materials ahead of time and increase their storage capacity to avoid higher prices. Nevertheless, dependency seems inevitable. Moreover, the ongoing war in Ukraine has introduced new logistical challenges for some packaging manufacturers. Transportation routes through Ukraine have become unavailable, resulting in increased tariffs and delivery times. As a result, the companies have had to find alternative routes and pay higher prices for

transportation. Additionally, the imposed sanctions have complicated money transfers to certain countries, such as China. Nevertheless, at the time of this report, companies claim to have responded to these challenges.

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

To promote sustainable resource management, the PMAG has implemented a new initiative aimed at reducing the reliance on imported raw materials. The project has provided funding to 20 companies located in Kakheti, Imereti, and Tbilisi, tasked with collecting plastic bags and processing them into granules that can be utilized in production processes. This effort has successfully replaced a notable portion of granule imports and aims to increase replacement capacity more in the near future.

Besides the stated factors, manufacturers name the lack of a skilled workforce as a fundamental challenge for Georgian packaging production. There is a scarcity of labor force, in general, in the country. The employed individuals often migrate or are characterized by high internal turnover. Specifically, there is a small base of qualified machine operators in the country and there is a shortage of vocational training sessions that target the skillset of the employees critical to this value chain. Moreover, youth employment is quite limited in this direction due to unattractive wage offerings. Fear of losing social security allowance was named as an additional hindrance to attracting the workforce. The PMAG Packaging Cluster plans to introduce short-term workforce training programs to respond to this challenge. This will enable the companies to hire more skilled labor in the long-run.

Furthermore, the interviews revealed that the high electricity costs and their upward trajectory constitute a significant obstacle in packaging production, leading to augmented prices of end products. In response to this challenge, certain companies, such as Poliedro, have installed solar panels with the backing of Enterprise Georgia, highlighting the effectiveness of sustainable energy sources in tackling this issue.

PERSONAL AND PROTECTIVE EQUIPMENT (PPE)

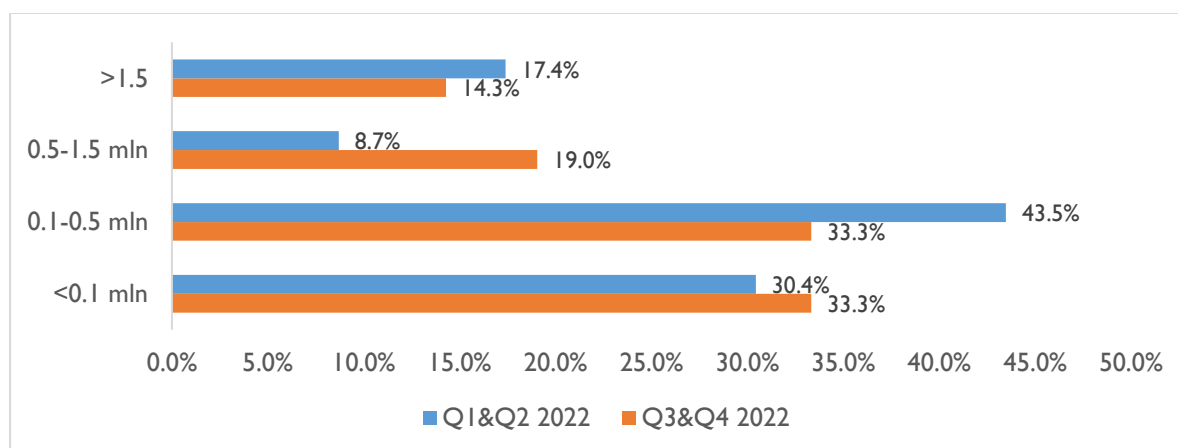
Quantitative Survey Results

Due to data limitations, the key business indicators describing the development in this business activity were obtained through a phone survey. The survey was conducted twice, observing the performance of the companies in the first half and in the second half of 2022. The sample of respondents constituted 23 and 21 businesses (in the first and second halves of 2022) 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, Imereti, and Adjara (Batumi). 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 both halves of 2022 ranged from less than GEL 0.1 million to over GEL 1.5 million (Chart 3.42). Most of the companies depicted a moderate turnover level (43.5% and 33.3% of the companies had a turnover within GEL 0.1-0.5 million, 30.4% and 33.3% had less than GEL 0.1 million in the first and the second halves of 2022, respectively).

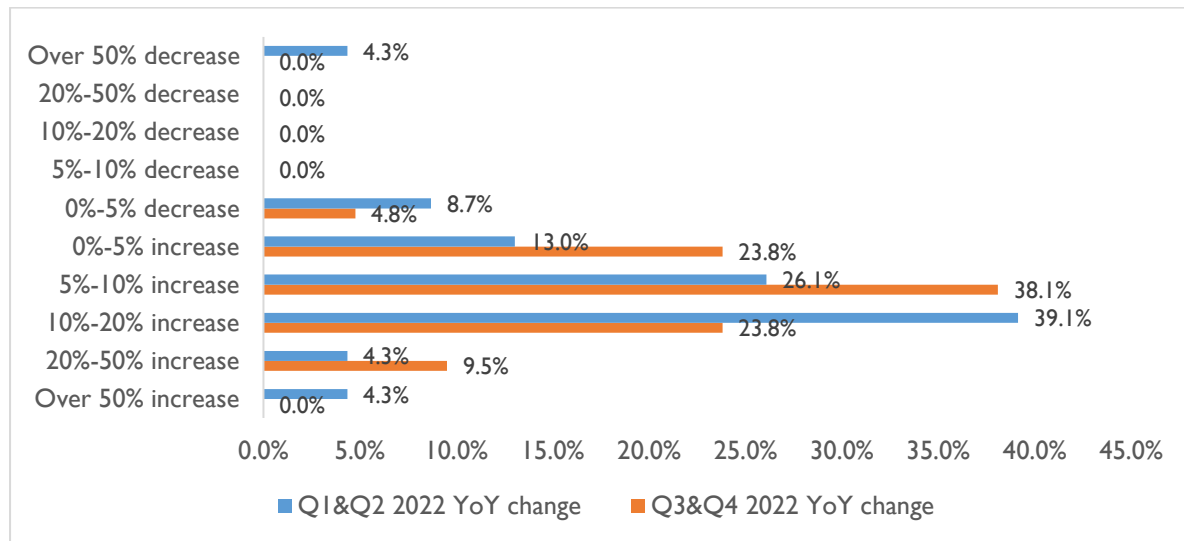
Chart 3.40 Distribution of PPE Companies by Turnover Range, 2022 Q1&Q2 and Q3&Q4 (Gel)



Source: Authors' calculations

Most of the companies reported that their turnover increased, both, in the first half of 2022 and in the second, compared to the same period of 2021 (Chart 3.43). It is worth to mention, that more companies reported increase in the second half of 2022, 95.2%, versus 87.0% in the first half.

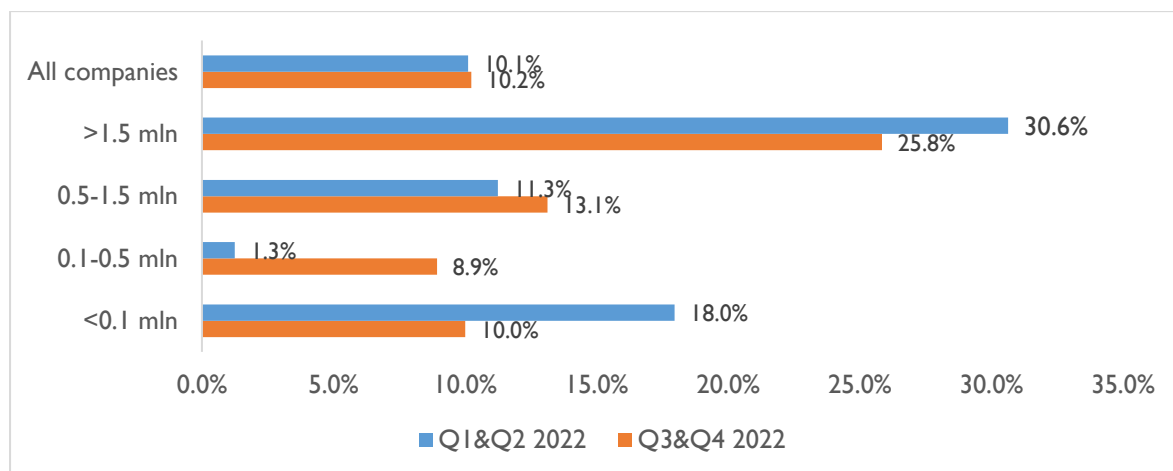
Chart 3.41 Percentage Distribution of Turnover Growth Rates in PPE Value Chain, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)



Source: Authors' calculations

In the first and second half of 2022, turnover of all surveyed companies has increased by around 10% (YoY) on average. Moreover, firms with the highest turnover range, present higher than average YoY growth rates in both halves of 2022. (Chart 3.44).

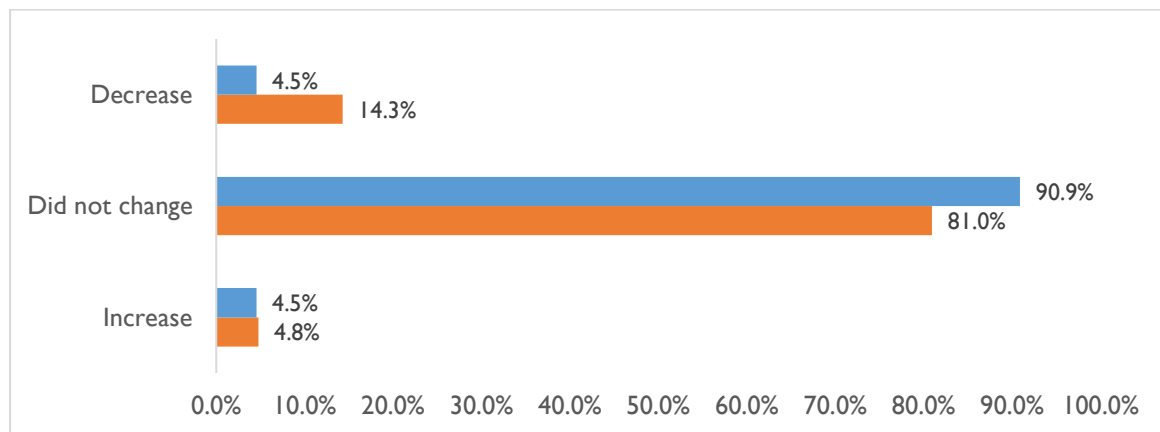
Chart 3.42 Distribution of PPE Companies YoY Growth Rates by Turnover Range, 2022 Q1&Q2 and Q3&Q4



Source: Authors' calculations

The number of employed persons in surveyed PPE companies varied from 1 to 250, with the median number of 15 employed individuals. Women accounted for 72.2% of employed individuals, while the share of young workers (under 30 years old) made up only 7.4% of the total employees of surveyed companies. Majority of the surveyed companies (90.9% and 81.0%) indicated no change YoY in employment in the first half, as well as in the second half of 2022. (Chart 3.45).

Chart 3.43 Change in Employment, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)



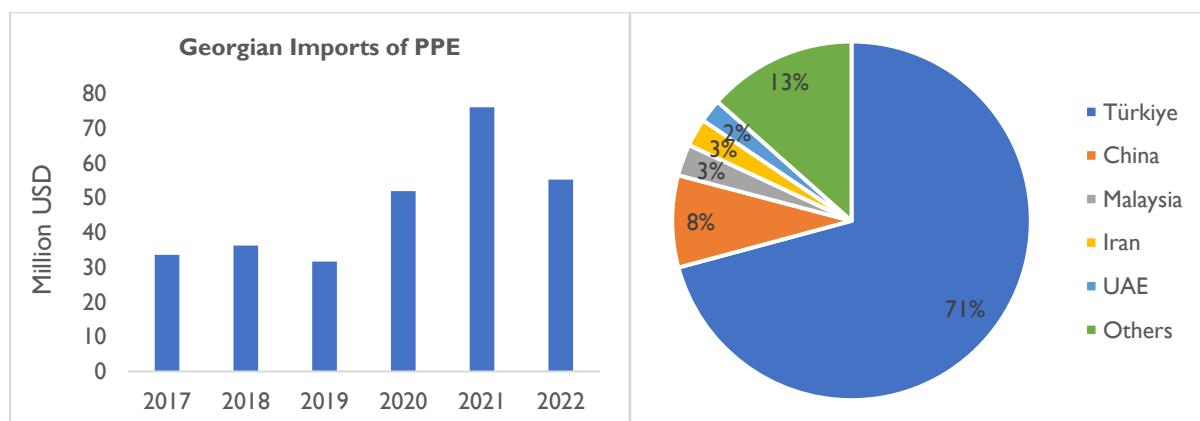
Source: Authors' calculations

As for the average monthly salary, it amounted to GEL 984.4 in 2022. Majority of the surveyed companies reported that the average monthly salary increased YoY by in both halves of 2022. 26.1% and 10.5% reported no YoY change in first and second halves of 2022, respectively.

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 Organization¹⁸, HS code classification of PPE based on EU market survey 2004¹⁹, Commission Implementing Regulation (EU) 2020/402²⁰ 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.²¹

Chart 3.46 below presents the value of Georgian PPE imports for the period of 2017-2022 along with its top trade partners during 2022. Amid the end of Covid-19 pandemic, Georgia's import of PPE decreased in 2022 by 27.4% compared to 2021, reaching USD 55.2 million. In terms of the equipment's origin, most PPE was imported from Türkiye (71%), China (8%), and Malaysia (3%). Imports from other countries constituted 18% of total imports.

Chart 3.44 Georgia's Imports of Personal and Protective Equipment (2017-2022) and the top trade partners in PPE import (2022)



¹⁸ HS classification reference for Covid-19 medical supplies 2nd Edition. WCO.WHO (2020)

¹⁹ http://www.exportapymes.com/documentos/productos/Ci1033_survey_personal_protection.pdf

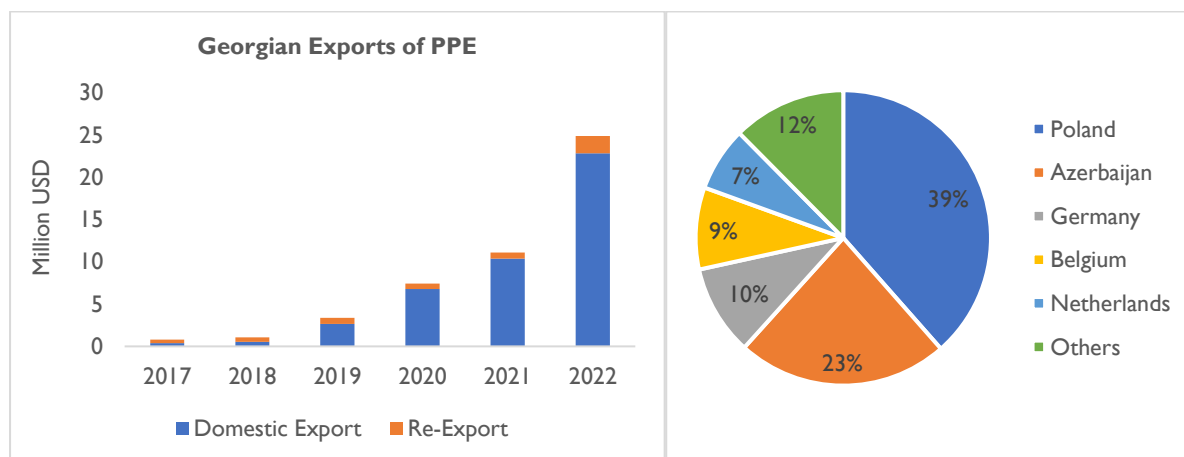
²⁰ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0402>

²¹ <https://matsne.gov.ge/ka/document/view/4841418?publication=0>

Source: Geostat; UN Comtrade

Chart 3.47 presents dynamics of Georgian exports and its top trading partners in this regard. Domestic exports of PPE equipment increased significantly by 120.1% in 2022 compared to 2021. During 2022, the majority of Georgian PPE goods were exported to Poland (39%), Azerbaijan (23%), Germany (10%), Belgium (9%), and Netherlands (7%).

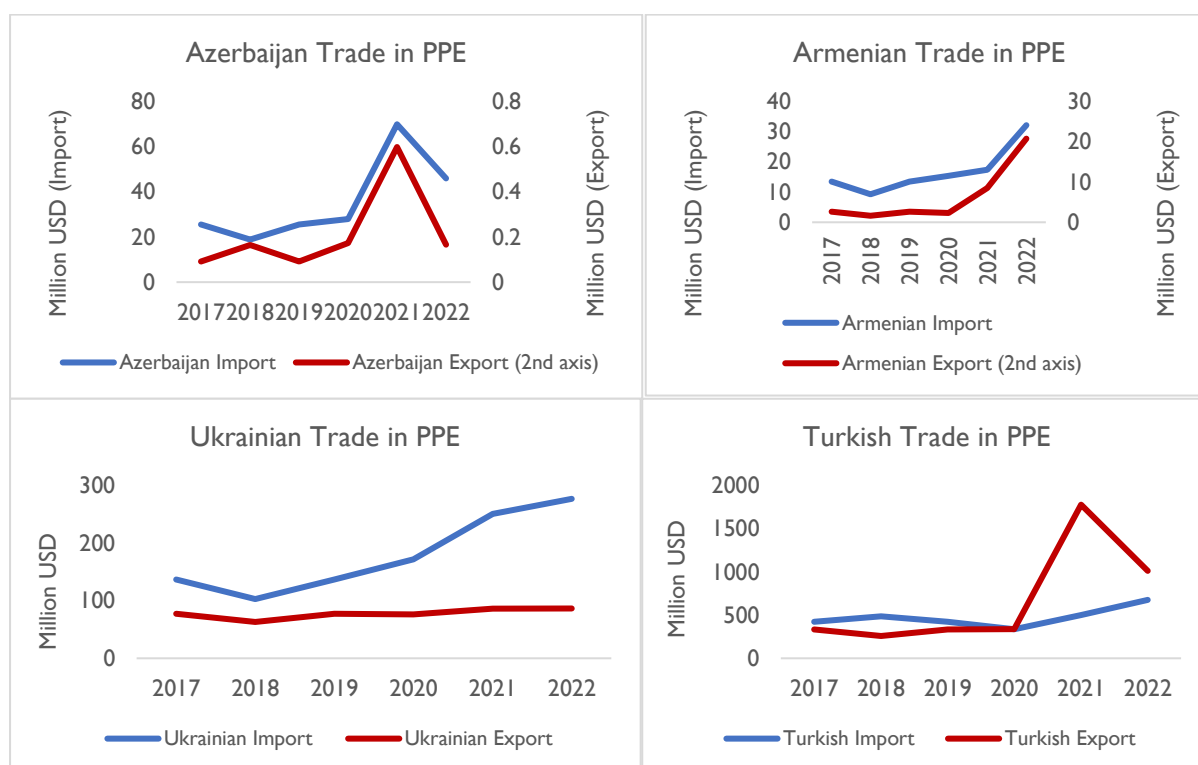
Chart 3.45 Georgia's Exports of Personal and Protective Equipment (2017-2022) and the top trade partners in PPE export (2022)



Source: Geostat; UN Comtrade

As for the PPE trade in the region (Chart 3.48), Azerbaijan experienced a moderate decline in PPE imports in 2022, compared to 2021. Contrastingly, Armenian, Ukrainian and Turkish imports increased. On the other hand, exports increased in Armenia and Ukraine diminished in Türkiye and Azerbaijan in 2022 compared to 2021.

Chart 3.46 Regional Trade in PPE



Source: UN Comtrade

Overview of Existing Challenges and Opportunities

The recent round of qualitative research indicates that no significant progress has been made to barriers that have been prominent for the Personal and Protective Equipment (PPE) value chain. Furthermore, many producers who had shifted their focus to PPE production during the pandemic have since returned to their original production. In addition, some representatives (e.g. LTD Elselema, LTD Elven Technologies) that showed promising potential for expansion seem to have suspended their operations recently. Nevertheless, overall, this value chain grows in size with time; its leading players have orientation not only on local but also on international markets; some of them plan to soon expand their capacities and upgrade production lines.

The following challenges are significant for the PPE value chain:

Shortage of human capital is an overarching problematic issue for industry players. In this direction, the competence level of vocational school graduates is considered insufficient and thus representatives of the PPE industry lack trust in available vocational programs. Besides, it was also claimed that obsolete technologies were being used in the teaching process at VET schools and that there was a shortage of qualified teachers as well. To address this challenge, workforce training is a widely adopted practice by industry players to ensure that employees are well-equipped with the necessary skills and knowledge to perform their on-site duties effectively. Private sector stakeholders highlight that there is an exceptional scarcity of specialized technical personnel in Georgia, such as proficient machine operators who possess the necessary knowledge to maximize machine efficiency; also skilled mechanics are unavailable who can effectively repair new equipment.

The turnover of workers, especially tailors, was said to be quite high in the value chain, leaving companies with no instruments to retain the workforce and consequently decreasing productivity. Competition among producers for available labor in the market exacerbates this issue, leading to frequent rotation and job changes in the workforce. The competition also drives up wages, ultimately

increasing production costs for the producers. Consequently, these increased costs necessitate rising product prices or decreasing profit margins. Additionally, it was mentioned that employees often find it difficult to adapt to the required quality standards, particularly in manufacturing protective medical clothing and equipment. Regarding the development of innovative products, the shortage of intellectual capital in the Georgian labor market was also identified as a significant impediment.

Around 95% of inputs used in production are imported (mainly from China and Turkey), resulting in two potential problems. Firstly, the rapid increase in input prices adversely impacts the sales and competitiveness of local manufacturers. Secondly, delivery times for input materials are longer, leading to delays in the domestic production process and the occasional inability to meet clients' urgent needs. This is particularly problematic regarding public procurement as producers may incur high penalties for late deliveries. Producing raw materials locally (for example, non-woven fabric, the sanitary textile used as one of the key inputs for producing medical clothing or three-layer membrane fabric utilized in protective vests production) is not considered profitable in Georgia yet due to high production costs and relatively small domestic market size. Thus, overall, utilizing imported raw materials seems inevitable for industry representatives. As a result, the severity of this problem has not been assessed highly mainly in the recent appreciation tendencies of the Georgian Lari, which increased affordability of raw materials while importing.

Limited access to modern technology and machinery was regarded as one of the most prominent hindrances for this value chain. Manufacturers have identified that the availability of certain technologies could significantly increase their productivity, optimize their manufacturing process and decrease production costs, thereby enabling them to compete internationally better. However, affordability of such machinery is quite low, and the absence of qualified machine operators and mechanics further hinders the manufacturers' ability to fully exploit the potential of upgrading their equipment base. This problem is most relevant for manufacturers of workwear and service apparel (e.g. military and police uniforms), which specialize in government tenders and need expensive machinery to ensure eco-friendly production (the latter is a tender requirement, according to respondents). As outlined, the PPE market is relatively small, and considering the current low demand, it would be difficult for the sector representatives to invest in modern technology and scale up without substantial support. Thus, inadequate access to finance exacerbates this challenge. Even though certain industry representatives have benefitted from Enterprise Georgia's support mechanisms, lack of financing is still perceived as one of the significant barriers.

High competition and seldom cooperation among industry representatives further restrict the upgrade of this value chain. One of the interviewed companies expressed the need to strengthen cluster approaches in the value chain to ensure better knowledge-sharing and advocacy efforts at the state level. In relation to the last point, the Sustainable Apparel Cluster ("Made in Georgia") was established within the framework of the EU-GIZ-supported Clusters4Development project, providing technical advisory services to member companies and supporting them to strengthen market linkages and export potential. Within the same project, partner apparel producers formed a business association named the Georgian Apparel and Fashion Association (GAFA), composed of apparel companies, fashion designers, and ateliers. However, one of GAFA's members expressed their skepticism about the fact that soon this association will no longer benefit from the donor's institutional support and will have to sustain itself, making it for the association less likely to survive in the longer term. Furthermore, as per private sector representatives, effective private sector leadership within the cluster is essential for exploiting the benefits of cluster approaches. However, in practice, despite collaborating on various initiatives, the cluster members remain fierce competitors of each other.

Significantly, this value chain benefited in the course of covid-19 outbreak when local demand for medical protective equipment surged while the supply chains were interrupted, and borders were closed. As for this reporting period, there seems to be some window of opportunity for exports to

Arabic and European countries regarding Georgian PPE produce during Russia’s war in Ukraine. As reported, some manufacturers are planning to utilize this possibility.

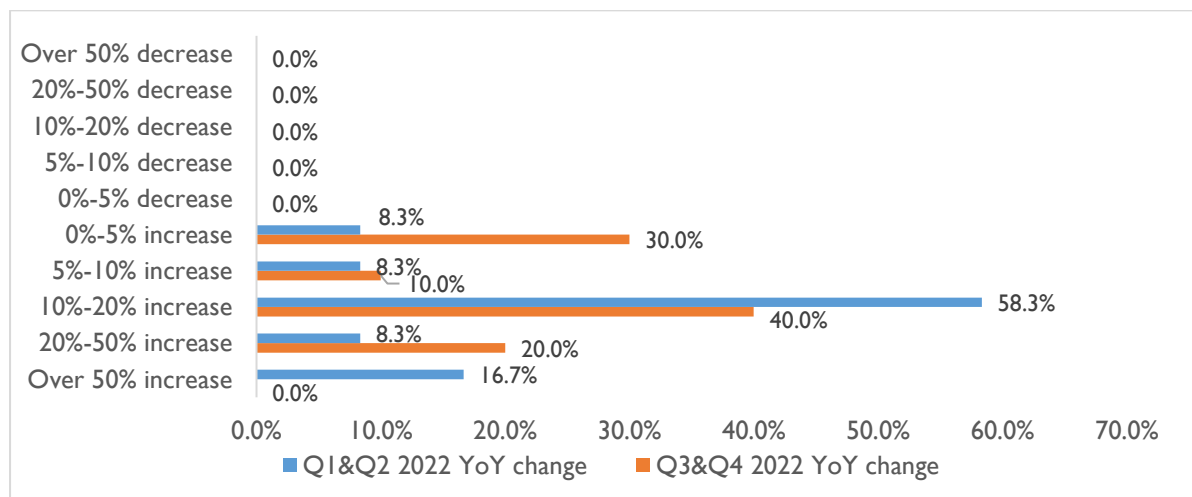
WOODEN TOYS

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 twelve and ten companies in the first and second half of 2022, respectively.

All surveyed companies are located in Tbilisi and the absolute majority of them are limited liability companies. In the first six months of 2022, 50% of them declared to have turnover below GEL 0.1 million, while another 50% of them stated to have turnover between GEL 0.1-0.5 million. In the second half of 2022, distribution changed and majority, 80%, of companies reported a turnover less than GEL 0.1 mln and 20% reported turnover between GEL 0.1-0.5 mln. In both halves of 2022, all surveyed companies reported a YoY increase in their turnover. Majority of them reported an increase in turnover by 10%-20% (Chart 3.49).

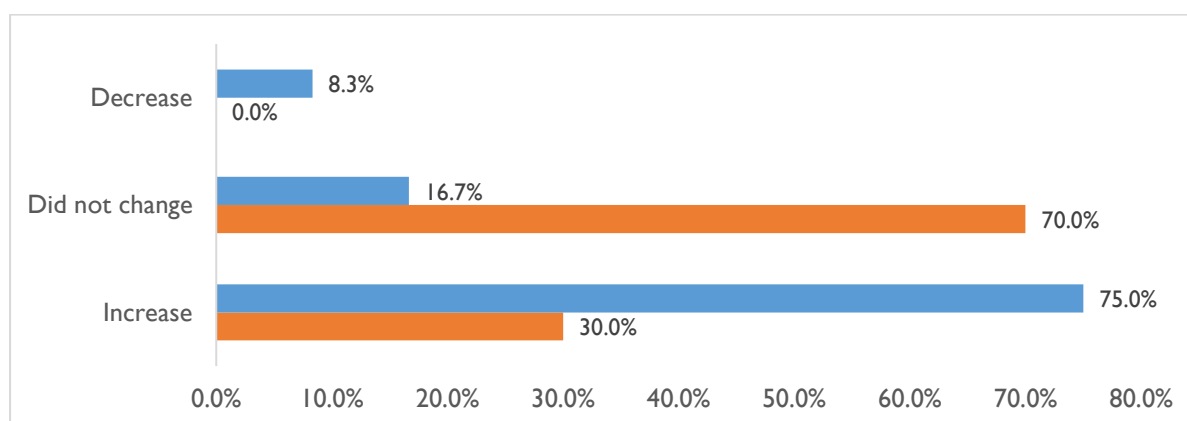
Chart 3.47 Percentage Distribution of Turnover Growth Rates in Wooden Toys Value Chain, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)



Source: Authors’ calculations

The number of persons employed in the wooden toys value chain varied between 1 and 20, with a median number of 6. Women constituted 38.2% of employed people, while workers aged below 30 accounted for 16.1% of total employment in 2022. Most wooden toy manufacturers (75%) increased employment in the first half of 2022, however, in the second half of 2022 most companies reported no YoY change in employment (Chart 3.50).

Chart 3.48 Change in Employment, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)



Source: Authors' calculations

As for the average monthly salary, it amounted to GEL 1040.0 in 2022. All surveyed producers reported that the average monthly salary increased in the first six months of 2022, compared to the same period of the previous year, as well in the second half of 2022.

Overview of Existing Challenges and Opportunities

Wooden Toys' economic activity faces a range of challenges that have yet to be adequately addressed. These obstacles include limited access to finance, lack of relevant machinery and equipment, shortage of workforce, limited availability of adequate local raw materials, product certification problems, specificities of the public procurement system, and high competition from imports. Despite these obstacles, the industry has potential for growth, given the increasing demand from domestic and international markets for Georgian wooden toys manufacture.

Access to finance remains one of the key problems for this economic activity. Due to the small scale of production, firms usually cannot afford expensive bank loans and sometimes even have problems to pay their employees. Thus, manufacturers occasionally struggle to retain workforce due to uncompetitive wages. Moreover, the shortage of modern machinery and equipment further hampers production efforts, forcing manufacturers to import specific components of their products, resulting in increased production costs, reduced price competitiveness, and complications in meeting rising local and international demand.

Besides access to finance, product certification is another significant challenge in this value chain, especially when having an export orientation. In this regard, there are two aspects – final product and raw material certifications. Many interviewees highlighted the need for local product testing capacity, regarding the former. Currently, if product certification is needed, they all have to send their sample products to Turkish laboratories to obtain certificates, thereby significantly increasing their products cost and the sale prices. Some manufacturers, such as LTD Dadari, receive product certification support from their European partners. However, this example clearly represents an exception across this business activity.

In the same regard, in some instances, operations in this business activity are constrained by the unavailability of high-quality, licensed, wooden materials. Several interviewees claimed that adequately processed and dried wood materials with a certificate of origin are rare in Georgia. Such a barrier can be an additional bureaucratic and financial burden when planning exports. At the local level, the manufacturers face challenges related to the increased prices of Georgian raw materials, mainly attributed to the increased wooden exports to Iran. As a result, some wooden toy producers are considering importing higher-quality raw materials, which entails purchasing larger quantities and

finding additional storage space, thereby creating further challenges for manufacturers. For instance, the wooden toy manufacturer 'Dadari' is exploring the possibility of importing certified wood materials from Poland or Belarus.

Those wooden toy manufacturers oriented towards the domestic market, face significant competition from relatively low-quality imported toys from China and second-hand toys from the US. Local manufacturers find it difficult to compete on price since imported toys in specific categories can be up to four times cheaper than locally produced ones. Despite increasing consumer awareness around the importance of quality products, most consumers still prioritize price over quality and opt for more affordable imported options. Some manufacturers, nevertheless, argued that the imported low-priced toys are not their actual competitors from a quality standpoint. Instead, they view high-priced quality imported products as their main competitors in the market.

In this regard, the GoG's Decree on the Approval of Technical Regulation on Toy Safety²², which took effect after 1 July 2021, has generated a sense of optimism among Georgian wooden toy manufacturers that it would increase the competitiveness of local production against imported toys. Nevertheless, it seems that the technical regulation has not significantly impacted in practice due to its poor implementation. However, wooden toy manufacturers still view the legislation as a positive factor for enabling exports demonstrating that Georgian wooden toy production is aligned with international safety standards.

Locally, Georgian wooden toy manufacturers often participate in public procurement calls held for Georgian kindergartens. As the focus group participants argued, the procurement process has several challenges. First, it does not prioritize eco-friendly wooden toys' manufacture, thus putting Georgian wooden toy manufacturers at a disadvantage. Further, many private sector representatives claim that they have the potential to meet the demand of local kindergartens if the selection criteria in procurements are modified and perceive this as a possible instrument to ensure the future scaling-up of their business activity. It was suggested that the public procurement system could be potentially reformed in several directions: primarily, it can allow joint applications by several local companies altogether, while currently, when tenders are announced, they usually request supplying many kindergarten sites at the same time. For instance, providing Tbilisi and regional kindergartens together. Such scale of demand is almost impossible to meet for small-sized Georgian wooden toy manufacturers only. As a result, typically, tenders are awarded to intermediaries who do not have their own manufacturing facilities but are capable of meeting the demand and gathering requested items from various suppliers. Some of these aspects are addressed by the new Law on Public Procurement, which has been in force since February 2023. Among other new opportunities, the new legal framework allows consortium bidding for public tenders.

Representatives of this business activity have limited experience when it comes to exports. However, there are several success stories. Notably, a number of local manufacturers have experienced a significant increase in their exports to the EU markets. For instance, LTD Dadari has a full export orientation and supplies the German market with 97% of its produce. Importantly, their export volume doubled in 2022, which they partially attribute to their participation in an exhibition with the support of Enterprise Georgia. Another successful case is the one of LTD Kodala – a social enterprise producing eco-friendly wooden toys and decorative pieces - which has exporting experience in German and UK markets. Moreover, it has been revealed that France could be a profitable export destination for Georgia due to the high demand for such toys and limited local production.

²² Resolution No.47 of January 20, 2020, on "Approving the Technical Regulation on Toy Safety", available at: <https://matsne.gov.ge/ka/document/view/4776792?publication=0>

Whereas exports are still limited, some companies successfully operate on international sales platforms. LTD Kodala has recently stored its products in an Amazon EU warehouse and will soon be selling its manufacture on Amazon.com. Further, more companies position on ETSY. For instance, LTD Katamura, a Georgian manufacturer of toy souvenirs of local fauna, continues selling its products through Etsy and mainly supplies the US market. Notably, there has been a positive trend in their sales increase in 2022. Additionally, LTD Mtsvervali, a Georgian manufacturer of wooden toys, provides its products to the US, the UK, and UAE markets through this platform.

Further, the interviewed companies highlight the need to expand their networks and partnership opportunities within the business activity of wooden toys to tackle existing problems and achieve future growth. The manufacturers of wooden toys seem to benefit a little from founding an association of toy manufacturers. Several attempts have already been made in this direction but have been unsuccessful so far. Nevertheless, representatives of this business activity recognize the importance of their partnership and acknowledge the potential for complementary collaboration.

4. SOLID WASTE MANAGEMENT AND RECYCLING

SECTOR SUMMARY

According to the quantitative assessment, turnover in the solid waste management and recycling sector demonstrated positive nominal growth in 2022 (12.1%) compared to 2021 and reached GEL 97.1 million. Average monthly salary, as well as productivity, also presented increasing tendencies in 2022, compared to 2021.

The qualitative assessment showed no significant progress in the central impediments that has limited overall upgrade of this sector, out of which the underdevelopment of the waste management system in the country stands out. In this direction, the enactment of four technical regulations to introduce Extended Producer Responsibility (EPR) in certain waste streams has some potential to induce a positive change. It is projected that technical regulation for another waste stream of end-of-life vehicles is also underway and will soon be enacted. However, EPR for packaging materials is still pending and is considered the major bottleneck of the country on its way to delivering a functioning waste management system.

As for the enacted four technical regulations, some challenges are observed that might limit representatives of EPR organizations to reach their targets by end 2023. These impediments are related to a lack of enforcement capacity of the enacted technical regulations, underdevelopment of collecting and recycling infrastructure for generated waste across the country, and low awareness regarding the significance of enacted changes. In the latter direction, it was outlined as necessary to run proactive awareness-raising campaigns targeting a) businesses that are waste producers and become responsible for their collection; and b) the general public that should change its behavior when it comes waste sorting and separation.

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

This sector would significantly benefit from better cooperation with the public sector. However, so far, collaboration instances are vividly lacking or are less successful. Nevertheless, a better understanding of the capacities of the parties participating in waste management has significant potential to yield lasting positive impacts when it comes to developing this sector.

Overview of Economic Indicators

The following section provides an overview of quantitative indicators for the solid waste management and recycling sector along with the corresponding aggregate sector (water supply, sewerage, waste management and remediation activities)²³.

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).

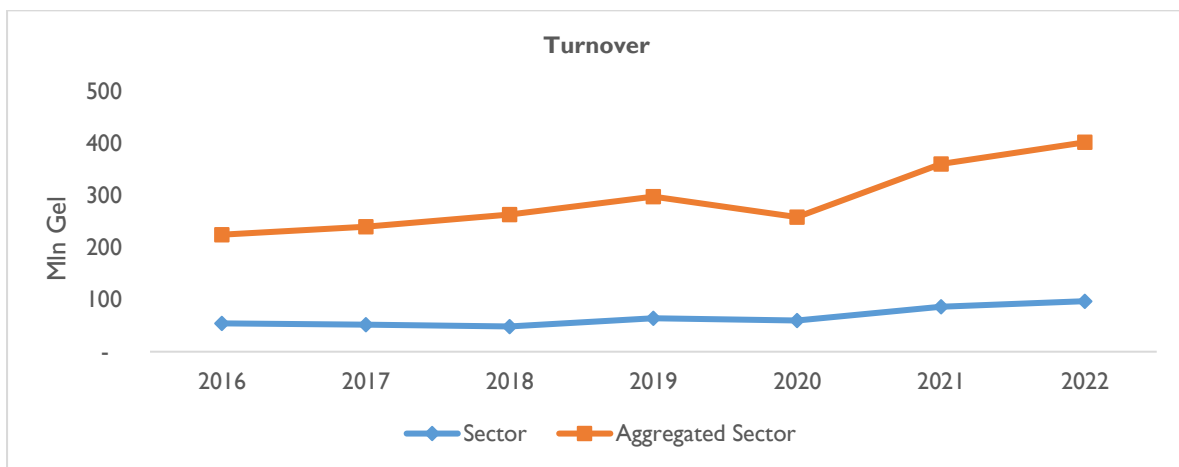
²³ Throughout this section, “sector” will refer to solid waste management and recycling, while “aggregated sector” will refer to water supply, sewerage, waste management and remediation activities.

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

NACE ²⁴	Description
38	Waste collection, treatment and disposal activities; materials recovery
39	Remediation activities and other waste management services

In 2022 turnover for the solid waste management and recycling sector has increased by 12.1%, amounting to GEL 97.1 million. The turnover for the corresponding aggregated sector increased as well in 2022 (11.5%) and reached GEL 402 million (Charts 4.1 and 4.2).

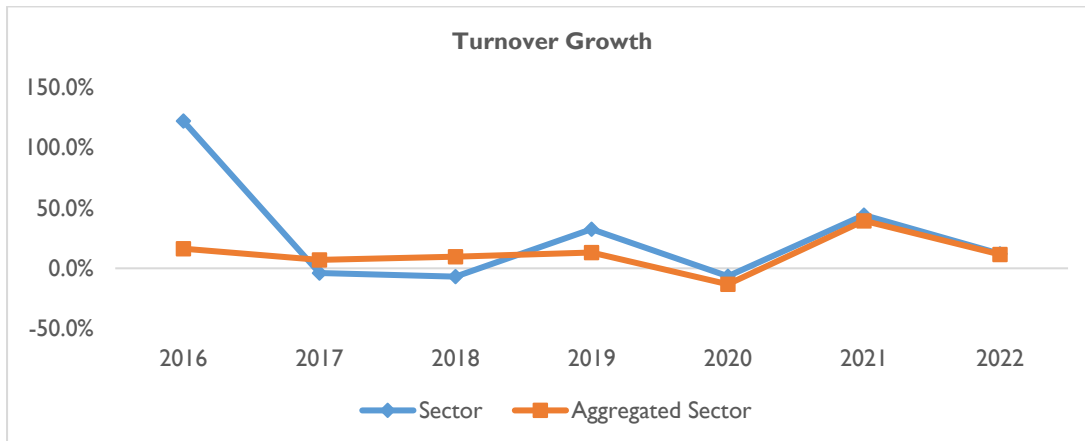
Chart 4.1 Turnover of the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

²⁴ Quarterly codes are aggregated for annual analysis

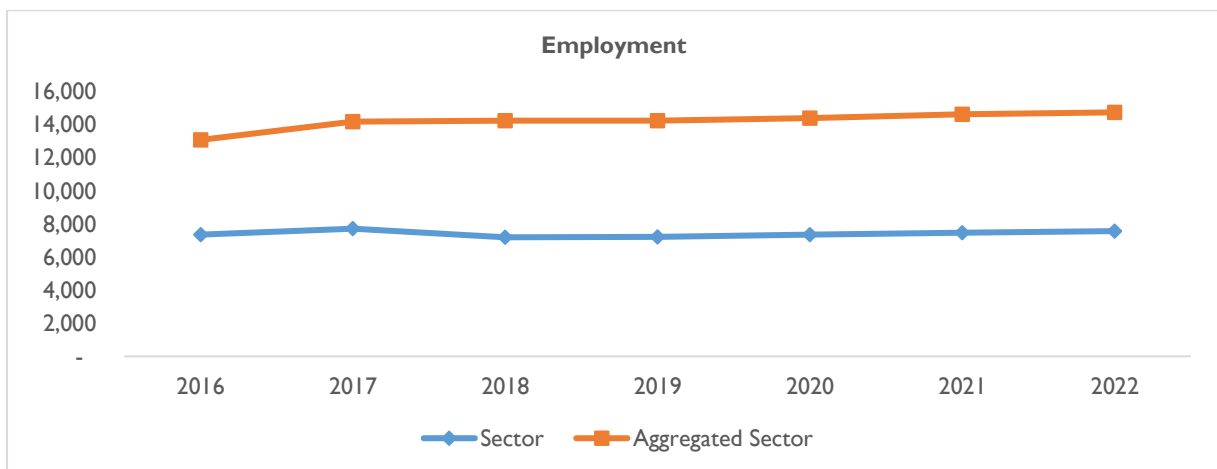
Chart 4.2 YoY Growth rate of turnover for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

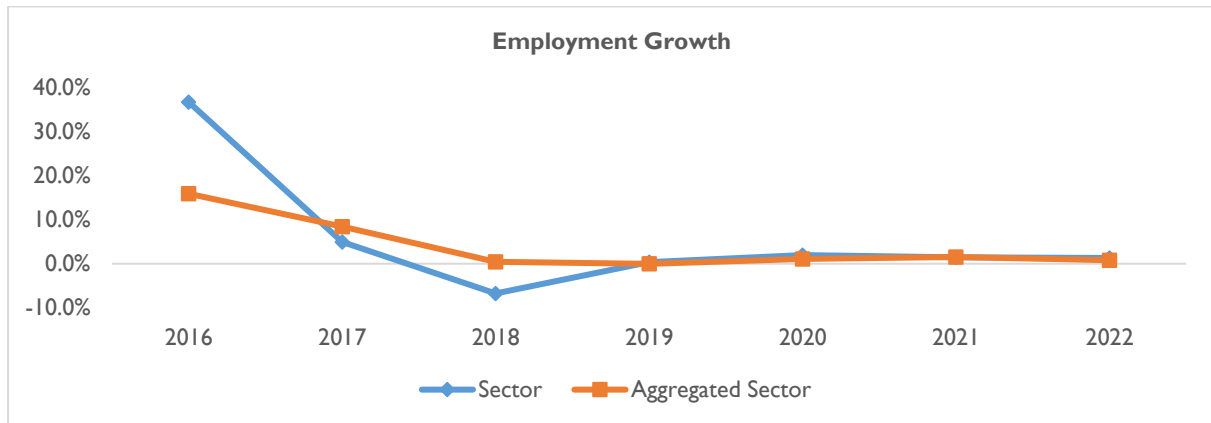
Charts 4.3 and 4.4 present the dynamics of employment and its annual growth rates in the solid waste management and recycling sector and the respective aggregated sector. In 2022 employment increased slightly (1.3%) compared to 2021 and reached 7,567 people. The number of hired employees also increased in the aggregated sector at a moderate speed (0.8%) in 2022 compared to 2021 and amounted to 14,738 people.

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



Source: National Statistics Office of Georgia

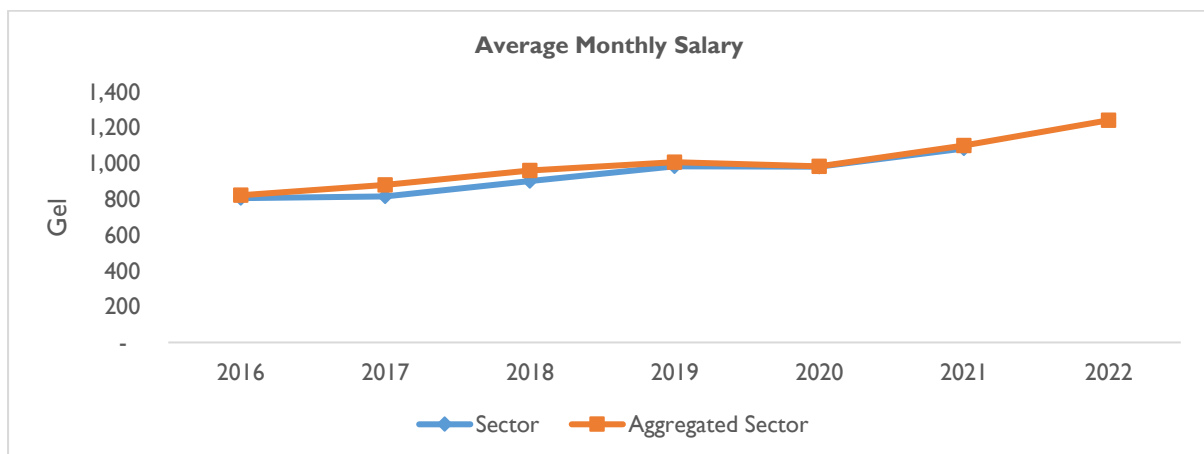
Chart 4.4 YoY Growth rate of employment for the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

As Chart 4.5 shows, the average monthly salary in the solid waste management and recycling sector expanded in 2022, amounting to GEL 1,294, which is 19.4% higher than in 2021. The average monthly salary in the aggregated sector also increased by 12.9% to GEL 1,242 in 2022.

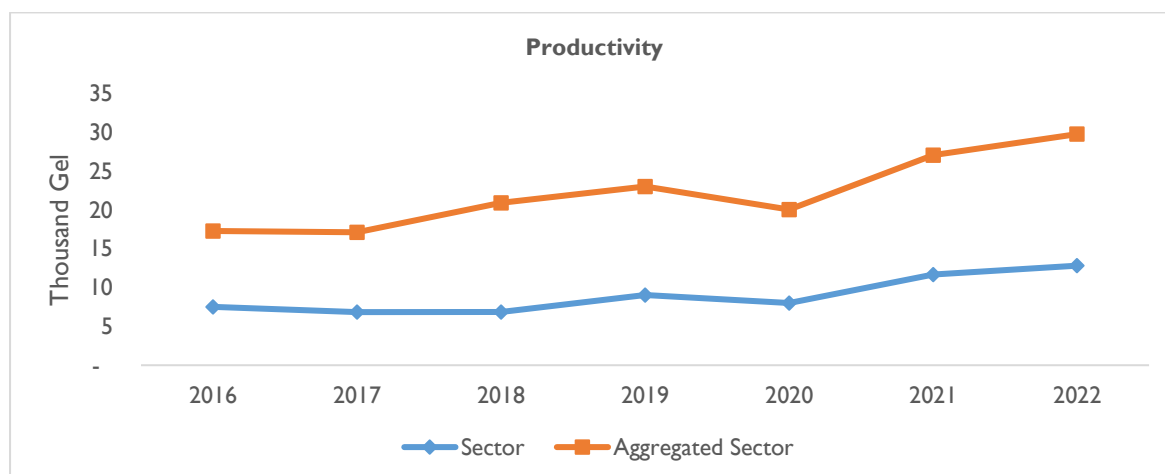
Chart 4.5 Average monthly salary in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

The productivity in the solid waste management sector increased (9.6%) in 2022 and amounted to GEL 12,832. The productivity in the aggregated sector increased as well by 10%, amounting to GEL 29,781 (Chart 4.6).

Chart 4.6 Labor productivity (annual output per hired employee) in the solid waste management and recycling sector and the corresponding aggregated sector



Source: National Statistics Office of Georgia

Overview of Existing Challenges and Opportunities

This sector shows a stable growth tendency across reporting periods. For the last two quarters of 2022, at the expense of intensified economic activity in Georgia, sector representatives report moderate growth in business activity parameters. The key challenges the sector representatives face remain mostly homogeneous across waste stream. The sector has significant potential to upgrade, given that it does not currently operate at its full production capacity. Pertinently, producers suffer from a permanent shortage of waste used as a raw material in the manufacturing process.

There are several systemic policy changes that have to be implemented successfully to solve the problem of raw material shortage. In this regard, it is stated that the government institutions lack championship capacity and political will to drive institutional transformation of the country to create a functioning and robust waste management system in Georgia.

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

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

The country has already adopted technical regulations for four (out of six) waste streams: waste batteries and accumulators, waste tires, waste electric and electronic equipment, and waste oils. It is projected that technical regulation for another waste stream of end-of-life vehicles is also underway and soon will be enacted. However, EPR for packaging materials is still pending and is considered as the major bottleneck of the country on its way to delivering a functioning waste management system.

According to the new regulatory changes, all producers/importers of products that generate specific waste subject to EPR have to register on an electronic portal and become members of an authorized organization (association), unifying all responsible waste producers. As part of an authorized organization, companies have an obligation to meet annual targets of collecting certain amount of annually generated waste across Georgia. For instance, at least 20% of tire waste generated in 2023 has to be collected by tire producers/importers. So far, three organizations have been authorized in Georgia about EPR – “Tegeta Green Planet,” “Waste Management Business Association”, and “Geoprofessional Business Association for Extended Producer Responsibility.” These associations unify up to 6000 producers/importers from all four waste streams.

For this reporting period, the registered associations are actively attempting to reach their annual targets, nevertheless, with certain shortcomings. According to conducted interviews, by end-year, it is projected to collect targeted waste quantities for used batteries and used tires. Targets that are set for waste electric and electronic equipment are regarded as ambitious. Moreover, the associations encounter shadow practices of waste collection regarding waste oils.

As revealed by this research, although it is in the development process, there is still no properly functioning waste collection system and necessary infrastructure even in the stated four directions of EPR in Georgia. Firstly, dedicated collection points for generated waste are largely non-existent in the country. However, the authorized EPR organizations commit to soon developing such collection points. What is more, the system for recycling the generated waste is also underdeveloped. For instance, when it comes to waste tires, there is some capacity to recycle the collected waste locally, but recycling factories either have technological barriers to properly process the raw material or charge high prices that EPR organizations are reluctant to pay. The alternative in this direction would be to export the collected waste; however, this would undermine the possibility for Georgia to exploit benefits stemming from EPR fully.

Another barrier relates to the lack of enforcement mechanisms to ensure quality implementation of enacted technical regulations. For instance, as mentioned, in the direction of waste oils, EPR organizations encounter many shadow practices that limit their capacity to reach desired collection targets by end-year. Thus, in collaboration with EPR organizations and responsible state agencies, the creation of a properly functioning enforcement system for technical regulations was stated as important.

Overall, as stated by interviewed stakeholders, to achieve tangible improvements in the waste management sector, it is essential to run proactive communication campaigns regarding implemented policy changes (such as EPR), responsibilities that they produce, and actual projected benefits deriving from their successful implementation. These communication campaigns should target a) businesses that are waste producers and become responsible for their collection, and b) the general public that should change its behavior when it comes to waste sorting and separation. As sector representatives claim, it is essential that both donor and state resources are invested in mainstreaming quality waste management across Georgia.

At this point, in light of the weak implementation of the waste management regulatory framework, local availability of inputs is critically limited in Georgia. This results in the inefficiency of the waste management sector. Some producers report operating only at 10% of their production capacity. Nevertheless, it is noticeable that over time, more waste becomes accessible to Georgian producers. Some interviewees highlighted that the availability of raw materials in the country was tightly linked to the developmental pace of the Georgian economy. For instance, as tourism inflow increases in the country, more plastic waste becomes accessible for representatives of this sector, whereas, during the stringent lockdown phase, the amount of available waste was critically limited. The latter has been once again proven recently during recent intensified economic activity in Georgia, partially driven by recent migration trends, which has impacted local demand in the HORECA sector, especially fast food production. This has contributed to the increased availability of waste oils for respective businesses in this sector.

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

Packaged goods produced in this sector cannot properly compete with imported products. In addition, most final manufactured goods in the sector are of moderate quality due to the outdated machines used in production. Moreover, the absence of economies of scale increases prices for packaged goods and makes domestic firms less competitive against importer companies.

Upgraded production lines would increase the value-added of final products created in this sector. Modern machinery is also reported as necessary to meet growing local demand in certain directions. For instance, a representative of carton paper products manufacturing company, LTD Neoprint states that there is an increasing demand on the domestic market for more technologically advanced carton products. Nevertheless, the firm needs an upgraded technological base to meet the demand. Significantly, as of April 2023, more companies report quality improvement for their packaged goods. In this direction, two interviewed firms (LTD Biodiesel and LTD TRC) are notably expanding their production capacities.

If relevant, restricted access to finance was named as a core hindrance to updating the technological base of the companies engaged in waste recycling. Meaningfully, Enterprise Georgia has recently amended its programs to cover solid waste management and recycling activities. However, the sector representatives emphasized that it is significant to develop a more sophisticated state-run support system (covering different financial and non-financial support modalities) specifically targeted at those business activities that make up the waste management sector.

Major players of this sector export to foreign markets, whereas the majority of value chain representatives, mainly micro and small enterprises, are only oriented toward domestic growth. Some examples of exported recycled products include PET bottle flakes, glass, paper packaging materials, tire rubber granules, biodiesel, and electrical and electronic equipment. In this regard, a newly launched

recycling site of Polyvim LLC is projected to have substantial exporting potential. So far, Polyvim LLC, after a year of its market operations, reports to have five stable exporting destinations– Netherlands, Greece, Lithuania, Romania, and Austria. Representative of LTD Bio Diesel Georgia additionally exports in several countries: Germany, Netherlands, Portugal, and Austria. As of April 2023, the company has kicked-started waste collection in Armenia and targets the Kirgiz market. Concerning carton manufacture, it is exported in the region to Armenia and Azerbaijan by LTD Neoprint. Elsewhere, LTD TRC, a Georgian tire and electrical equipment recycling factory, reported reaching Turkish, Indian, and Chinese markets through networks of their trade partners.

Local competition between manufacturers in the sector differs depending on the specific type of waste. In some cases, there is a solitary company on the market recycling the given type of waste. In contrast, in other cases, several producers compete over the available waste resources. The situation has not changed noticeably as of April 2023.

Some interviewees highlighted that the sector lacks both foreign and domestic investments. Georgian investors are generally reluctant to fund projects related to waste management due to a lack of familiarity with the specificities of these economic activities. In contrast, foreign investors lack trust in Georgian waste management practices. As stated by one of the interviewees, European investors are aware of the Georgian waste management sector; they know its lacunas, such as its limited implementation capacity and growing shadow market for waste exchange. Indeed, there are not many known cases of significant investment in this sector but that of Polyvim LLC, an Iranian venture that has recently finished constructing a PET bottle recycling factory in Georgia.

Polyvim LLC, founded in 2018, launched its operations in November 2021 and has already penetrated 5 foreign markets. The factory recycles Polyethylene Terephthalate and plans to expand its operations by further recycling polymeric waste. So far, the company employs 50 individuals but will soon increase its employer base by 100 additional workers. As stated, Polyvim permanently faces a raw material shortage. Such barrier has served as a limitation for this company but has significantly developed a supply chain for plastic waste collection and delivery in Georgia. Besides its efforts, several local firms in this sector utilize their operations to supply the waste needs of Polyvim LLC. For instance, a representative of LTD Tene declared to have such an orientation. Such examples are extremely significant for this sector's development, especially considering the absence of state-coordinated separated waste collection practices in the country.

It was further highlighted that this sector clearly suffers from a labor shortage. The majority of producers (except Polyvim LLC) report high staff turnover and outline the labor force's overall reluctance to join the recycling sites of the waste management sector. Two core reasons explaining such scarcity are increased labor migration to the EU/US and seasonal employability opportunities emerging during spring and summer (at tourist or construction sites).

As for the private sector consolidation in this sector, it is moderate. The majority of market players are members of the Waste Management Association (WMA), which unifies 25 members with no recent additions. The association works with certain shortcomings. It lacks proactive campaigning and institutional capacity as of April 2023 to better drive or facilitate policy changes necessary for this sector. In turn, the association, at this point, is more of a formal platform for sectoral consolidation.

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

5. SHARED INTELLECTUAL SERVICES

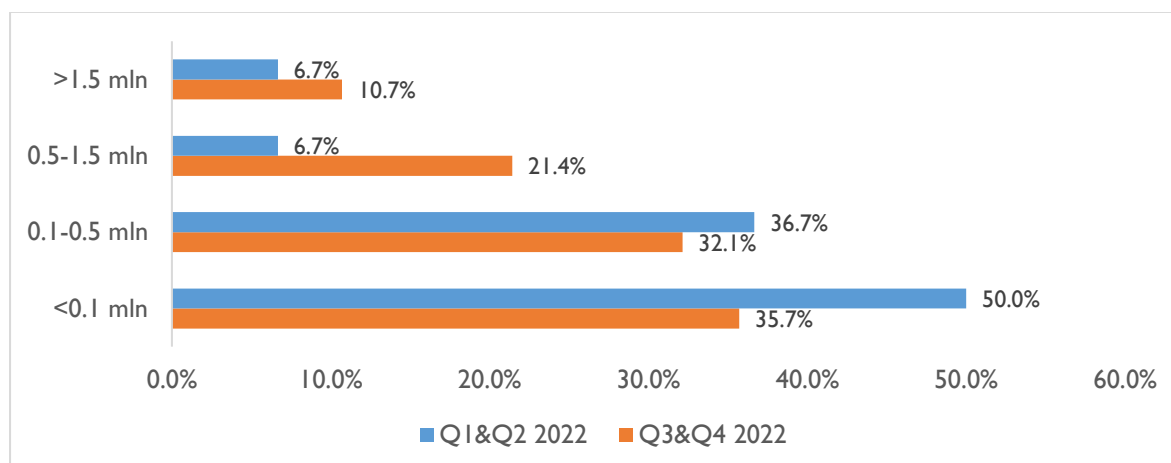
Under the shared intellectual services sector (SIS), this report observes economic trends and findings of qualitative analysis in Business Processes Outsourcing (BPO) Value Chain. Four business activities of the BPO value chain are covered in this given analysis: Human Resource Management (HRM); Customer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

Quantitative Survey Results

Due to data limitations, the key business indicators describing the development of this sector were obtained through a phone survey. In total 31, companies in the first half and 28 companies in the second half of 2022 were surveyed within SIS.

In the first half of 2022, 50% of the surveyed companies were small businesses, with turnover below GEL 0.1 million. In the same period 36.7% of businesses reported turnover between GEL 0.1-0.5 mln (Chart 5.1). Distribution of companies shifted towards larger turnover range in the second half of 2022 and more companies reported turnover levels from GEL 0.5 mln to more than GEL 1.5 mln.

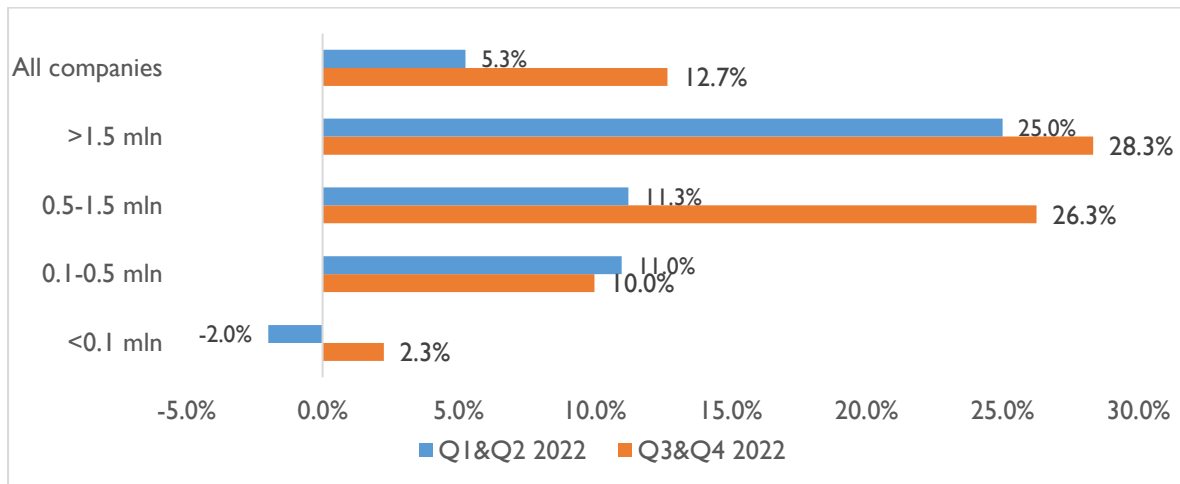
Chart 5.1 Distribution of SIS Companies by Turnover Range, 2022 Q1&Q2 and Q3&Q4 (Gel)



Source: Authors' calculations

In the first half of 2022, turnover of all surveyed companies increased by 5.3% (YoY) on average. In the second half of 2022, companies reported higher average YoY growth rate of 12.7%. It is worth to mention that almost every turnover range presented higher YoY growth rates in the second half of 2022 (Chart 5.2).

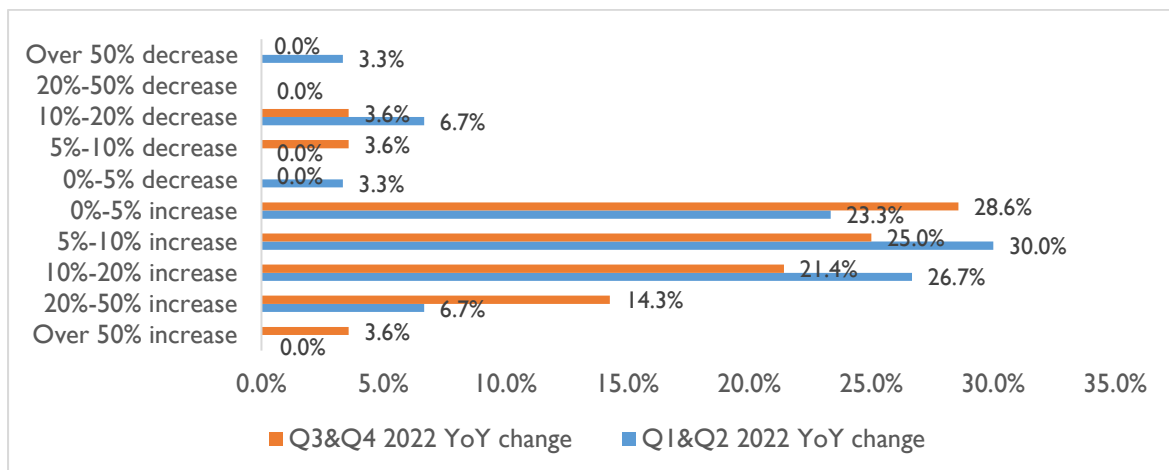
Chart 5.2 Distribution of SIS Companies Growth Rates by Turnover Range, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)



Source: Authors' calculations

Most of the companies, both in the first (86.7%) and the second (92.9%) half of 2022 reported increase in their turnover compared to the same period of 2021 (Chart 5.3).

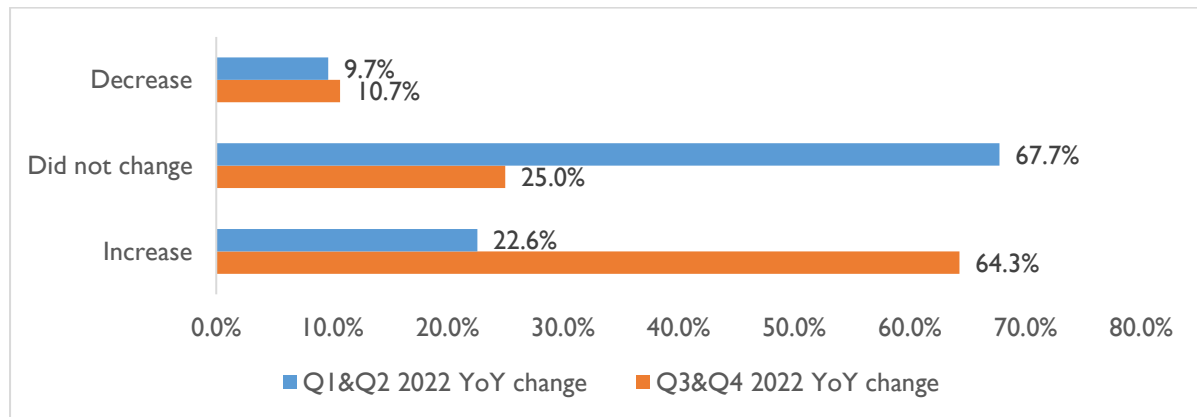
Chart 5.3 Percentage Distribution of Turnover Growth Rates in the SIS Value Chain, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)



Source: Authors' calculations

The number of employed persons in surveyed SIS companies varied from 1 to 2750, with the median number of 8 employed individuals. Women accounted 69.9% of employed individuals, while the share of young workers (under 30 years old) made up 62.4% of the total employment of surveyed companies. 67.7% of companies indicated no YoY change in employment in the first six months of 2022, however in the second half of 2022 majority of surveyed companies reported increase in employment compared to the same period of the previous year (Chart 5.4). As for the average monthly salary, it amounted to GEL 2,500 in 2022. Most of the surveyed companies in both halves of 2022 reported a YoY increase in of the mentioned indicator.

Chart 5.4 Change in Employment, 2022 Q1&Q2 and Q3&Q4 (Y-o-Y)



Source: Authors' calculations

Overview of Existing Challenges and Opportunities

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

Qualitative analysis revealed that two stressing challenges remain universal across the BPO Value Chain. The first challenge relates to the lack of qualifications on the demand and supply sides of this value chain. The scarcity of relevant market-oriented educational programs has been identified as the root cause of this barrier. What else, intensified drain of human capital from Georgia and the overall lack of human resources availability was named as the additional hindrance in this direction. Workforce availability becomes more problematic with time as markets under the SIS sector become more competitive and intensify their efforts to obtain and retain competent labor. Another prominent problem, outlined by the majority of sector representatives, relates to the lack of regulatory mechanisms and professional standards, highlighting, for instance, issues related to the certification of architectural services provision and professional standards in HRM. Some of the sector representatives underline that introducing such standards will elevate the quality of services provided. However, consistent advocacy efforts to tackle described challenges are not observed so far.

ARCHITECTURE DESIGN AND ENGINEERING (ADE)

Focus group discussions for this qualitative analysis were conducted with a wide range of representatives engaged in the ADE business activity, including members of professional unions, individual architects and representatives of large architectural firms, industrial, interior, and product designers, urban planners, and other stakeholders.

According to interviews, overall, there was a growing demand for services of this business activity in Georgia in 2022, especially compared to 2021. Increased demand was mostly driven by the emergence of new development projects, mainly consisting of individual houses. The latter tendency has become more visible during recent migrant inflow to Georgia from Russia, Belarus, and Ukraine. However, as observed, in parallel with increased demand, the contract signing process has been prolonged, and business revenues have not yet risen significantly. Furthermore, it seems that many Russian service providers emerged on the market who tend to absorb a significant portion of demand.

Overall, this business activity develops moderately, with some significant obstacles that are relevant for business activity representatives. Noticeably, as of April 2023, no major progress has been made with regards to any of the described challenges. According to focus group participants, following barriers have persisted in this business activity:

- The absence of a mandatory certification requirement for architects is a challenge, according to some participants. Even though none of the respondents claimed that certification would solve all of the problems currently faced in ADE, the majority of them outlined that it was a necessary tool in determining a fairer market price for architectural services in Georgia. Moreover, it is believed that, if administered appropriately, mandatory certification has the potential to increase the credibility of service providers by introducing 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 Georgia²⁵. The primary version of the code envisaged adopting the policy change in 2020. Enactment of the new requirement was then postponed for October 2022²⁶. As for this reporting period, the change is again postponed until March 2024. Importantly, as interviewed architects claim, the proposed policy is vague and is not well communicated with the private sector, which might threaten its effective implementation. For instance, there are misconceptions among sector representatives about who needs to get certified. What else it is also unclear what can be criteria for a candidate's success and how the certification process will objectively assess the creative skills of the eligible architects.
- A challenging system of public procurement is an additional barrier that hampers 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 selection criteria and 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 based on more robust principles of transparency and competition. Beyond public tenders, many companies in this business activity participate in private procurement calls, which are more transparent and competitive. However, even such tenders might sometimes be characterized by favoritism. The most reliable selection process in this direction can be observed in procurement projects involving international donor organizations such as for instance, the World Bank or the Asian Development Bank. As explained by the interviewees, with these organizations involved, procurement procedures usually comply with high international standards, increasing their credibility. On the contrary, when international actors are absent from the projects, public sector representatives, such as municipalities, are rarely seen as stable and reliable partners. For instance, according to interviewees, there have been some instances when municipalities suspended procurement calls with no apparent explanations.
- Yet another challenge that is prominent for architects relates to the existing regulatory framework that seems to lack predictability, consistency, and effectiveness. As stated during the interviews, changes in regulations (e.g. in the I4-39 ordinance of Tbilisi City Hall "On the

²⁵ 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>

²⁶ Article 3, paragraph 4 of the "Law of Georgia on Architectural Activities." Available at: <https://matsne.gov.ge/ka/document/view/32506?publication=5>

Approval of Rules for Regulating the Use and Development of Territories of Tbilisi Municipality”) are often enacted chaotically and without any communication with the private sector. Existing regulatory approaches seem to also lack a long-term vision for the future development of this sphere. What is more, as stated, the process of issuing permits for architectural projects is prolonged in time. State entities that are responsible for supervising different parts of the architectural project are not in coordination with each other. As a result, the process might move back and forth without achieving results. Overall, compliance with regulations has become more difficult, and this has facilitated the emergence of new intermediary service providers on the market that specifically specialize in ensuring compliance of projects with technical regulations (e.g., Governmental Resolution N41 on Building Safety Rules).

- What else, this business activity necessitates quality educational modules. Even though the sphere has been established in Georgia for years, effective and “market-oriented” educational modules are lacking. According to the interviewees, this problem is even more visible regarding engineering modules - there is a general scarcity of engineers in the country, disregarding their qualifications. Focus group participants also noted that the modules often fail to equip students with interdisciplinary perspectives and transferrable skills. Moreover, educational programs often focus on the quantity rather than the quality of their graduates, failing to provide them with practical knowledge. For instance, it was stated that on an early basis, several hundreds of students are enrolled in architectural modules, while the market does not necessitate such high supply of labor. As a result, the market is saturated with less competent architects, that decrease overall service quality. Some interviewees also highlight that insufficient workforce qualification adversely affects market prices, as unqualified architects are willing to provide their services at a lower cost. In this direction, however, interviewees suggest that some promising developments have taken place recently, such as the establishing of the Architectural direction under Visual Art, Architecture and Design School (VAADS) at Free University of Tbilisi. According to focus group participants, this program integrates contemporary approaches and supplies the market with young professionals that have the potential to significantly advance this business activity.

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

Interestingly, most of the companies or individual contractors in ADE operate domestically and, generally, do not export their services abroad. As explained by some participants of the focus group, domestic demand absorbs the entire capacities of local players. Moreover, as some participants outline, the Georgian workforce does not possess the 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, some firms attempt to partner with foreign service providers (e.g., LTD Werkraum has a Western European partner) and execute certain parts of their overall architectural services from Georgia.

There are some competitive advantages that Georgian firms possess when it comes to internationalizing their services. Primarily, Georgian companies can offer competitive prices to

international clients. Some service providers have also found a niche in specializing in exporting visual and technical components of the architectural process, such as sketching and rendering. In this direction, there have been several precedents of international companies opening branches in Georgia, where, utilizing the local workforce, parts of overall architectural service were delivered (e.g., Base4).

Regarding target markets, some participants of the focus group noted that it is not feasible to enter the western markets when it comes to exporting architectural services, as the high saturation of these markets makes it hard for the Georgian companies to compete. In search of alternatives, Multiverse Architecture (MUA), Tbilisi-based Architecture and Placemaking office, plans a proactive communication campaign with potential partners in Uzbekistan, Armenia, and Azerbaijan. According to the representative of MUA, markets in these countries are by no means inferior compared to those in the West, even in terms of prices. Furthermore, these markets are easier to penetrate in terms of existing regulations that are active on them.

Positioning with international clients becomes easier for Georgian product and interior designers. A prominent example in this direction is one of the Designbureau, a Georgian architectural and interior design studio, which creates niche and exquisite design products that have high potential for international exposure. Even though the company has mainly positioned on the local market, it has plans for international expansion. To this end, Designbureau has recently participated in Milan Design Week 2023, where different exclusive interior design pieces were exhibited.

According to the focus group discussions, and further internationalization of Georgian ADE activities will significantly depend on networking platforms that can inspire potential collaboration, including idea- and portfolio-sharing between Georgian and foreign ADE market representatives. Notably, the Tbilisi Architecture Biennial, founded and organized by four Georgian architects, is a promising initiative in this direction. The biennial assists Georgian architects to establish contacts with professionals in the sphere from around 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 regarding the architecture business activity. Pertinently, there is no specific active business association in the industry. The professional platform, Georgian Union of Architects, is present in this sphere. However, the industry representatives expressed their explicit distrust towards the management structure of this Union, which did not allow a new generation of architects to participate in the decision-making process of this entity. Some potentially promising developments took place in this union a year ago when the new governing board of an organization recruited several members from a new generation of architects into the management of an entity. New members actively advocated new initiatives in the Union and founded several thematic working groups concentrating on different policy directions, including certification, quality of education, and public procurements. These attempts continue as of April 2023, nevertheless, with no tangible results.

FINANCE AND ACCOUNTING (F&A)

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

financial management, budgeting, financial planning, attracting investments, and raising funds for business operations.

Depending on the categorization of enterprises per the volume of i. total value of their assets ii. generated revenue, and iii. An average number of persons employed, firms in Georgia are divided in four enterprise categories that possess different reporting requirements before SARAS²⁷. 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 demand stemming from the enterprises of the third and fourth categories. Leading players of the market (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 7000 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 the 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. Besides its obligation towards enterprises to meet International Financial Reporting Standards (IFRS), SARAS oversees the certification process of professionals and introduces quality control standards for the firms.

Considering its high regulation and compliance requirements, there are not many persisting challenges in this sphere, and it stably grows over time. As for 2022, business activity representatives report ordinary dynamics of an increase in demand. Some interviewed companies highlight around 30% increase YoY in their revenues, mainly at the expense of interest deriving from the IT sector and international IT companies, which have recently become eligible for tax exemptions in Georgia. Furthermore, as conducted qualitative interviews reveal, in terms of accounting, there is an increase in demand from companies that are engaged in international trade – either (re)export or import their products. There is also some portion of demand stemming from those firms that receive state agency grants from Enterprise Georgia and Rural Development Agency. Certain participants from focus group discussions indicate challenges that have emerged in parallel with the war in Ukraine, adversely

²⁷ 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>

impacting firms that supplied Russian or Ukrainian markets from Georgia. Nevertheless, overall, the impact of the war on the economic parameters of this business activity is not significant.

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

Private sector representatives declare the lack of qualifications on the side of service provider accountants as a core driver for this challenge. According to conducted interviews, III and IV category enterprises cannot afford to pay for quality accounting services that are available on the market and are, as a result, incentivized to hire low-qualified professionals that cost less but cannot ensure firms' compliance with IFRS. Representatives of III and IV category enterprises refer to the complexity of standards as an explanation for problems with reporting.

In order to respond to this challenge, several initiatives are being enacted in business activity. First, the national regulator, SARAS, will soon start operating an official registry of accountants, which, at first will feature certified accountants that appear on the market. Businesses will have the option to choose certified accountants for the provision of their services. The creation of the platform has several legislative preconditions stemming from the Association Agreement, Georgia's Law on "Accounting, Reporting and Audit", and the Law of Georgia on "Facilitating the Prevention of Money Laundering and the Financing of Terrorism".

Another initiative in this direction belongs to the professional association – GFPAA, which plans to introduce nationwide overarching qualification requirements for accountants' certification. By meeting certification requirements, accountants will prove that their competencies meet the standards necessary for providing financial reporting in compliance with IFRS. An initiative of GFPAA is in the process of receiving approval. From this perspective, the initiative will be voluntary and will not oblige service providers to certify. However, according to sector representatives, , the big picture in this business activity will remain unchanged, unless certification according to national standards becomes compulsory

Besides challenges on the side of small-sized accountants, it was stated that the market for auditing services is also highly saturated with an inactive or low professional workforce, which does not benefit the market and is incapable of fully complying with national quality requirements. A potential solution to this, would be if some of these firms could specialize in accounting only and elevated qualification on the accounting market. 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.

Another major challenge identified by the value chain representatives concerns qualifications on the side of service recipient companies. Apparently, managers, especially of small enterprises, sometimes lack a basic understanding of tax compliance, financial reporting, investor relations, etc. As a result, businesses do not comprehend the full benefit of quality financial reporting and only conduct mandatory procedures to comply with regulations in the short term. Such misconception of the benefits of financial accounting partially explains the lack of qualifications on the side of service provider

companies. According to one of the interviewees, businesses that fully acknowledge the benefits of quality reporting will demand high standards of such services provided.

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

The F&A business activity has real 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, developing 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.

HUMAN RESOURCE MANAGEMENT (HRM)

HRM is an emerging industry in Georgia with the potential for further growth and job creation. However, the business activity is developing only at the domestic level and has limited prospects for global expansion. As of now, some positive tendencies can be observed in the industry's overall development. However, the pace of progress against prominent challenges is quite slow. Even though the industry representatives are interconnected in strong sectoral networks and know each other well, it is usually hard to achieve advancement when it comes to persisting barriers to growth.

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

- **Lack of awareness about the breadth of HRM services** was outlined as the central obstacle limiting this business activity's development. This challenge has been prominent regarding both supply and demand sides of HRM service. As emphasized by some focus group participants, it is quite common for HRM to be entirely associated with solely 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 to ensure the sustainability of the services offered and guarantee employee retention. Lately, some sector representatives have noted a positive change in this direction, with an increasing tendency to recognize the importance of HR in strategic decision-making. An increase in corporate membership in particular professional associations is another good indicator of this tendency.
- **A shortage of academic programs in HRM** reflects a low level of awareness regarding this sphere in Georgia. Some educational institutions perceive HRM as a sub-discipline of psychology. In some instances, and more correctly, HRM is taught under business administration programs. However, ideally, the subject should be considered as a separate discipline at the intersection of different fields. As a result, there is a lack of HRM professionals on the market that can deal with emerging market

demand regarding optimizing HRM services. HR professionals' knowledge is mainly obtained through on-the-job training and practical experience rather than academic degrees. Despite the positive steps taken by universities to include HRM in their curricula, some interviewees have criticized these courses as lacking in professionalism, which may lead to a loss of trust among potential students. The experts in the industry propose that vocational education systems should focus on covering the administrative aspects of HR management, while academic programs should be designed to produce higher-level HR professionals.

- **Human capital shortage** was mentioned to be another barrier to developing this business activity. The lack of availability of human resources on the market has become even more visible recently, as the borders have been opened and labor migration to the EU/US has intensified. Some industry players further noted that to retain the available workforce, companies often increase their wage offerings, raising average wage levels in the country, which according to industry experts, is an inadequate solution that demands the intervention of HR specialists. As Generation Z has entered the job market, they have brought about a paradigm shift in employment practices with their unique values and priorities, including work environment, meaningful work, diversity, and inclusivity. To retain this generation in the workplace, a new approach is required. Besides, increased labor cost might adversely impact business development in Georgia, including the development of HRM business activity. To address this barrier, a strategic vision on human capital development for the country is required, as industry representatives claim.
- Some business players also outline the need to introduce HRM service qualification requirements. Professional standards are understood as the main precondition to overcoming this business activity's ongoing challenges. In this direction, HR Professionals Association periodically organizes meetings with a large pool of industry players. The main motivation of these meetings are to form working groups and to draft HRM professional standards. Recently, a comprehensive matrix has been formulated, outlining the competencies and responsibilities expected from HR professionals. A virtual forum, scheduled for May 2023, aims to further elicit feedback from sphere stakeholders and obtain their validation to finalize this process. It is worth mentioning that there is a disparity of viewpoints among the HR specialists, and a consensus has yet to be reached in this direction. Some experts argue that the local competencies are insufficient to develop adequate standards despite abundant global experience. Thus, they propose insufficient mobilizing adequate funding and procuring consulting services from international companies with extensive experience in professional standards. Interestingly, some service providers claim that in the constantly changing context, standardizing this business activity at all will be useless.

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

The level of competition in this business activity has been increasing due to the entry of new consultancy firms and independent HR professionals into the market. Some sector specialists contend that increased competition will improve service delivery standards. Still, the sales of Georgian HRM companies or individual consultants are generally network-based. The business activity does not have huge business players. However, some firms, such as Insource, Employment Agency HR (hr.ge), Adelante, 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. Nevertheless, some industry specialists argue that the increasing number of professionals on the market does not necessarily translate into better quality services. Therefore, there is a shortage of high-level professionals, and the lack of standardized quality measurement exacerbates this issue. It is vital to establish qualification standards to ensure quality services provision on the market.

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 National Association for Human Resources of Georgia, both of which aim to spread industry-specific knowledge and encourage Georgian HR specialists to grow. Yet another interesting initiative in this business activity is the HR Professionals Association (HRPA), a membership-based organization for professionals in the sphere. The organization provides its members professional development, advocacy, and networking services. The HRPA also supports the employability of future talents of the sphere. The association has around 350 members, which is more than a twofold increase compared to the previous reporting period. Significantly, the association currently engages 30 corporate members.

At present, according to the evaluations by interviewed private sector representatives, Georgian HRM providers, at large, do not have the potential for global expansion as they are unable to offer added value to foreign HRM markets. Furthermore, Georgian companies also do not possess incentives for export orientation, considering the fast-growing demand for HRM services domestically. Knowledge and skills that are the most applied in the Georgian HRM market mainly relate to HR administration - HRM service that manages employee contracts, agreements, and personal information, thus is regulatory regime-specific and inflexible to export.

Regarding export potential, many interviewed respondents highlight that the production, implementation, and management of digital tools for HRM (such as HRM software) might be more susceptible to global market penetration. There are some examples of such digital tools being created in Georgia such as self.ge – HRM software providing e-management of different administrative processes, employee timekeeping, and managing vacations and schedules. Currently, the company is expanding solely on the Georgian market, with plans to penetrate different foreign markets without significant experience in digitalizing the HRM processes. Furthermore, there is a growing trend of transitioning from static job search platforms to more dynamic ones. Several new players have emerged in this market, such as Awork.ge, Motivation.ge, and Sfero.ge, among others, as recommended by industry experts. These platforms provide more dynamic job search capabilities that are more aligned with the preferences of the younger generation. Despite their potential, their services have not yet been fully developed to compete in international markets. Overall, most participants outlined that, once properly developed, digitalization of HRM direction has the potential for value generation, and its further advancement will 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. There is also a growing demand from international companies to open their offices in Georgia, particularly after the pandemic. In general, HRM outsourcing services are mostly utilized by the private sector in Georgia, and the precedents of partnership with the public sector were not identified.

The above-described 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)

CRM business activity is nascent in the Georgian context. Nevertheless, it has already shown promising signs in terms of growth and job creation. Field representatives constantly expand their local and international presence, add new service directions, and penetrate foreign markets.

New round of conducted interviews with the private sector indicates that in 2022 revenues of this business activity representatives grew moderately. There was an increase in local demand, while certain foreign partnerships oriented at Russian or Russian-speaking markets were suspended due to

the war in Ukraine. Nevertheless, this business activity has shown resilience towards recent exogenous shocks.

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

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

Georgia's CRM market is still a fraction of its potential size. Nevertheless, competition between industry representatives is growing with the passage of time. For instance, the market has recently become more saturated as two new international players – Concentrix and Teleperformance – launched their operations in Georgia. Even though the higher saturation of this market serves the best interests of the sphere, it increases scarcity of available resources, especially in terms of qualified labor proficient in necessary foreign languages, such as German.

Thus, workforce availability remains a central challenge for a further upgrade of CRM business activity in the Georgian context. Besides growing competition between industry representatives, other factors contribute to workforce scarcity, such as increased demand for tourism services in the country, which has created additional jobs for German and English-speaking tour guides. Even though these jobs are more seasonal, they still disturb the sustainability of operations for international CRM companies. Increase in labor costs is further driven by the recent strong appreciation tendencies of the Georgian Lari, considering that most international players have their revenues in foreign currencies but give out salaries only in local GEL.

To exploit its full potential, as private sector representatives report, there is a need to have a strategic vision regarding effective ways of workforce recruitment and training for CRM. Even though some operators attempt to train their workforce themselves, there is a comprehensive strategy needed in place at the level of state on how to develop labor force competencies to respond to industry needs in the future.

In this regard, CRM business activity would significantly benefit partnering with the public sector. So far, such collaboration instances have been mainly sporadic and unrealized. For instance, as a representative of one of the CRM operators cited, their cooperation with public entities to integrate the CRM skills component into the Georgian VET curricula was hampered because of bureaucratic difficulties and due to a lack of qualified teachers who would train the workforce. Nevertheless, better cooperation with the public sector has the potential to further improve social outcomes as, for example, some of the interviewed companies declare their willingness to employ vulnerable social groups such as PwDs.

To catalyze the upgrade of this business activity, several additional interventions were identified as necessary by the private sector:

- The business activity necessitates intensive **awareness raising campaign** in the public. It would be beneficial if the public sector was also contributed to information-sharing efforts regarding CRM employment opportunities to the population. This would potentially prepare the necessary talent pool for future employees. In this regard, it has been stated that more businesses acknowledge the significance of outsourcing their customer relations on the local market, nevertheless, awareness of the labor force regarding CRM as an independent career path is still low across Georgia.
- Representatives of this sphere also need improved access to **quality infrastructure**. Primarily, a more robust internet connection was highlighted as essential. Additionally, CRM operators grow their demand for class A office spaces, office infrastructure, and reliable maintenance services (e.g., air conditioning systems). Meaningfully, the shortage of high-quality office spaces is a prominent problem both in Tbilisi and in the regions. Quality infrastructure is considered an essential prerequisite to ensure stable management of routine operations in this business activity.
- 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.
- Lastly, **political instability** was stated as another hindering factor for international CRM operators. First, in investor relations, internal political instability creates difficulty while negotiating as investors tend to become more hesitant to grow their interest in the unstable political environment. Moreover, it creates difficulty in routine operations as demonstrations disturb the operations of branches located in the central parts of Tbilisi.

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

6. CROSS-CUTTING SECTORS

SECTOR SUMMARY

Cross-cutting sectors analyzed in this report – ICT, e-commerce and transport and logistics -recorded different trends of growth in recent years. The main difference is that while the pandemic-related restrictions boosted ICT and e-commerce value chains, the pandemic caused significant decline of transport and logistics value chain. In 2022, alongside with recovery from the pandemic, the key factor affecting the growth of cross-cutting sectors in Georgia was the war in Ukraine.

ICT software value chain recorded remarkable growth in 2022, with its turnover growing by YoY 339.4%, employment growing by YoY 178.3%, and so on. Even though in 2020 the ICT software value chain declined due to a fall in demand and supply chain disruptions caused by the COVID-19 pandemic, at the same time, pandemic-related nationwide stay-at-home directives have boosted demand for ICT technologies. So, when general demand rebounded in 2022, usage of technologies and digitalization trends remained strong even as restrictions were lifted. Other country-specific key factors that have contributed to the high growth of this value chain in 2022 were tax incentives for international ICT companies introduced by the GoG, which resulted in the entrance of a number of big companies to Georgia, and the war in Ukraine, which created high inflow of skilled workers from Russia, Ukraine, and Belarus to Georgia. ICT hardware value chain in Georgia is considerably smaller compared to ICT software. In 2022, the turnover of ICT hardware also experienced growth, though not as high as ICT software – a turnover of GEL 1.9 million was 66.1% higher compared to 2021.

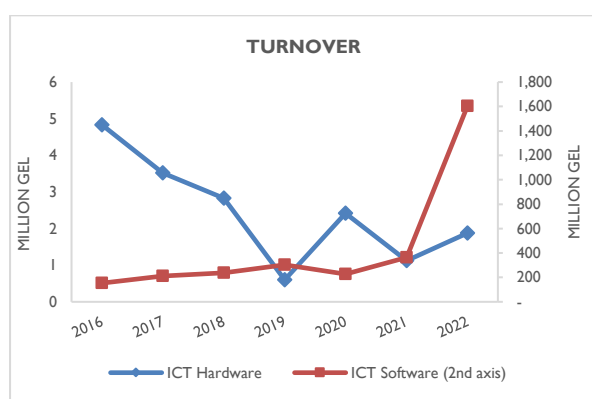
The pace of growth of the e-commerce value chain, which was boosted by the pandemic-related restrictions and continued high growth even with the loosening of restrictions in 2021, has slowed down in 2022. Though the base for growth was already high, and in absolute terms, the value chain remains at the high numbers that it has been able to reach during previous years. The total number of e-commerce transactions in 2022 increased by YoY 3.9% and reached 101.5 million. Meanwhile, the total value of e-commerce transactions in 2022 increased by YoY 2.1% and amounted to GEL 6.5 billion. Interestingly, the usage of foreign cards in Georgia, as well as the number of transactions made via Georgian cards outside the country – both numbers almost doubled in 2022, which is related to the inflow of immigrants from Russia, Ukraine, and Belarus to Georgia after the beginning of the war in Ukraine. Following the approval of the new gambling restrictions by the Parliament of Georgia in December 2021, both number and volume of gambling transactions declined in 2022, by YoY 14.5% and 9.6% respectively.

The transport and logistics value chain, which is the largest among all cross-cutting value chains, was heavily affected by the pandemic and the subsequent economic rebound was also strongly reflected in this value chain. In 2022, the key indicators of the value chain recorded significant growth (in many cases stronger than in 2021)- the growth rate of the transport sector' GDP was YoY 28.4%, the turnover of the value chain increased by YoY 36.8%. While the growth in transport and logistics value chain in 2021 was mainly attributed to the base effect, the growth in 2022 was mainly stimulated by the war in Ukraine. The outbreak of Russia's war in Ukraine, led to the redirection of transport routes away from countries involved in the conflict, with Georgia becoming an alternative transit route, increasing the demand for transport and logistics services in the country. Trade in the transport and logistics sector, which was heavily impacted by the pandemic, also showed impressive growth in the first half of 2022. Other countries in the region except Ukraine have also experienced high growth in the trade of transport services, which can also be explained by the redirection of transport routes that were passing through Ukraine and Russia towards those neighboring countries.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

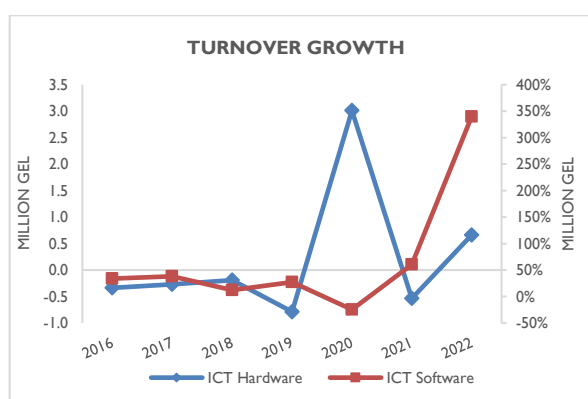
In Georgia ICT software value chain, which is considerably larger than the ICT hardware²⁸ value chain, recorded remarkable growth in 2022. Due to a fall in demand and supply chain disruptions caused by the COVID-19 pandemic, the ICT software value chain declined in 2020. Though, at the same time, pandemic-related nationwide stay-at-home directives have boosted demand for ICT technologies. According to Geostat’s “Indicators of using information and communication technologies (ICT) in households” report, 88.4% of the Georgian population had internet access in 2022, which is 9.1 pp higher compared to pre-pandemic indicator (79.3% in 2019), and even 2.3 pp higher compared to the last year (86.1% in 2021). So, when general demand rebounded in 2022, usage of technologies and digitalization trends remained strong even as restrictions were lifted. As a result, overall, the pandemic has boosted the ICT value chain. Other country-specific key factors that have contributed to the high growth of this value chain in Georgia were tax incentives for international ICT companies introduced by the GoG, which resulted in the entrance of a number of big companies to Georgia, and the war in Ukraine, which created high inflow of skilled workers from Russia, Ukraine, and Belarus to Georgia.

Chart 6.1 Turnover of the ICT value chain



Source: National Statistics Office of Georgia

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



In Georgia, the ICT software value chain reached a turnover of GEL 1.6 billion in 2022, while in contrast, the ICT hardware value chain amounted to a turnover of just GEL 1.9 million, highlighting the difference in size between the two value chains.

Before 2020, the turnover of ICT software was growing steadily, recording a growth rate of 27.3% in 2019, but the pandemic caused the value chain’s turnover to decrease by 24.7% in 2020. The value chain has very quickly recovered from the pandemic. Even in 2021, the turnover of the ICT software grew by 60.4%, not only recovering but even taking ahead of a pre-pandemic performance by 21.0% (compared to 2019). In 2022, Georgia’s ICT software value chain reached 1.6 billion and scored record-high YoY growth of 339.4%. Moreover, ICT software value chain turnover in 2022 was 6 times higher compared to turnover in 2020.

In 2022, the turnover of ICT hardware also experienced growth, though not as high as ICT software – a turnover of GEL 1.9 million was 66.1% higher compared to 2021. In general, ICT hardware often moves quite differently from ICT software. ICT hardware turnover has been declining before the pandemic, though has sharply increased (by YoY 301.1%) in 2020. In 2021, the turnover of ICT again decreased by YoY 53.3% to GEL 1.1 million. Generally, ICT hardware is characterized by fast

²⁸ The detailed list of the HS codes of respective equipment is given in [Annex I](#).

fluctuations in turnover growth from one year to another, which can be explained by the fact that this value chain is very small in absolute terms, and even small changes in absolute value are expressed in high fluctuations in growth.

Chart 6.3 Employment in the ICT value chain

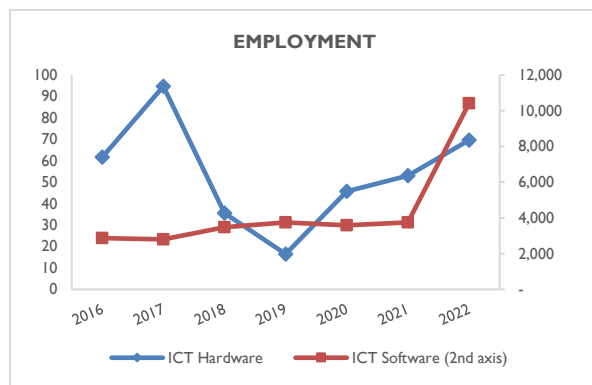
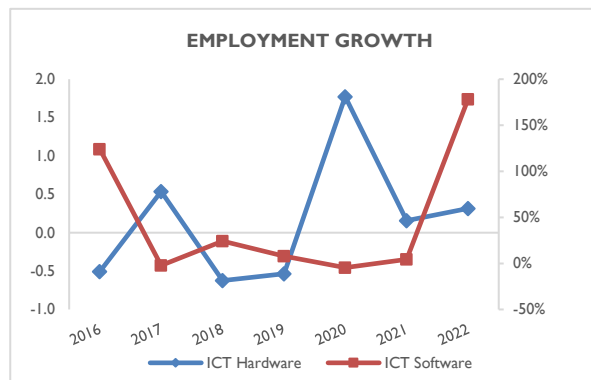


Chart 6.4 Growth rate of the ICT value chain's employment



Source: National Statistics Office of Georgia

The average quarterly employment in the ICT software value chain reached 10,418 in 2022, 178.3% higher than in 2021. In 2021, YoY growth in employment in ICT software was only 4.4%, while in 2020 employment declined by 4.6%. Employment in the ICT hardware value chain is generally very low compared to ICT software and with such a remarkable employment growth in ICT software, this difference further increased in 2022. Even though average quarterly employment in the ICT hardware increased by YoY 66.1% in 2022, in absolute terms it reached only 70 employees, which is higher than the average employment this value chain has recorded during the past 5 years, but still about 150 times less compared to number of employees in ICT software.

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

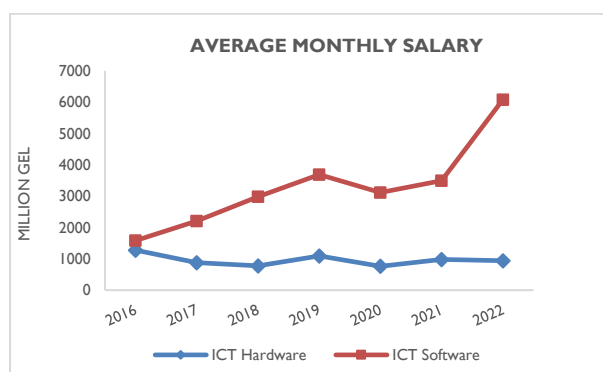
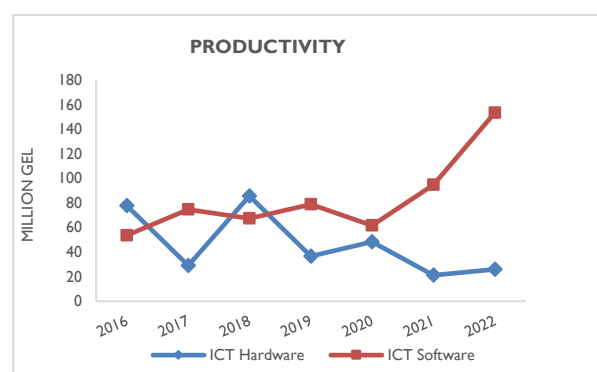


Chart 6.6 Productivity for the ICT value chain, divided by software and hardware



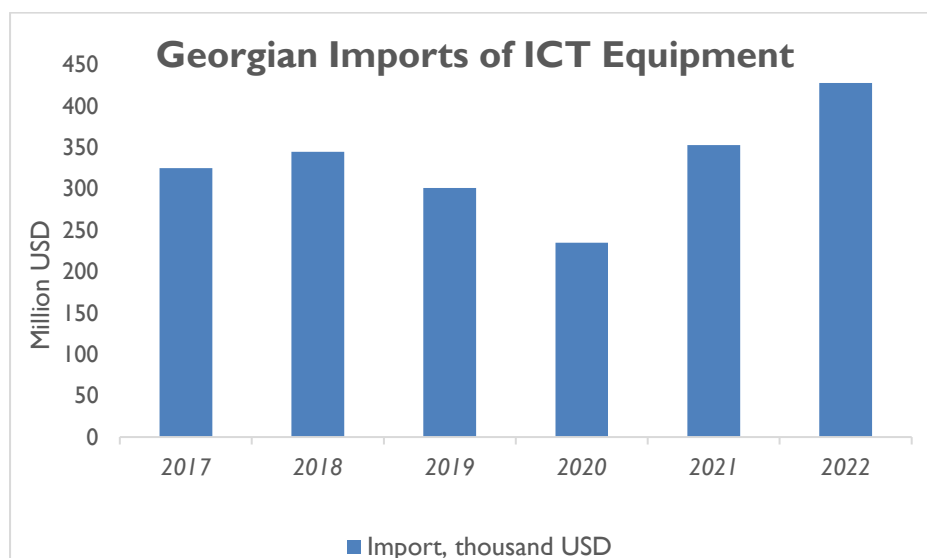
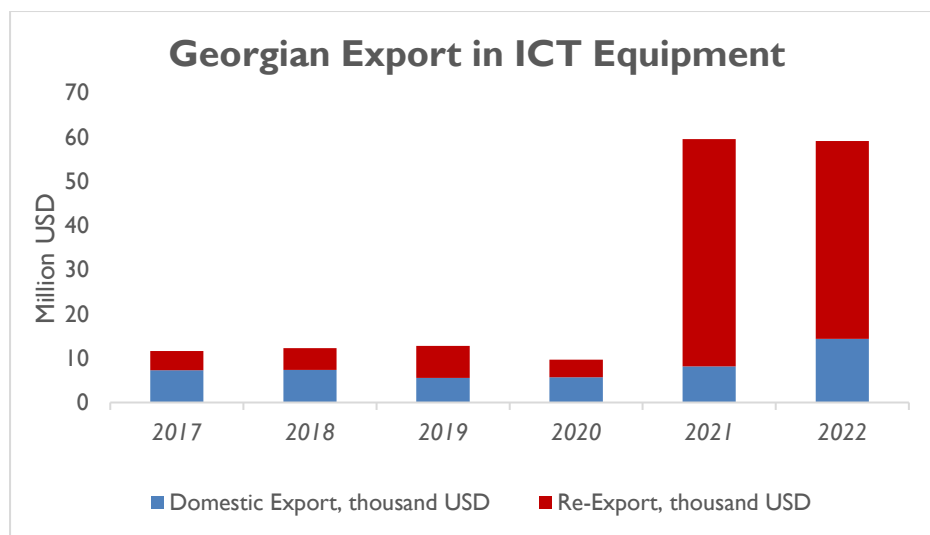
Source: National Statistics Office of Georgia

Like other indicators of ICT software, the average monthly salary in the VC has also picked to its highest at GEL 6,082 in 2022 (73.8% YoY growth). This rise in salary is again related to the new companies entering the market and the increased demand for workers streaming from them. To meet the increased competition for the workers, the firms are forced to raise their salaries. Meanwhile, the average monthly salary in ICT hardware in 2022 slightly decreased by 4.4% down to GEL 938. The

average monthly salary in ICT software is 6.5 times higher compared to the average monthly salary in ICT hardware. Besides, the average monthly salary in ICT software is higher compared to any other value chain that has been analyzed in this report and 3.8 higher compared to Georgia’s total average (average of all economic sectors) monthly salary (GEL 1 592) in 2022.

Likewise, the productivity in ICT software significantly increased compared to the previous year and peaked to 153 in 2022. The productivity in ICT hardware is much less – only 26 in 2022,

Chart 6.7 Georgian exports and imports of ICT equipment



Source: National Statistics Office of Georgia

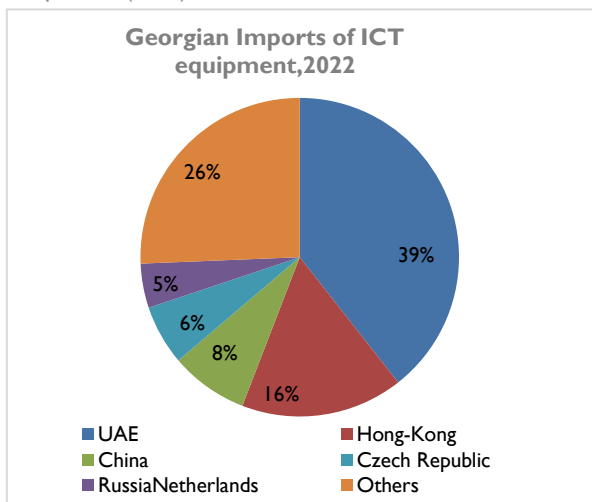
Georgia is primarily an importer of ICT equipment rather than an exporter. In 2022, Georgian imports increased by 21.3% and reached the highest value for the previous years - USD 427.6 million. Georgian exports in 2022 remained around the same level in 2021 (decreased by 0.7%) and amounted to USD 59.1 million, which was seven times lower compared to the imports. Out of total exports, 75.7% were re-exports in 2022.

It should be noted that trade in Georgia recorded a high growth during the previous year – in 2021 the value of Georgian imports of ICT equipment increased by 47.7% compared to 2020, and the value of ICT exports increased by YoY 516.1%. This extraordinarily high increase in exports in 2021 was mainly due to a jump in re-exports of ICT equipment. This is highly attributed to an abnormal increase in digital processing unit re-export from Georgia to Ukraine and Azerbaijan.

39% of imported ICT equipment in Georgia in 2022 came from the United Arab Emirates (UAE), 16% from Hong Kong, 8% from China, 6% from the Czech Republic, 5% from Russia, and 26% from other countries. Interestingly, in 2021 the share of Russia in imports of ICT to Georgia was 11%, so in 2022, the share of Russia decreased by 6 pp to 5%, which is explained by the war in Ukraine and corresponding economic sanctions on Russia. Moreover, in 2022 the highest share of ICT equipment was imported to Georgia from Hong Kong, though in 2022, UAE had a 23 pp higher share than Hong Kong. It can be assumed that if ongoing negotiations between the governments of Georgia and UAE on establishing a comprehensive economic cooperation agreement, which defines the area of the free economy between the countries, will end successfully, the imports from UAE will further increase in the upcoming years.²⁹

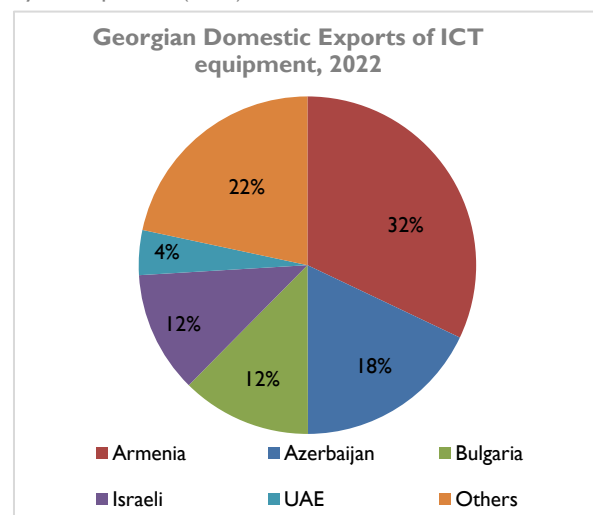
Unlike the imports, the domestic exports are predominantly concentrated among countries with closer geographic proximity to Georgia, where over the past year (January – December 2022) 32% of ICT equipment exported went to Armenia, 18% to Azerbaijan, 12% to Bulgaria, 12% to Israel, 4% to UAE, and 22% to other countries. In 2021, Ukraine was also among Georgia's top destinations of ICT equipment exports, accounting for 11% of exports. Though as the war in Ukraine started in February 2022, exports from Georgia to Ukraine were halted.

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



Source: National Statistics Office of Georgia

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

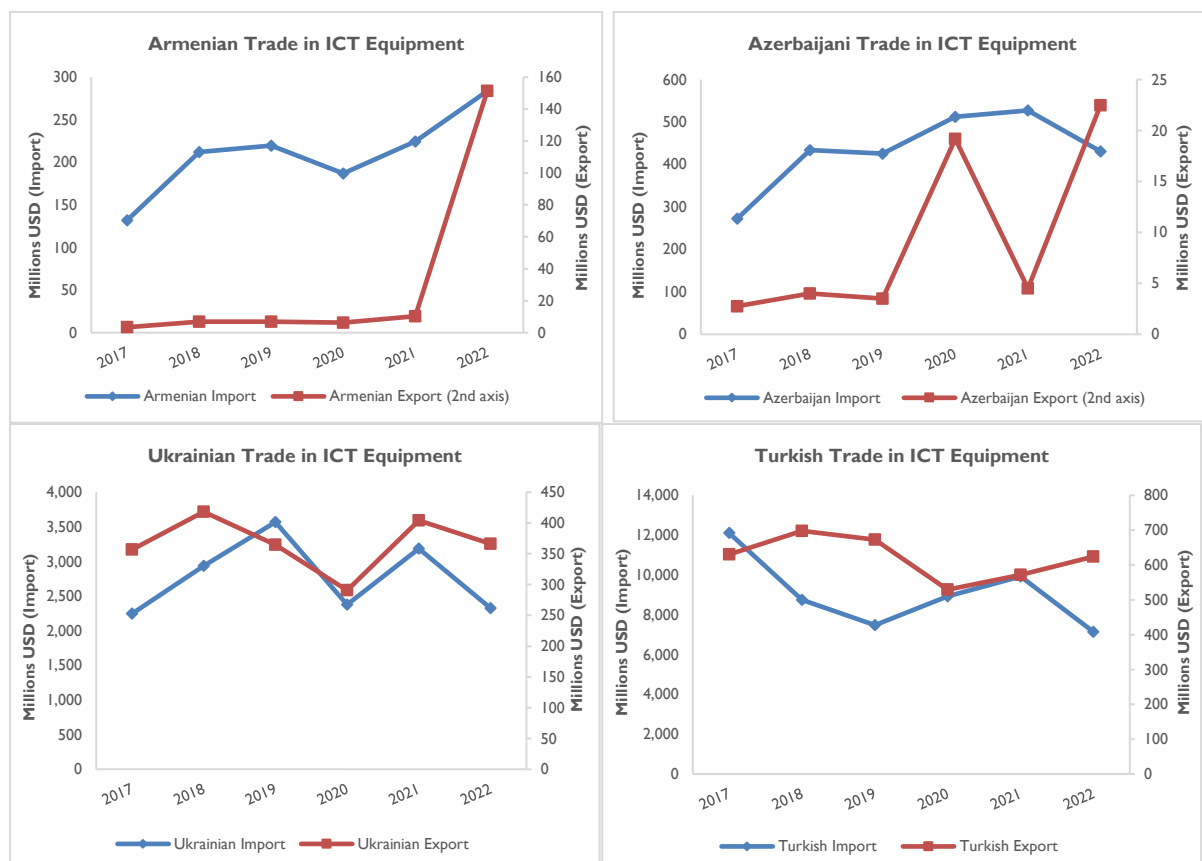


²⁹ <https://ltv.ge/news/levan-davitashvili-warmatebit-sruldeba-molaparakebebi-arabetis-gaertinebul-saamiroebtan-romelic-yovlismomcveli-ekonomikuri-tanamshromlobis-shetankhmebaa/>

Other countries in the region are primarily importers of ICT equipment rather than exporters. Turkey is the largest importer and exporter of ICT equipment among all 4 countries. Though imports of ICT equipment in Turkey have significantly decreased (by 28%) in 2022 compared to the previous year. This can be explained by the currency crisis in Turkey, as with the weakening of the Turkish currency, the costs of imports for Turkish businesses went high. In 2022 Ukraine, the region’s second-largest country in ICT equipment trade, recorded a decline of imports and exports by 26.9% and 9.4%, respectively, due to the ongoing war in the country.

Meanwhile, imports and exports of ICT equipment in Armenia increased in 2022. Imports have increased by 26.3%, while the growth in exports was extraordinary – 1379.7%. In general, the ICT sector in Armenia has recorded significant growth in recent years. The growth was further fueled in 2022 as following Russia’s invasion of Ukraine thousands of new foreign high-skilled IT workers entered the country, and approximately 500 Russian tech companies relocated or opened branches in Armenia following Russia’s invasion of Ukraine.³⁰ Despite high export growth, Armenian imports of ICT equipment were still higher than exports. Azerbaijan has also recorded high growth of ICT equipment exports in 2022 (397.8% YoY), though the country still has the lowest value of ICT equipment exports among the four countries of the region. In 2022 imports declined by YoY 18.3% in Azerbaijan. ICT equipment imports in Azerbaijan are 51.9% higher compared to Armenia, though significantly lower compared to Ukraine and Turkey.

Chart 6.10 Regional trade patterns in the ICT equipment



Source: UN Comtrade³¹

³⁰ <https://www.trade.gov/country-commercial-guides/armenia-information-and-telecommunication-technology>
³¹ Q1 2020 values for Armenia trade presents sum of January and February 2020, since trade for March is not reported on UN Comtrade. In addition, Q4 2020 values for Ukrainian trade presents sum of October and December 2020, since trade for November is not reported for Ukraine on UN Comtrade

Overview of the Existing Challenges and Opportunities

During the discussion with ICT company representatives, the issue of intense competition for IT talent emerged as a central concern. The scarcity of skilled professionals in the industry has far-reaching implications for the overall economic performance of the market. Another significant topic of interest was understanding the impact of the ongoing Ukraine war on the challenges the ICT sector faced.

Quantitative analysis revealed two contrasting realities for companies operating in Georgia, depending on their focus on local or international markets. Local companies expressed their grievances about heightened competition and unfavorable market conditions as they struggle to carve out a market niche that allows them to survive. On the other hand, international companies, unburdened by significant obstacles, are thriving by tapping into the global market.

One of the consequences of the favorable conditions offered by international companies is the considerable outflow of employees from local companies. Higher salaries and better working conditions in these international firms entice skilled professionals away from their local counterparts. This employee drain poses a significant challenge for local companies, as even efforts to train and develop new talent are often in vain, as many individuals leave for international opportunities within a few months.

To address this issue, the government must step in and support local brands in finding niche markets for Georgian-based ICT companies. For this government should take specific steps. This includes identifying potential market segments, providing financial assistance, collaborating with industry experts, fostering innovation, and promoting Georgian ICT products internationally. Additionally, the government should prioritize capacity building, encourage new ideas, and help develop effective business models for international competition. By implementing these measures, the government can create a conducive environment, mitigate talent outflow, and foster the sustainability of the ICT sector, driving overall economic growth in the country.

An important upcoming event in this regard is the Digital Transformation Week scheduled for June. This event will serve as a valuable platform for collaboration and exchange of ideas, enabling stakeholders to discuss and strategize ways to accelerate Georgia's digital agenda.

The value chain of e-commerce encompasses various stakeholders and processes involved in the online shopping experience. In the context of Georgia, the COVID-19 pandemic has accelerated the growth of e-commerce and highlighted challenges and opportunities within the industry.

The challenges identified include suppliers, producers, vendors, warehouses, logistics, transportation businesses, distribution and fulfillment centers, and the end consumer. Key obstacles are appropriate regulations, qualified personnel, support from international donors and local banks, and trust-building measures.

One of the crucial developments is the discussion of a bill on e-commerce by the parliamentary committee. This bill aims to define e-commerce, formalize customer and online shop agreements, and establish regulations for fraud cases and the responsibilities of intermediate organizations. It addresses concerns such as shadow Facebook purchases and aims to increase trust in the industry.

The law on the protection of consumer rights passed without sufficient communication with the private sector has raised uncertainties and concerns. Issues regarding the 14-day return policy, classification of products, and involvement of relevant organizations like the Competition Agency, National Bank of Georgia, and Ministry of Health, Labor, and Social Affairs were highlighted. Stakeholders agree on the need to refine the law and engage in discussions before its passing.

Efforts are being made to enhance e-commerce education and skills development. A new tutorial on e-commerce, developed in collaboration with USAID, will be launched on Udemy, focusing on creating and managing e-commerce shops in consumer goods, restaurant, and hotel businesses.

The increasing e-commerce trend in Georgia is driven by new small companies entering the market and the expansion of existing large companies. Interest from local and international retail companies in e-commerce is also expected to contribute to future industry growth. However, challenges such as user experience, information management, delivery time, and trust issues must be addressed to unlock the industry's full potential.

Initiatives are underway to tackle these challenges. The establishment of the E-commerce Academy aims to train professionals in e-commerce strategy management, digital marketing, and logistics. A trust mark project, audits, and e-commerce day events are being implemented to enhance trust in e-commerce platforms. Introducing a super-app by TNET (TBC Group) aims to improve user experience by providing a unified platform with various functionalities.

The fulfillment infrastructure plays a crucial role in the e-commerce value chain. Fulfillment centers, such as the one planned by FedEx near the airport highway, handle the processing and shipping of products, reducing the burden on merchants and improving operations, including cross-border acquisition.

The transport and logistics industry plays a vital role in facilitating trade and supporting various sectors of the economy. However, recent events like the COVID-19 pandemic and the war in Ukraine have posed challenges and opportunities for the industry. The war in Ukraine resulted in overloaded logistics, increased freight turnover, and higher fees due to changes in trajectories and global economic conditions.

The industry focuses on regulations for increased transport potential, developed infrastructure, and rational processes to capture new opportunities. Adapting to fluctuating demand, ensuring safety and efficiency, addressing ethical considerations, and bridging international standards discrepancies are identified as key challenges. Efforts to improve transit movements are ongoing, addressing logistical challenges, regulatory compliance, and stakeholder coordination.

To address the qualification deficit, the industry emphasizes dual vocation education programs and short-term training to enhance expertise in logistics. Achieving a competitive advantage is crucial, with price and time as key factors influencing transport route choices. ISO 9001 certification for quality management is advocated, but funding remains a challenge.

The transport and logistics development strategy for 2023-2030 is seen as practical and focused on industry issues, with potential to bring significant improvements. The number of trailers used for freight delivery impacts associated fees, influenced by factors such as the Turkish earthquake and fluctuations in Georgian-owned trailers. Short-term courses and collaboration with business associations are proposed to improve logistics education and training.

The ongoing war in Ukraine has had minimal impact on air shipment operations in Georgia, primarily focused on transit operations. Custom regulations pose impediments to the air cargo business, requiring resolution at a higher level.

Constructing additional air cargo terminals in Kutaisi and Batumi is deemed financially unfeasible due to low cargo volume and the geographical distance between major cities. Tbilisi remains the primary hub for cargo transportation and logistics due to the concentration of economic activity.

The industry aims to adapt to challenges, seize opportunities, and improve efficiency and competitiveness through infrastructure development, skilled workforce, and streamlined processes.

Information and Communication Technologies (ICT) development holds immense potential for transforming the Georgian economy and society. It can achieve this by reducing information and transaction costs, fostering collaboration to enhance the efficiency of financial products, driving innovation, and improving access to education and essential services. The ICT industry, encompassing telecommunications operators, computer and software producers, electronic equipment manufacturers, and others, is expected to play a crucial role in the country's economy. Given that innovation is essential across industries, service production processes, and public sector tasks, ICT emerges as a primary driver of innovation.

During discussions with representatives from ICT companies, the high competition for IT human resources emerged as a significant concern, impacting various economic aspects of the market. Another area of interest was the potential effects of the Ukraine war on existing challenges. Quantitative analysis revealed two contrasting realities for companies focusing on local and international markets. Local companies expressed concerns about intensified competition and unfavorable market conditions while striving to find a niche that would enable their survival. On the other hand, international companies encountered fewer obstacles and thrived by concentrating on the global market.

This qualitative analysis is based on individual interviews and focus group meetings with key stakeholders from the private sector, large-sized large companies, and SMEs, as well as representatives from the ICT cluster. The study identified key obstacles and opportunities within the ICT value chain. The following summary provides an overview of these findings:

Sectoral Skills Organization for ICT Sector to be created until the spring

In our previous publication, we discussed the collaborative efforts of the ICT cluster, associations, and member companies in developing a model to support educational organizations in creating practical approaches that align with the current needs of the business sector. The upcoming Sectoral Skills Organization (SSO) will include sector business associations, which will play a crucial role in identifying the necessary skills for the sector and implementing them into the study programs.

According to ICT cluster representatives, this project's successful outcome relies on a specific sequence of actions. Firstly, establishing an effective ICT education program is essential to produce a qualified workforce for the industry. The education program also needs a comprehensive description of the required professions and profiles. Simultaneously, industry representatives must understand the type of economy these professionals are being prepared for, enabling them to select relevant disciplines and profiles. In small countries like Georgia, the identification of profiles should result from a broad dialogue among stakeholders. The description of professions has been developed based on the experience of the United States.

Recently, with the assistance of USAID, the initiative group has taken steps to formalize the creation of the SSO. Training sessions on the functions of the SSO will be conducted, and two packages of standards will be developed within the project. These packages will encompass both professional and educational standards. The functions of the SSO will be piloted to evaluate their effectiveness. The entire process is expected to be completed by spring.

However, while the cluster representatives are motivated to achieve the project's goals, they acknowledge that it does not address the underlying systematic problem. As the qualifications of local specialists increase, it is anticipated that they will be in higher demand from international companies. This may lead to these specialists leaving the country or working remotely from Georgia for foreign companies.

The Transformation of Auction.ge

The Ministry of Economy and Sustainable Development is actively collaborating with the digital transformation consortium to drive forward their initiatives. Recently, an important milestone has been reached with the completion of research and analysis on how to transform auction.ge, which is currently under the control of the National Agency of State Property (NASP), in a manner that involves the private sector.

Under the new approach, the NASP will continue to determine which properties will be auctioned and when and establish security measures and other relevant terms. However, the organization and management of the auction process will be shifted to the private sector. This strategic shift aims to create opportunities for private sector involvement and prevent the monopolization of auction processes by the government.

The initiative seeks to foster increased financial opportunities and promote fair competition by involving the private sector in the auction process. This move will enable private entities to actively participate in the auction process actively, bringing in new perspectives, expertise, and efficiency. Moreover, the involvement of the private sector will contribute to a more dynamic and transparent auction system, benefiting both the government and potential bidders.

The second Digital Transformation Week is to be held in June

As outlined in our previous publication, the Minister of Economy and Sustainable Development has played a crucial role in establishing the Digital Transformation Council. This council comprises representatives from various ministries and agencies and business and consultancy companies. The primary objective of this council is to drive the digital transformation efforts in Georgia.

The second Digital Transformation Week will take place in June, serving as a significant platform for discussions and knowledge-sharing. The focal point of this event will be exploring the IT niches in which Georgia can become globally competitive. The aim is to identify areas where Georgia can leverage its strengths and capabilities to excel internationally.

Representatives from the ICT cluster have collaborated with USAID to develop a comprehensive Public-Private Dialogue cycle process. The initial results of this dialogue process will be presented at the upcoming conference, focusing on key topics such as identifying potential niches, discussing the necessary market transformation, and determining the ecosystem requirements for successful digital transformation.

Through this conference and ongoing discussions, the goal is to foster a collaborative environment where the public and private sectors can work together to define strategic directions, formulate policies, and implement initiatives to drive Georgia's digital transformation agenda. By leveraging the expertise and insights from various stakeholders, Georgia can position itself as a competitive player in the global digital landscape, unlocking new opportunities for economic growth, innovation, and social development.

The high outflow of employees from local market-oriented companies

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

Furthermore, lately, local companies have observed another trend of employees leaving for international companies such as Microsoft, Google, and others. According to them, the higher standards of living abroad are an important reason for youngsters to leave the country, where they will have much better perspectives of development. There is an even more significant outflow of IT workers from public institutions, which can lead to substantial problems for public services. At the same time, local ICT companies see the opportunity in this process as they can offer them their services.

The local companies do not see a solution to this problem in training new human resources, as most leave after a few months. There is an ongoing debate for ways to keep the workforce, and one of them is giving a share in the company. Others suggest that companies should hire employees and outsource them abroad. However, this would lead to severe consequences for the country. As the ICT companies oriented on the Georgian market shift their resources toward the international markets, the price of ICT products for domestic companies operating in different fields of the economy will rise significantly. Their purchasing power makes it impossible for them to purchase highly-priced ICT products. Without proper digitalization, domestic companies of different industries will be unable to be competitive, leading to an even smaller economy. The ICT cluster representatives see the solution in the Estonian ICT development model, which means creating the ICT products locally and selling them abroad. According to the ICT cluster, to successfully implement this model and maximize its benefits for the country's economy, the government should support local ICT brands in finding a niche for Georgian ICT products. According to the ICT cluster, access to finance is a critical factor in enabling local companies to develop and market their high-quality software products. With adequate financial support, these companies can invest in research and development, hire skilled professionals, and implement effective marketing strategies to penetrate international markets. By facilitating access to finance, the government can further empower local ICT brands, enhance their competitiveness on a global scale, and ultimately drive economic growth.

The Impact of the Ukraine War on the ICT Sector

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

Experts argued that the shortage of qualified workforce could be filled by migrants, mainly from Ukraine, which has a developed ICT industry. The ICT cluster representatives report two opposite trends concerning the ICT workforce inflow into Georgia. On the one hand, companies observed the increased demand from migrants (Mainly from Russian) for announced vacancies. Moreover, in some cases, migrants actively offered their services without the job announcement. Some argued that migrants brought their businesses to Georgia, while others work remotely. Migrants even started to hire the employees themselves. According to Cluster representatives, the differences in ICT fields can explain the two observations – migrants demand hardware IT and engineering solutions positions (IT infrastructure engineers, Network infrastructure solution engineers, Cybersecurity specialists, etc.) rather than software ones.

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

International companies observed a similar effect. Due to the global financial instability caused by the Ukraine war, many companies decided to economize, decreasing investments. Still, according to the international company representative, it was not a long-lasting shock, and annual figures still look good. Another effect for the international companies having the branch in Russia and Ukraine was the dislocation of projects to Georgia due to their proximity, leading to an overload of local employees with projects. During that time, there was a significant increase in programming legacy language Java

stack demand, mainly supplied by Ukraine and Russia. In restricted supply from the conflict zone, the demand for this service shifted toward the Georgian branch.

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

The factors contributing to the average salary increase

The statistics from Geostat show a significant increase in average salary in the field. The above-observed trends can be a reasonable explanation. According to the ICT cluster, the first contributing factor is the flow of employees from low-paying local companies into higher ones. This process increases local companies' pressure to keep at least the fundamental employees by increasing their wages. Furthermore, international companies have observed the shift of ICT branches to Georgia due to conflict. They began hiring and offering competitive salaries as they needed highly qualified labor.

Due to this, some international companies had to increase their salary to keep pace with the market trends leading to significant increases in their input costs

International companies optimistic about the future with few impediments

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

Although optimistic about recent trends and future expectations, international companies still mention some impediments. At the beginning of their international experience, they observed cases of trust as they were fresh on the markets, and there was no information about them. With time and positive feedback, the awareness about the Georgians increased. According to international companies, as the market is too large, they can constantly shift to the next if any company rejects the deal. Some international companies reported the necessity of compliance with the EU regulations as increasingly many companies requested the staff working on their projects to be EU residents. Recently, Georgia has been on the way to complying with EU regulations within the associate membership, but work still needs to be done. According to an international company representative, even the EU officials' announcement that Georgia complies with EU regulations trackable for the clients would be helpful.

The Struggles of local market-oriented Companies

The IT companies operating in the Georgian market emphasize the significant price difference for their services compared to developed countries. This discrepancy makes the international market highly appealing, leading to a growing trend of senior developers shifting their focus to that market. Consequently, the Georgian market becomes less financially attractive, prompting more IT companies to explore outsourcing their services as it becomes tough for them to be profitable. The limited purchasing power of local companies of different industries further exacerbates the challenge of charging competitive prices as they struggle to comprehend why they must accept inadequate rates within the Georgian economic context.

While these companies aspire to become international entities, they recognize that the path to internationalization is not without obstacles. The high costs of entering global markets and finding suitable international partners pose significant challenges. Established international companies already

possess a global customer base and brand recognition, facilitating their entry into new markets. Conversely, companies primarily targeting the Georgian market face numerous hurdles and must invest significant effort and financial resources to earn trust and establish themselves internationally. This divergence in circumstances has led some industry representatives to believe that the existing tax laws are more aligned with the needs of international companies.

To improve the market situation, these representatives propose implementing measures to create a level playing field. Suggestions include equalizing the tax conditions for all IT service providers or facilitating the transformation of Georgian companies into international entities by assisting in finding international partners.

Financial Technology (Fintech) - the new opportunity for growth

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

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

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

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

QR Code Generation to be standardized

According to the Fintech Association, it will be mandatory for all banks to follow the standards for QR code generation when providing QR code payment options. The national bank will establish these standards as it oversees the payment system.

The implementation of standardized QR codes in the payment system offers several benefits. Firstly, it ensures interoperability among banks and payment service providers, allowing customers to make seamless and convenient transactions across various platforms. Standardized QR codes also enhance

security by incorporating encryption and authentication mechanisms, safeguarding sensitive payment information.

The central bank aims to promote a uniform and reliable customer payment experience by setting these QR code generation standards. It provides clarity and consistency for banks and merchants in implementing QR code payment solutions, streamlining the adoption process and reducing potential complications.

CBDC Implementation Underway

The national bank is actively progressing with implementing Central Bank Digital Currency (CBDC). The Fintech Association has outlined the following steps that are anticipated to take place:

1. **Test Version Creation:** The initial stage involves developing a test version of the CBDC. A selection process has been conducted to accomplish this, and several companies have already been shortlisted. The selection will be based on discussions and a Technical assignment. Subsequently, one company will be chosen and contracted to develop the test version further.
2. **Extended Testing Period:** The test version of the CBDC will undergo a comprehensive testing period expected to extend beyond one year. This duration allows for thorough evaluation and refinement of the CBDC's functionality, security, and interoperability.
3. **Cryptocurrency Issuance:** The CBDC will be issued in various components following the successful testing phase. This entails establishing the necessary infrastructure, protocols, and mechanisms for creating, distributing, and managing the CBDC within the designated system.
4. **Live Mode Implementation:** Once all the essential components and systems are in place, the CBDC will transition into live mode. During this stage, individuals and businesses can utilize the CBDC for various financial transactions, including payments, remittances, and settlements.

Close collaboration between the national bank and the selected company responsible for supplying the services is crucial throughout the process. This partnership ensures the smooth and successful execution of the CBDC implementation, encompassing aspects such as technology integration, security measures, and adherence to regulatory requirements.

Digital Post Terminal Popularization Efforts

The head of the fintech association has highlighted the association's involvement in promoting digital post terminals with the support of USAID. These terminals serve as an alternative to traditional post terminals, with the critical distinction that they can be used on mobile phones running the Android operating system.

The mobile version of the post terminal offers several advantages. Unlike the conventional terminals, which require vendors to purchase them from banks and navigate through bureaucratic procedures while taking responsibility for the physical device, the alternative post terminal can be installed as an application on an Android device. Users can link their cards to the application and, once activated by the bank, utilize it as a regular post terminal.

The association's primary goal is to organize regional workshops with business associations responsible for SME sector involvement. These workshops aim to bring together representatives from small and medium-sized enterprises, providing them with valuable insights and knowledge on utilizing

digital post terminals effectively. The association takes the lead in overseeing the implementation of these projects.

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

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

E-Commerce

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

Important to highlight that the Geostat data used in this analysis depicts economic activities only of those enterprises that operate under the NACE code 47.9, "Retail trade not in stores, stalls or markets," the closest statistical classification to e-commerce. Nevertheless, as the qualitative analysis revealed, there might be a number of enterprises in the market engaged in e-commerce but operating within different economic activities covered by the other NACE codes (for example, as a distribution company), making it impossible to distinguish and include their data in our analysis.

The analysis of the e-commerce sector in 2018-2022 uses the transactions via bank cards (VISA, MasterCard, etc.) online. Notably, only some parts (not the whole) of the transactions with bank cards would be part of the turnover, as some corporations are labeled under different sectors. Thus, an assumption is made that the data reflects the non-cash operations of e-commerce companies, and the gambling sector is analyzed separately from the total e-commerce to make more accurate observations.

Unlike most other value chains, e-commerce was boosted by the pandemic-related restrictions. In 2020, the total e-commerce transactions increased by 33.0% in quantity and 37.4% in value compared to 2019. Even with the loosening of restrictions in 2021, the e-commerce value chain maintained high growth as the number of e-commerce transactions increased by YoY 26.4% and the value of those transactions by YoY 43.3%. In 2022, the pace of growth of the e-commerce value chain has slowed down, though the base for growth was already high, and in absolute terms, the value chain remains at the high numbers that it has been able to reach during previous years. The total number of e-commerce transactions in 2022 increased by YoY 3.9% and reached 101.5 million. Meanwhile, the total value of e-commerce transactions in 2022 increased by YoY 2.1% and amounted to GEL 6.5 billion.

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

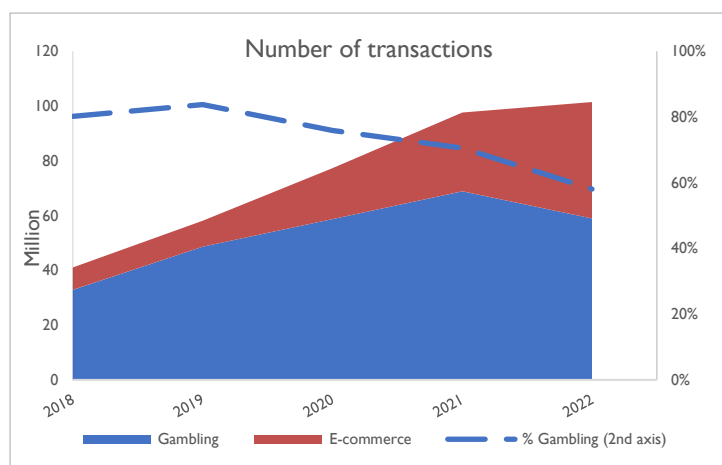
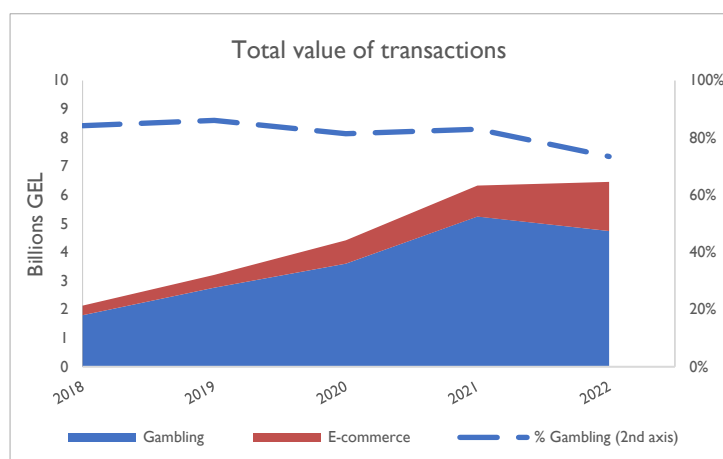


Chart 6.12 Total value of online transactions in Georgia decomposed by gambling and e-commerce



Source: National Bank of Georgia

Interestingly, the share of gambling transactions is very high in total online transactions in Georgia. Though the share of gambling has been declining during the past few years, the pace of growth of e-commerce transactions has been faster than the growth of gambling transactions. In 2022, following the approval of the new gambling restrictions by the Parliament of Georgia in December 2021, the growth of gambling transactions became negative, with the number of transactions declining by YoY 14.5% and the value of transactions declining by YoY 9.6%. As a result, the share of gambling in total e-commerce transactions in 2022 was 58.1%, while it was 70.5% (12.5 pp less) in 2021. But the share of gambling still remains 8.1 pp higher than the share of e-commerce transactions.

The share of transactions made via cards issued by foreign banks is very low in total online transactions made in Georgian e-commerce terminals. That is, most of the transactions recorded in Georgian e-commerce terminals are made by cards issued in Georgia. Even though the usage of foreign cards more than doubled in 2022, it reached only a 5.2% share. The inflow of immigrants from Russia, Ukraine, and Belarus to Georgia after the beginning of the war in Ukraine on February 24th, 2022, could explain this increase in the usage of foreign bank-issued cards in Georgian e-commerce terminals.

As we saw, gambling has a large share in total e-commerce transactions made in Georgian terminals. But when it comes to online transactions made via foreign bank-issued cards in Georgian terminals, almost all (99.8%-100%) transactions are conducted in non-gambling e-commerce operations rather than gambling, which has not changed in 2022 either.

Notably, looking at the usage of Georgian cards outside of Georgia, there was a high increase in e-commerce operations in 2022. The number of transactions made via Georgian cards outside the country almost doubled (increased by YoY 93.8%) and reached 35.6 million. The rise in the value of those transactions was even higher – YoY 117.5% and amounted to GEL 3.1 billion. As a result, the share of operations made abroad in total transactions made by Georgian cards both inside and outside the country also increased. The share of abroad-made transactions in total number of transactions made by Georgian cards reached 31.1% in 2022, while it was 20.7% (10.5 pp lower) in 2021, while the share in the total value of transactions was 38.2% in 2022 and 22.9% (15.4 pp lower) in 2021. This rise can be related to an increased number of immigrants who have obtained cards issued by Georgian banks. It can be suggested that the immigrants might have been using those cards for making transactions outside Georgia more frequently than the local population.

Overview of the Existing Challenges and Opportunities

During the COVID-19 pandemic in Georgia, E-commerce emerged as an essential tool for companies to expand their reach to a broader audience. This trend has persisted and continues to grow. In discussions with stakeholders from the E-commerce industry, various obstacles within the E-commerce value chain were highlighted. These include suppliers, producers, vendors, warehouses, logistics, transportation businesses, distribution and fulfillment centers, and the end consumer. Each organization within this value chain plays a crucial role in achieving or failing to meet consumer expectations.

Respondents emphasized the significance of appropriate regulations that can drive long-term growth in the industry. Qualified personnel, both in management and service positions, were identified as a key contributing factor to the effective functioning of the value chain. Additionally, support from international donors and local banks is crucial in building trust toward E-commerce platforms and expanding into new markets.

The study conducted individual interviews and focus group meetings with representatives from the private sector, particularly SMEs, and business associations such as the, Georgian Electronic Commerce Association, Association “Voice of E-commerce,” and Association “E-Commerce Georgia”. The respondents commonly highlighted several challenges and current opportunities based on these engagements.

The bill on E-commerce under discussion

According to the Association “Voice of E-commerce,” the parliamentary committee reviews the bill on E-commerce. The association has already shared its comments with the parliament. The Georgian electronic commerce association also communicates with the committee and has provided numerous comments. In addition, several unresolved issues are outlined in the “EU for Digital report” that the association contributed to during focus group meetings. One of the issues is the need for more support for E-commerce business directions, such as exporting Georgian products to Europe.

This law complements the Protection of Consumer Rights law, as both are closely linked to E-commerce. The bill is crucial as it will define E-commerce, formalize customer and online shop agreements, and establish regulations for fines in cases of fraud, among other necessary provisions. It addresses the responsibilities of intermediate organizations, such as hosting providers, which became

an issue in a fraud case where the host organization was wrongly held responsible for passing information. The law aims to regulate such cases.

Another concern is the rising trend of shadow Facebook purchases, where sellers ask customers to transfer money directly to their accounts, posing fraud risks. The number of dissatisfied customers is increasing, resulting in losses for the E-commerce industry. The associations hope that introducing this law will lead to legalizing such transactions and increase trust in the E-commerce industry. Overall, the Law on E-commerce will lead to legalizing all transactions and accurately reflecting the market's actual size, which the associations believe is much larger than estimated by research companies.

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

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

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

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

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

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

New E-commerce Tutorial on Udemy

In collaboration with USAID, the Georgian electronic commerce association has developed a new tutorial on E-commerce. The tutorial will be uploaded to Udemy and will teach individuals how to create and manage E-commerce shops in three specific directions: consumer goods, restaurant

business, and hotel business. Users can download the tutorial at an affordable price and follow step-by-step instructions to create their own shops. Additionally, platforms for creating E-shops will be made available. The course can be taken at any time without any restrictions. The project is scheduled to be launched in June.

The Successful Collaboration Delivering Quality E-commerce Education

Under the memorandum signed with BTU, the Georgian electronic commerce association offers students a course in E-commerce Administration. The course goes beyond theoretical knowledge and focuses on developing practical skills. Students have the opportunity to launch and run online stores and acquire the essential skills needed to operate an E-commerce business effectively. The expertise of field experts is shared through real examples and practical situations, enriching the learning experience.

Discussions are underway, with the involvement of USAID, to explore the possibility of integrating the modal course into the curriculum and syllabi to deepen the knowledge component further. This collaboration aims to enhance the educational program and ensure that students receive comprehensive and up-to-date training in E-commerce administration.

The Increasing Trend of E-Commerce Continues

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

The respondents report two types of effects from the Ukraine war. According to them, at the beginning of the war, there was a drop in sales which was recovered quickly. Some businesses report that migration from the conflict increased the demand for daily living products, especially in Tbilisi and Adjara. The buyers were mainly Georgians trying to renovate their houses for rent. The income received from migrants further boosted the purchases; however, recently, the situation is stabilized. Others did not notice this trend, as home electronic appliances were the top-selling products before the war.

E-commerce companies express their interest to enter in neighboring countries markets. However, the views of companies differ. One part stresses the difficulties associated with the weak local infrastructure, and others point out that the infrastructure is different (from Georgian, and they already made the first steps in the Azerbaijan market and Uzbekistan). According to them, there is a need for more research on foreign country markets.

The impediments along the E-Commerce value chain

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

According to a fintech company representative, the user experience is vital for e-commerce development. According to the research checkout process after selecting the desired product should not last more than two minutes. If it does, there is a 60% chance that the user will change his mind. In Georgia, only filling out the long registration form takes more time. As a solution, the company

representatives offer to use the single sign-on verification method, which allows registering automatically for Google, Facebook, or other platform users. After verification and selecting the form of payment, another problem pops up as the user is redirected to the bank account from the shop's webpage. According to the respondent, the user might need to learn about banks' policies and think paying using other banks' cards might lead to additional charges. There are many cases of withdrawal from the system because of this problem. In addition to the mentioned problems, it is important to note that most of our e-commerce platforms and vendors prioritize security and do not save credit/debit card information. Implementing and maintaining the necessary information security controls for this feature can be highly expensive. Moreover, it is worth highlighting that TBC and BoG (Tbilisi Bank Corporation and Bank of Georgia) can provide e-commerce platforms and merchants with a secure method of transaction through direct bank transactions. This eliminates the need to enter card information, resulting in increased security and potentially reducing the high commission fees associated with card transactions (approximately 2-3%). Furthermore, inability to pay with a foreign card, and the nonexistence of Google and Apple pay tools is also a challenge.

Furthermore, many merchants are still working on cash. There is no interest among the platform owners to investigate what number of users enter the website and what percentage buy the product. Most of the Georgian E-commerce platforms do not gather any statistics and do not try to improve them.

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

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

The abovementioned problems and failure in return policy lead to trust issues, which later translates into fewer orders via Georgian e-commerce platforms. According to e-commerce business representatives, Georgian merchants understand that e-commerce is not a good-to-have but a must-have tool. They estimated the size of e-commerce as around 1% of total sales, while the EU's average is 17%. This gap indicates e-commerce's considerable potential in Georgia.

E-Commerce Academy - response to the impediments

The e-commerce association Georgia in partnership with TBC and the USAID Economic Security Program established the E-commerce Academy. It resulted from long-lasting research to identify the positions and skills needed for the industry. The research showed the necessity of a new position of e-commerce strategy manager. The academy graduate from this position can identify the resources and personnel needed for establishing an e-commerce system (including all value chain processes mentioned above) and ways to communicate and manage them effectively. According to the association, companies requiring staff with such skills used to announce the vacancy for a web developer, which was not relevant. The new position will fulfill the demand and improve the operations in the market.

The recently graduated cohort included 25 students. During the four-month course, they studied seven theoretical and three practical modules. According to the association, more professions will be added to the academy, including specialists in digital marketing and logistics. Furthermore, the academy

plans the accreditation as a vocational program. It closely works with the Skills Agency Georgia to elaborate on standards. As e-commerce is a new field, standards did not exist. GIZ played a critical role in supporting the association in the accreditation process.

Another association, E-Commerce Georgia, also stressed the importance of qualified staff in the industry. However, the association argues that the supply chain comprises managers and service staff such as logistic operators, call center operators, etc. The managers are necessary to select the staff, and highly qualified staff is necessary for smooth operations in the system. Their proper training is also of paramount importance.

Trust Mark Project and E-Commerce Day- increasing the trust toward the E-Commerce Platforms

Most e-commerce stakeholders mentioned trust in the e-commerce platforms as the main driver for the development. With the assistance of the USAID Economic Governance Program , the E-commerce Association Georgia elaborated on the project of giving Trust Marks to e-commerce platforms satisfying eligibility conditions. The conditions are straightforward - the company should practice ethical working and fair return policy considering international standards. The association will conduct special audits to ensure this is the case. The project will assure users that the product bought from the platform with trade mark will guarantee high-quality and trusted service.

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

Super-app - the way to Improve User Experience

TNET (TBC Group) has introduced the first Super-app in the Georgian market to enhance the user experience. This application offers a range of core features while providing access to independently created mini-apps. The Super-app serves as a platform that delivers an ecosystem of mini-apps, allowing users to select and personalize their app experiences based on their interests and preferences. A prominent example of a successful super app is WeChat, widely utilized in China for various commercial purposes. Similarly, through this Super-app, users can enjoy several convenient functionalities such as purchasing tickets for entertainment and cultural events, online shopping for various items, discounts at hotels in Georgia, acquiring discount vouchers for various activities, and even topping up mobile credits. The introduction of the Super-app is expected to significantly improve the overall user experience by providing a unified and comprehensive platform where users can access multiple services and features within a single application. This convenience and versatility offer users a seamless and personalized digital experience, making their interactions more efficient and enjoyable.

The fulfillment Infrastructure - Importance for E-Commerce

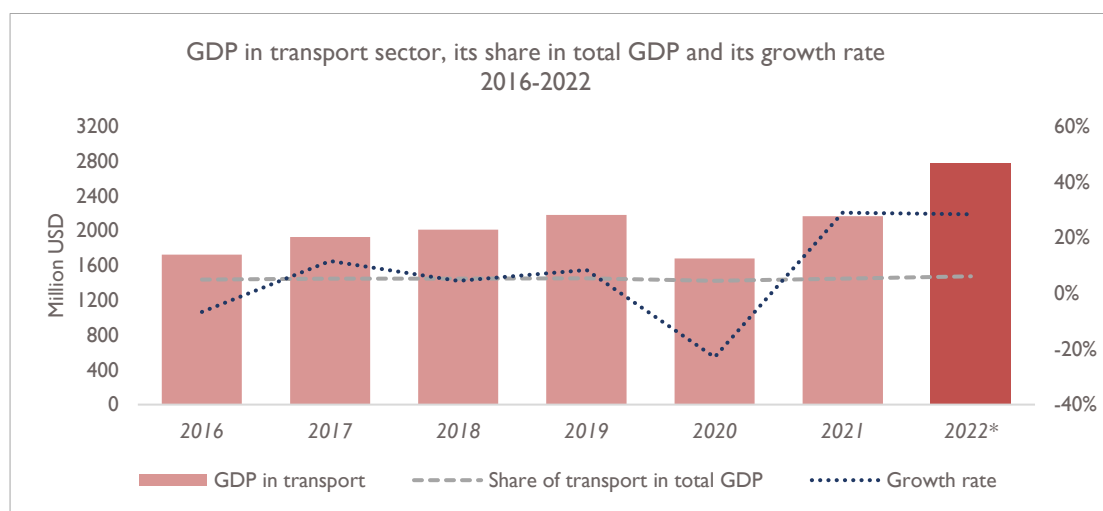
The associations stressed the importance of fulfillment infrastructure on the market that will improve the situation in several directions. According to the respondents, a fulfillment center is a third-party service provider that processes and ships products purchased by customers. E-commerce fulfillment is in charge of the logistics required to get an online order to a customer's doorstep, eliminating the need for the merchants to package, address, and ship each order themselves. The fulfillment centers differ from the warehouse because the first only stores the product. In contrast, the fulfillment center's role is efficiently meeting customers' needs. According to the associations, FedEx plans to build the

fulfillment infrastructure near the Airport highway leading to improved operations in many directions, including the cross-border acquiring discussed in our previous publication.

TRANSPORT AND LOGISTICS

The transport and logistics value chain is the largest among all cross-cutting value chains, and includes rail transport, pipelines, taxi operations, air transport, water transport, postal courier services, warehousing activities, etc. The value chain intertwines with every other sector and plays a significant role in domestic and international trade. Consequently, it was significantly affected by the pandemic and the subsequent economic rebound. In 2022, Georgia's transport and logistics value chain experienced considerable growth. The outbreak of Russia's war in Ukraine, led to the redirection of transport routes away from countries involved in the conflict, with Georgia becoming an alternative transit route, increasing the demand for transport and logistics services in the country.

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



Source: National Statistics Office of Georgia

The GDP of the transport sector in Georgia has been experiencing stable, moderate growth, averaging an annual 4.4% through 2016-2019. However, in 2020, the GDP of the sector suffered a decline of YoY 23.0%. In 2021, there was a visible recovery as the GDP of 2021 grew by YoY 28.9%, the pre-pandemic value (USD 2.17 billion in 2021 was only 0.7% lower compared to USD 2.18 billion in 2019). In 2022, the growth rate of the transport sector's GDP was almost the same as in 2021, with a YoY growth of 28.4%. However, while the growth in 2021 was mainly attributed to the base effect, as the transport sector GDP was low in 2020, the growth in 2022 was mainly stimulated by the war in Ukraine. Additionally, the share of the sector in the total GDP also increased to 6.1% in 2022, while it was hovering around 5% in years before.

Chart 6.14 Turnover of the transport and logistics value chain

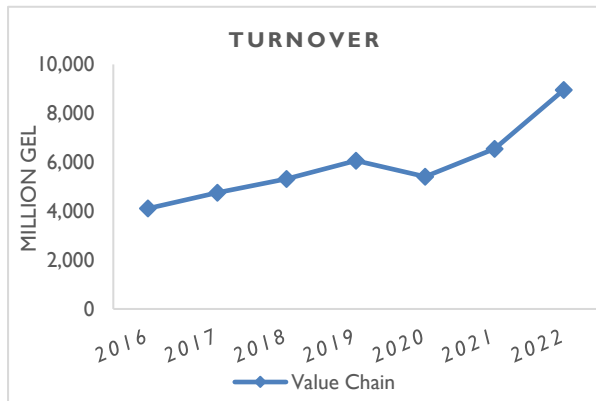
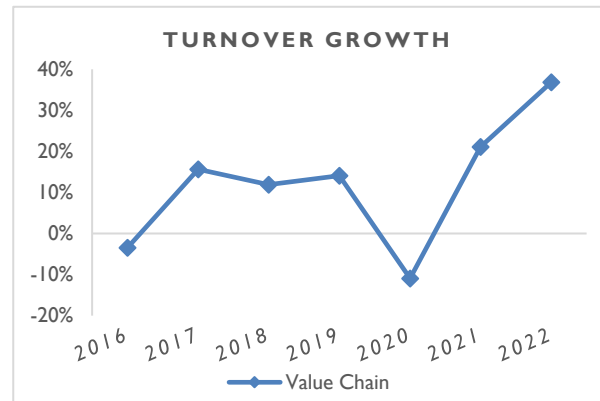


Chart 6.15 Annual growth rate of turnover for the transport and logistics value chain



Source: National Statistics Office of Georgia

Following a decline in 2020 (YoY 10.9 decline), the turnover of the transport and logistics value chain saw a robust recovery in 2021 (YoY 21.1% growth). The turnover growth was even stronger in 2022, showing a YoY increase of 36.8%. Unlike 2021, the growth in 2022 cannot be solely attributed to the low base effect but can be primarily explained by Russia’s war in Ukraine. The disruption of international transport routes passing through Ukraine and Russia led to a shift in demand towards Georgia, making it a popular alternative. Consequently, the demand for transportation and logistics services has been boosted. As a result, the turnover of the value chain peaked at GEL 8.96 billion in 2022.

Chart 6.16 Employment in the transport and logistics value chain

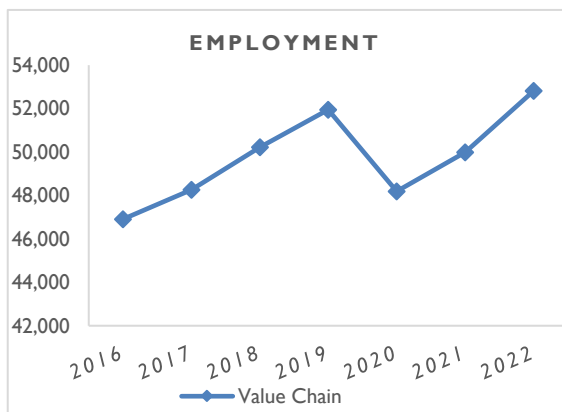
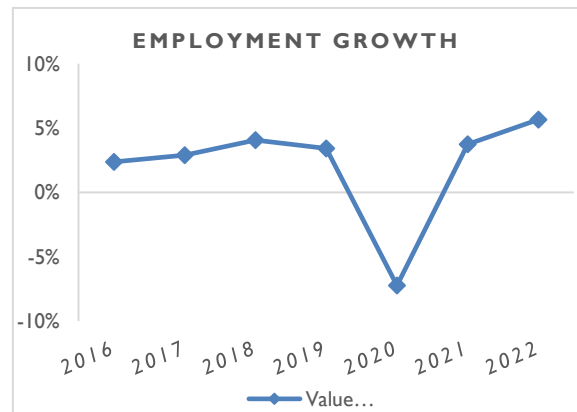


Chart 6.17 Growth rate of employment in the transport and logistics value chain



Source: National Statistics Office of Georgia

Employment in the value chain experienced similar trends as turnover through 2019-2022. Although employment increased in 2022, the rate of growth was significantly lower compared to the growth of turnover, which was YoY 5.7%. Interestingly, if compared to the pre-pandemic levels of employment in the value chain, in absolute terms, employment in 2022 (52, 815 workers) was approximately the same as in 2019 (51, 947 workers). This suggests that the companies have yet to adjust the number of

their employees to the rapidly increasing demand for transport and logistics services in Georgia. Consequently, it is expected that employment in the transport and logistics value will rise in 2023.

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

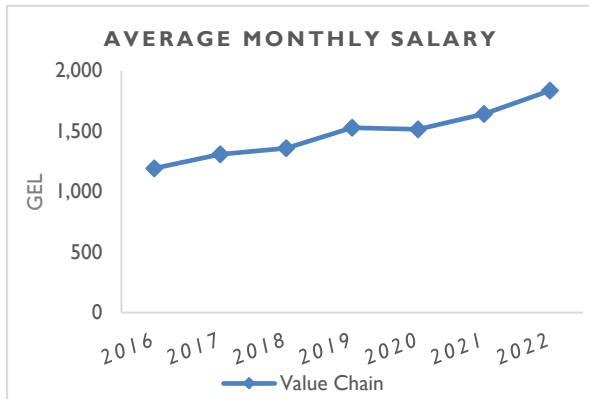
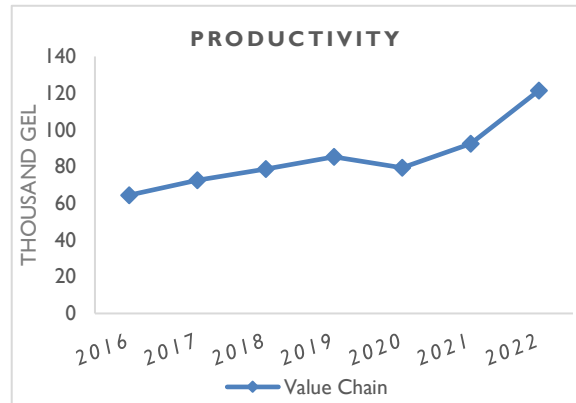


Chart 6.18 Productivity for the transport and logistics value chain

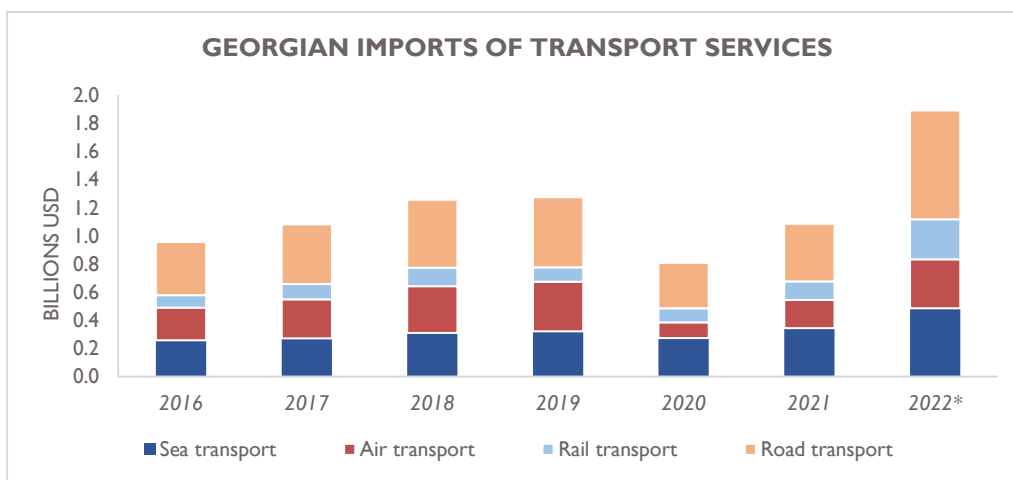


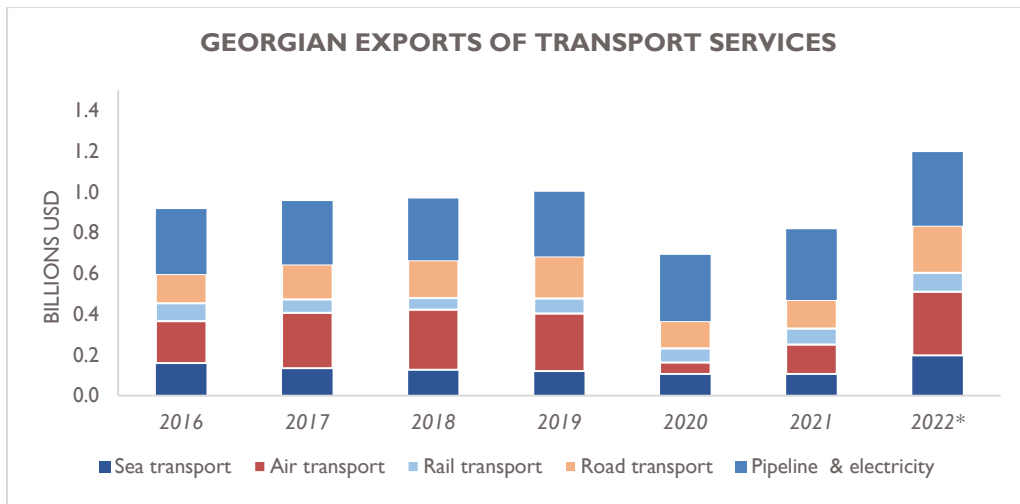
Source: National Statistics Office of Georgia

The average monthly salary for the transport and logistics value chain increased by YoY 11.7% in 2022, reaching a peak of GEL 1,836, which was higher than the average monthly salary recorded in this value chain during previous years. Moreover, the average monthly salary in 2022 was much higher than pre-pandemic levels, experiencing a YoY increase of 20.2% higher than in 2019, when the salary amounted GEL 1,528.

Interestingly, productivity in the transport and logistics value chain substantially increased in 2022 – by 31.3% compared to 2021 and by 52.9% compared to 2020. This suggests that the high growth can be attributed to the fact that the increase in the number of employees in this value chain did not keep pace with the rising demand for transport and logistic services. As a result, companies had to produce more output per worker in order to meet the demand.

Chart 6.20 Georgian imports and exports of transport services





Source: National Bank of Georgia

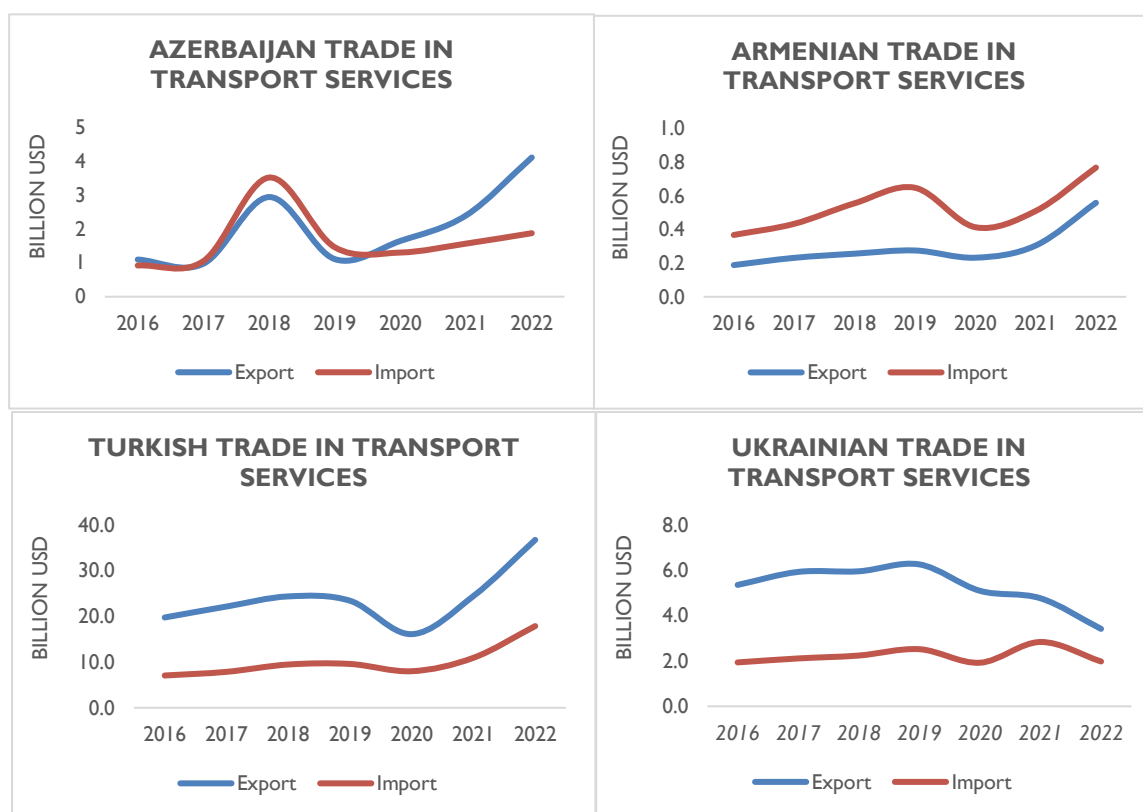
The pandemic heavily impacted trade in the transport and logistics sector. It was not able to recover to pre-pandemic levels in 2021. Though in 2022, trade in the transport and logistics sector showed remarkable growth, considerably surpassing pre-pandemic levels.

In 2022 imports of transport services, which in Georgia are higher than exports, increased by 74.1% compared to 2021 and 48.2% compared to 2019. Road transport services, having the largest share compared to imports of other types of transport services in Georgia, reached USD 772.5 million in 2022, which was 88.6% higher than in 2021. Imports of sea transport services were the second largest among the transport services imported to Georgia, amounting USD 485.0 million in 2022, which was 40.8% higher compared to 2021. The imports of rail transport services had the highest growth compared to the other transport services, YoY 117.4%. Interestingly, rail transport imports were least affected by the pandemic, declining only by 2.1% in 2022 and rapidly recovering to even pre-pandemic levels in 2021. Accordingly, the strong growth of rail transport imports in Georgia is unrelated to the low base effect and post-pandemic recovery. Rather the growth can be attributed to the war in Ukraine, which boosted demand for importing rail transport services from Georgia.

The exports of the trade services recorded slower growth than the imports – growing by 46.1% compared to 2021 and 19.4% compared to 2019. The growth in air transport exports – YoY 115.8% - was the highest compared to exports of other transport services, which is unsurprising as the pandemic affected air transport service imports the most (air transport service exports decreased by YoY 80.1% in 2020). Moreover, air transport exports are the second largest among other transport service exports in absolute terms - reaching USD 311.9 million in 2022, lagging behind the exports of pipeline & electricity services, which reached USD 362.6 million in 2022.

Overall, trade in transport services recorded a deficit of USD 692.5 million in 2022 due to the higher growth of transport imports compared to transport exports. The deficit has considerably increased compared to previous years – in 2021 deficit was USD 266.8, which was 2.6 less compared to 2022.

Chart 6.21 Regional trade patterns in the transport and logistics services



Source: Respective central banks

Other countries in the region except Ukraine have also experienced high growth in the trade of transport services. This can be attributed to the redirection of transport routes away from Ukraine and Russia towards neighboring countries. Interestingly, Azerbaijan, Turkey and Ukraine are mainly exporters of transport services, while Armenia, like Georgia, mainly acts as an importer. Turkey stands out in the region with a substantial trade surplus of USD 18.8 billion in 2022 and a significantly higher trade volume of transport services compared to other countries of the region. In 2022, Armenia and Azerbaijan experienced higher growth in their exports (compared to imports) of services with a YoY 83.6% and 71.3%, respectively. On the other hand, Turkey saw a higher growth in its imports of transport services, amounting to a YoY increase of 63.4%. Meanwhile, Ukraine faced a decline in both its exports and imports of transport services in 2022. Exports decreased by YoY 28.3%, while imports experienced a decline of YoY 30.3%.

Overview of the Existing Challenges and Opportunities

Transport and logistics are vital components of the economy, playing a crucial role in facilitating trade and supporting various industries. The development and improvement of transportation and logistics infrastructure, such as roads, highways, railways, ports, airports, and warehouses, are essential for the sustainable growth of all sectors. However, recent events, such as the COVID-19 pandemic and the war in Ukraine, have had contrasting effects on the industry. The pandemic led to a significant decrease in transportation demand, resulting in empty terminals and reduced operations. On the other hand, the war in Ukraine created a sudden surge in demand, putting pressure on the industry to adapt quickly to handle the increased volume of goods. In addition to the operational challenges posed by these events, businesses in the transport and logistics industry also face an ethical dilemma. The war in Ukraine has raised concerns about collaborating with Russian companies, leading to a moral quandary for industry stakeholders who must weigh financial gains against their sense of patriotism and loyalty to their countries. Furthermore, businesses in the industry have expressed frustration with what they

perceive as double standards from other countries. Some nations benefit financially from the opportunities created by the war while simultaneously criticizing those who engage in such activities. This discrepancy in standards adds to the complexities businesses in this sector face. Key challenges and opportunities have been identified through focus group discussions and individual stakeholder meetings across the value chain. These include adapting to fluctuating demand, ensuring the safety and efficiency of operations, navigating ethical considerations in times of war, and addressing discrepancies in international standards.

The Effects of the Ukraine War

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

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

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

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

Capturing new opportunities

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

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

According to the Association of Freight Forwarding of Georgia, the regulations are of minor concern among the problems as they are adapted to international standards. The association often intervenes to make necessary formalities faster and more convenient for the members. The main problems are associated with the infrastructure and rational processes.

The potential for carrying capacity is enormous, and it is essential to use this opportunity fully as a middle-corridor country. The private sector mentions the Port of Anaklia as a forgone opportunity

and a ferry service as a potential driver of freight turnover. Furthermore, they point out that the policy should be oriented toward the accumulation of freight through the logistic centers rather than transit, as it attracts much more money. The association also stresses the importance of regional development. In the case of receiving a large volume of freight, the carrying capacity of the Kaspian Sea infrastructure in Azerbaijan might be a problem. All the mentioned and other topics related to infrastructure development are discussed in detail in our previous publications. All the mentioned and other topics related to infrastructure development are discussed in detail in our previous publications. Human resources in the industry are the main contributors to organizing the processes rationally. The business representatives point out the considerable deficit of qualified staff. The problems with the knowledge and practical experience in the field led them to simplify the interview questions accepting everyone with a basic knowledge of mathematics.

Dual Vocation Education Solution to the Qualification Deficit

The logistic association is actively involved in elaborating the dual program with the Vocational Skills Agency with the help of GIZ. The dual program graduate will receive the Freight Forwarding Qualification, the most demanded qualification on the market. In addition, the Association of Freight Forwarding of Georgia provides an internationally accredited program regularly, contributing to developing industry skills.

Achieving the Competitive Advantage

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

Transport and Logistic Development Strategy 2023-2030

The transport and logistics industry representatives have positively evaluated the transport and logistic development strategy. They believe the strategy is practical and focused on addressing key issues within the industry. If the principles and actions outlined in the strategy are closely followed, it has the potential to bring about significant improvements in all aspects of the market. The representatives consider the strategy a potential game changer for the industry, as it will clarify the country's transport policy in the long term. This clarity is essential for businesses to make informed decisions and plan their operations effectively. The strategy document identifies the main challenges faced by the industry in terms of transport sectors, operations, logistic services, and human capital. These challenges have been thoroughly analyzed, and based on this analysis, the strategy proposes specific goals that address each of these issues. The representatives believe these goals are well thought out and consider the industry's complexities. The industry representatives emphasize the urgency of taking action to overcome these challenges. They argue that the activities to address these problems should have started earlier and stress the need for fast elaboration and implementation of the strategic action plan. They recognize that the current market presents numerous opportunities, and by swiftly executing the action plan, these opportunities can be seized effectively.

Number of Trailers – an Important Factor for the Amount of Freight Fee

According to industry representatives, the number of trailers used for freight delivery plays a crucial role in determining the associated fees. Various factors have recently influenced the number of trailers delivering freight to Georgia.

One significant factor was the Turkish earthquake, which increased European fees. Many Turkish vehicles were diverted to the disaster zone for cleaning operations, leading to scarcely available trailers. This increased the gap between supply and demand and subsequently drove up fees. Additionally, fluctuations in the number of Georgian-owned trailers have also impacted freight fees. Different profit opportunities in neighboring countries have led to varying trailer availability levels, negatively affecting the overall fees.

The recent news regarding the Visa-free regime with Russia has introduced some uncertainties regarding its effects on freight fees. On the one hand, the number of trailers moving between countries may increase as visa restrictions are lifted. However, the emergence of better opportunities within Russia for Georgian trailers may result in an outflow of trailers from Georgia.

Short-term Training as a Way of increasing Expertise in Logistics

The Association of Freight Forwarding of Georgia recognizes that general education in logistics is crucial for professionals in all sectors, particularly in regions where it is essential for economic activities. In the case of Georgia being an agrarian country, the association emphasizes that farmers should know the logistical processes involved in delivering their products to their final destinations.

To promote a better understanding of logistical processes, the association proposes active involvement of business associations. By collaborating with these organizations, knowledge and resources can be shared, providing valuable insights and practical training to professionals across different industries.

The association suggests utilizing short-term courses instead of lengthy programs for education and training. This approach is favored because the administrative process of establishing long courses often involves applying to the Ministry of Education, which can be time-consuming and may result in delays. By opting for shorter training sessions, professionals can quickly acquire the necessary knowledge and skills, enabling them to effectively participate in the logistical processes related to their respective fields.

Improvement in Transit Movements

The Association of Freight Forwarding of Georgia actively engages in initiatives to enhance transit movements. Recognizing that the improvement process involves addressing numerous small details, the association emphasizes that even incremental changes can significantly impact overall efficiency.

While progress has been made, the association acknowledges that some minor issues remain to be resolved. These might include logistical challenges, regulatory compliance, or coordination among various stakeholders. However, the association remains optimistic that the overall freight movement process will continue to improve by addressing these issues through small, incremental steps.

By actively engaging in these efforts, the Association of Freight Forwarding of Georgia demonstrates its commitment to streamlining transit movements and creating a more efficient and reliable logistics ecosystem. The association strives to overcome challenges and promote a smoother and more effective freight transportation system through ongoing collaboration with industry partners, regulatory bodies, and other relevant stakeholders.

The Effect of the Ukraine War on Air Shipment

The representative of the Air Cargo terminal confirms that the ongoing war in Ukraine has not caused significant operational disruptions. They clarify that their activities primarily revolve around transit operations, focusing on Tbilisi Airport and trailers, and Ukraine does not play a significant role in their operations. As a result, the war has had minimal impact on their processes.

The primary drivers of the terminal's business are the economic situation within the country, mainly import and transit activities, as well as the number of flights. While the war in Ukraine did introduce some minor distractions in the routes used for freight delivery to and from Georgia, the business quickly adapted to the situation by redirecting shipments through alternative routes. Consequently, the total volume of freight handled by the terminal remained unchanged.

Custom Regulations the Main impediment to Air Cargo Business

The representative of the Air Cargo terminal highlights that the perspective of making Georgia a logistical hub faces complexities due to the requirement of local solid carriers, which currently need to be improved in the country. Instead, the representative suggests that Georgia should strengthen its transit direction. Air Cargo representative provided successful cases of delivering freight to Armenia through transit routes, demonstrating the potential of such operations.

However, customs regulations are the main impediments to the development of transit operations. The air Cargo terminal representative mentioned the TI customs form, a mandatory transit document. In the case of trailers, a single TI form is sufficient for freight that includes multiple clients' goods. However, in the context of air cargo, a separate TI form is required for each client's goods, significantly complicating the process. This regulation discrepancy poses challenges and hinders the smooth flow of air cargo operations.

To address this issue, the Air Cargo Terminal representative suggests that the problem of customs regulations needs to be resolved at a higher level. They emphasize that the current customs code is more oriented toward land and railway regulations rather than those specific to air transportation. Therefore, efforts should be made to improve and adapt the customs code to suit the requirements and dynamics of air cargo operations.

Air Cargo Terminals not Feasible in Kutaisi and Batumi

The representative of the Air Cargo terminal explains that despite ongoing discussions about building additional air cargo terminals in Kutaisi or Batumi, it is not financially feasible. This conclusion is primarily based on two key factors: the low cargo volume in these regions and the considerable distance between major cities.

Constructing an additional terminal requires substantial investments, including infrastructure development, equipment acquisition, and operational expenses. The return on investment and the payback period for such projects could be significantly extended due to the limited potential cargo volume in Kutaisi and Batumi. It would be challenging to justify the expense and achieve a reasonable return on investment in these locations.

Moreover, the geographical distance between major cities in Georgia plays a role in the impracticality of additional air cargo terminals. The country's economy is primarily centralized in Tbilisi, where significant businesses have branches and operations. This concentration of economic activity in the capital city makes Tbilisi the primary hub for cargo transportation and logistics. It would be more

efficient and cost-effective to consolidate cargo operations and utilize Tbilisi's existing infrastructure rather than establish separate terminals in Kutaisi and Batumi.

APPENDIX I- NACE codes

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

Construction materials	16.23	Manufacture of other builders' carpentry and joinery	16.2	Manufacture of products of wood, cork, straw and plaiting materials	16.2	Manufacture of products of wood, cork, straw and plaiting materials
	23.11	Manufacture of flat glass	23.1	Manufacture of glass and glass products	23.1	Manufacture of glass and glass products
	23.12	Shaping and processing of flat glass	23.3	Manufacture of clay building materials	23.3	Manufacture of clay building materials
	23.13	Manufacture of hollow glass	23.6	Manufacture of articles of concrete, cement and plaster	23.6	Manufacture of articles of concrete, cement and plaster
	23.32	Manufacture of bricks, tiles and construction products, in baked clay	23.7	Cutting, shaping and finishing of stone	23.7	Cutting, shaping and finishing of stone
	23.6	Manufacture of articles of concrete, cement and plaster	24.33	Cold forming or folding	25.11	Manufacture of metal structures and parts of structures
	23.7	Cutting, shaping and finishing of stone	25.11	Manufacture of metal structures and parts of structures	25.12	Manufacture of doors and windows of metal
	24.33	Cold forming or folding	25.12	Manufacture of doors and windows of metal		
	25.11	Manufacture of metal structures and parts of structures				
	25.12	Manufacture of doors and windows of metal				
Personal and protective equipment	HS-6	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.		
Wooden toys			N/A		N/A	
Customer relationship management			82.2	Activities of call centres	N/A	
Architecture, Design and Engineering			71	Architectural and engineering activities; technical testing and analysis	71	Architectural and engineering activities; technical testing and analysis
			74	Other professional, scientific and technical activities	74	Other professional, scientific and technical activities
Finance and accounting			69	Legal and accounting activities	69	Legal and accounting activities
Human resources			78	Employment activities	N/A	
ICT	HS-6	852210; 852352; 853400; 854011; 854012; 854020; 854040; 854050; 854060; 854071; 854072; 854079; 854081; 854089; 854091; 854099; 854110; 854121; 854129; 854130; 854140; 854150; 854160; 854190; 854231; 854232; 854233; 854239; 854290; 844331; 844332; 847130; 847141; 847149; 847150; 847160; 847170; 847180; 847190; 847330; 847350; 852351; 852841; 852851; 852861; 851711; 851712; 851718;				

		851761; 851762; 851769; 851770; 851950; 852550; 852560; 852580; 852910; 852990; 853110				
	26.1	Manufacture of electronic components and boards	26	Manufacture of computer, electronic and optical products	26	Manufacture of computer, electronic and optical products
	26.2	Manufacture of computers and peripheral equipment	58	Publishing activities	58	Publishing activities
	26.3	Manufacture of communication equipment	62	Computer programming, consultancy and related activities	62	Computer programming, consultancy and related activities
			63	Information service activities	63	Information service activities
E-commerce			47.9	Retail trade not in stores, stalls or markets	47.9	Retail trade not in stores, stalls or markets
Transport and logistics	49	Land transport and transport via pipelines	49	Land transport and transport via pipelines	49	Land transport and transport via pipelines
	50	Water transport	50	Water transport	50	Water transport
	51	Air Transport	51	Air Transport	51	Air Transport
	52	Warehousing and support activities for transportation	52	Warehousing and support activities for transportation	52	Warehousing and support activities for transportation
	53	Postal and courier activities	53	Postal and courier activities	53	Postal and courier activities
Accommodation			55.1	Hotels and similar accommodation	55.1	Hotels and similar accommodation
			55.2	Holiday and other short-stay accommodation	55.2	Holiday and other short-stay accommodation
Food Services			56.1	Restaurants and mobile food service activities	56.1	Restaurants and mobile food service activities
Travel Agency activities			79.11	Travel agency activities	79	Travel agency, tour operator reservation service and related activities

APPENDIX 2 - Survey questionnaire

A1. კომპანიის რეკვიზიტები:

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

B1. როგორ იყო კომპანიის წლიური ბრუნვა 2019 წელში:

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

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

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

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

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

C2. აქედან რამდენ პროცენტს შეადგენდნენ?

ქალები _____ % 15-29 წლის ახალგაზრდები _____ %

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

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

APPENDIX 3 - Stakeholders

Sector	Value Chain	Organization	Association/Private Sector	Representative
Creative Industries	Media content production & Post-production	Anymatory	Private Sector	Sandro Katamashvili
	Media content production & Post-production	20 Steps Production	Private Sector	Vladimer Katcharava
	Media content production & Post-production	Post Red (Post production)	Private Sector	Tina Babakishvili
	Media content production & Post-production	Sound Designer	Private Sector	Paata Godziashvili
	Media content production & Post-production	Enkeny Films	Private Sector	Sopho Bendiashvili
	Georgian Film Cluster	Georgian Film Cluster	Private Sector	David Vashadze
	Artisan	Ceramics	Private Sector	Teona Gogiashvili
	Artisan	Textile	Private Sector	Maia Bakradze
	Artisan	Jewelry	Private Sector	Mariam Ninikashvili
	Artisan	Embroidery	Private Sector	Ia Nadiradze
	Artisan	Ceramics	Private Sector	Medo Kevlishvili
Tourism	DMOs	Kakheti DMO	Public Sector	Elene Papunashvili
	DMOs	Imereti DMO	Public Sector	Lali Zhorzholiani
	DMOs	Imereti DMO	Public Sector	Mariam Bibichadze
	DMOs	Samtskhke-Javakheti DMO	Public Sector	Nino Khazalashvili
	DMOs	Samegrelo-Zemo Svaneti DMO	Public Sector	Tea Sajaia
	DMOs	Samegrelo-Zemo Svaneti DMO	Public Sector	Zviad Karchava
	Adventure Tourism	Georgian Mountain Guides Association	Private Sector/Association	David Rakviashvili
	Adventure Tourism	Georgian Tourism Association	Private Sector/Association	Nata Kvatchantiradze
	Hotels	HORECA	Private Sector/Association	Shalva Alaverdashvili
	Hotels	Adjara Group	Private Sector	Oto Berishvili
	Hotels	Hotel Collection International	Private Sector	Ana Muradashvili
	Hotels	Legends Tskaltubo Spa Resort	Private Sector	Andro Jishkariani
	Travel Agencies	Caucasus Travel	Private Sector	Maia Kiknadze
	Travel Agencies	Explore Georgia	Private Sector	Guram Klibadze
	Travel Agencies	Visit Georgia	Private Sector	Giorgi Khidesheli
	Adventure Tourism	Georgian Ecotourism Association	Private Sector/Association	Natalia Bakhtadze
Cross-Cutting Sectors	E-Commerce	E-Commerce Association of Georgia	Private Sector	Nino Pruidze
	E-Commerce	Voice of E-Commerce	Private Sector/Association	Tamar Gogolashvili
	E-Commerce	Geriffin LLC (B2C.GE)	Private Sector/Association	Ketevan Vachiberidze
	E-Commerce	TNET	Private Sector	Nika Chilindrishvili

	Transport & Logistics	Vengo	Private Sector	Levan Nebieridze
	Transport & Logistics	Mintrans	Private Sector	Irma Varsimashvili
	Transport & Logistics	Lasare	Private Sector	Giorgi Nadirashvili
	Transport & Logistics	IT Group	Private Sector	Zura Tsinadze
	ICT	Data Art	Private Sector	Ina Egieva
	ICT	Data Art	Private Sector	Salome Melkadze
	ICT	Sweet Digital	Private Sector	Giorgi Agladze
Light Manufacturing	Furniture	Georgian Furniture Cluster	Association/Private Sector	Besik Verdzeuli, Irine Verdzeuli
	Furniture	Georgian Woodworkers and Furniture Manufacturers association	Association	Mamuka Khoshtaria
	Furniture	Design Georgia	Association	Keta Buachidze
	Furniture	Madera Georgia	Private Sector	Beso Matkava
	Furniture	LTD Funduki	Private Sector	Alexander Tsivtsivadze
	Furniture	I.E. Akaki Gurgeni	Private Sector	Akaki Gurgeni
	Furniture	LTD Conibe	Private Sector	Nika Tsipuria
	Furniture	LTD Factory	Private Sector	Nikoloz Menabdishvili
	Furniture	LTD Ifani	Private Sector	Zurab Shubitidze
	Furniture	LTD Woodstyle	Private Sector	Vasil Shavidze
	Furniture	LTD Randi	Private Sector	Londa Shavadze
	Packaging	PMAG Cluster	Association	Anano Rukhadze
	Packaging	LTD Caucaspac	Private Sector	Guram Makarov
	Packaging	LTD Georgian Packaging	Private Sector	Veronika Gogokhia
	Packaging	Poliedro	Private Sector	Nika Bitskinashvili
	Packaging	I.E. Zaza Mameshvili	Private Sector	Zaza Mameshvili
	Packaging	LTD Fabrika 1900	Private Sector	Zura Alavidze
	Packaging	LTD Greenpack	Private Sector	Salome Kareli
	Personal and Protective Equipment (PPE)	LTD Doctor Goods	Private Sector	Mamuka Khaduri
	Personal and Protective Equipment (PPE)	LTD Respiratori	Private Sector	Sergo Galustiani
	Personal and Protective Equipment (PPE)	Elven Technologies	Private Sector	Vamekh Kherkheulidze
	Personal and Protective Equipment (PPE)	LTD Boldi	Private Sector	Giorgi bogveli
	Personal and Protective Equipment (PPE)	LTD Elselema	Private Sector	Elguja Mamasakhlisi, Marina Tsiklauri
	Personal and Protective Equipment (PPE)	LTD GL Style	Private Sector	Luara Gvaladze
	Personal and Protective Equipment (PPE)	LTD Materia Fashion House	Private Sector	Tina Kuprashvili; Mirian Koiava
	Wooden Toys	LTD Sheni Mtsvane Satamasho	Private Sector	Melano Tkabladze
	Wooden Toys	LTD Mtsvervali	Private Sector	Tina Datukishvili
	Wooden Toys	Kodala	Private Sector	Kote Svanadze
	Wooden Toys	LTD Katamura	Private Sector	Tatia Tvaladze
	Wooden Toys	Dadari Social Enterprise	Private Sector	Archil Gobejani

	Wooden Toys	LLC Kokito	Private Sector	Marika Grigolishvili
	Wooden Toys	Geostyle Wood Art	Private Sector	Dato Gvantseladze
	Construction Materials	Georgian Construction Materials Cluster (GCMC)	Association	Mariam Tsaishvili
	Construction Materials	Georgian Cement Association	Association	Irakli Makharoblidze, Irakli Giorgadze
	Construction Materials	LTD Basalt Fibers	Private Sector	Iveri Kutsnashvili
	Construction Materials	LTD Smarter	Private Sector	Dimitri Abuladze
	Construction Materials	LTD Akustiko	Private Sector	Avtandil Kraveishvili
	Construction Materials	LTD AI Group	Private Sector	Shalva Khargelia
	Construction Materials	LTD Universe Business Group (UBG)	Private Sector	Romani Badalyan
	Construction Materials	JSC Panex	Private Sector	Giorgi Levidze
	Construction Materials	LTD Kamara	Private Sector	Kakha Bikashvili
Waste Management and Recycling	Waste Management and Recycling	Waste Management Association	Association	Giorgi Guliashvili
	Waste Management and Recycling	LTD Neoprint	Private Sector	Archil Tvaradze
	Waste Management and Recycling	LTD TRC	Private Sector	Zurab Bazghadze
	Waste Management and Recycling	LTD "Bio Diesel Georgia"	Private Sector	Murman Pataraiia
	Waste Management and Recycling	LTD "Geo Mulch"	Private Sector	Konstantine Gogaladze
	Waste Management and Recycling	LTD KERE	Private Sector	Giorgi Kereselidze
	Waste Management and Recycling	LTD „Sanitar“	Private Sector	Levan Kvirkvelia
	Waste Management and Recycling	TENE	Private Sector	Levan Merabishvili
	Waste Management and Recycling	LTD "Polivimi"	Private Sector	Beka Ponjavadze
	Waste Management and Recycling	LTD Mtsvane Sachukari	Private Sector	Dachi Janelidze
Shared Intellectual Services	Architecture, Design and Engineering	Union of Architects, Individual Representative	Association/Private Sector	Pavle Maisuradze
	Architecture, Design and Engineering	Designbureau	Private Sector	Nia Mgaloblishvili
	Architecture, Design and Engineering	Individual Representative	Private Sector	Giorgi Inasaridze
	Architecture, Design and Engineering	Green Studio	Private Sector	Sulkhan Sulkhanishvili
	Architecture, Design and Engineering	Center of Contemporary Art (CCA) - Tbilisi	Private Sector	Wato Tsereteli
	Architecture, Design and Engineering	Individual Representative	Private Sector	Nano Zazanashvili
	Architecture, Design and Engineering	Werkraum Design Architecture	Private Sector	Kakhaber Kakhishvili
	Architecture, Design and Engineering	Multiverse Architecture (MUA)	Private Sector	Devi Kituashvili
	Finance and Accounting	Georgian Federation of Professional Accountants and Auditors (GFPAA)	Association	Lavrenti Chumburidze
	Finance and Accounting	LTD Accountant-Outsourcing	Private Sector	David Todua

Finance and Accounting	LTD Management and Accounting	Private Sector	Tedore Khomeriki
Finance and Accounting	LTD Business Consultation Center	Private Sector	Shorena Gogua
Finance and Accounting	SavvY	Private Sector	Mariam Koyava
Finance and Accounting	Baker Tilly	Private Sector	Bessik Bisieshvili
Finance and Accounting	LTD Tbilisi Auditors Team	Private Sector	Levan Jangulashvili
Human Resources Management	Human Resources Professionals Association (HRPA)	Association	Salome Ghachava
Human Resources Management	HR Hub; Student.job.ge	Private Sector	Ana Navdarashvili
Human Resources Management	Elvictor Crew	Private Sector	Nino Gujavidze
Human Resources Management	HR Partners	Private Sector	Nino Jinjolava
Human Resources Management	Self.ge	Private Sector	Nino Peikrishvili
Human Resources Management	HR4B	Private Sector	Irina Shalamberidze
Customer Relationship Management	Majorel	Private Sector	Thea Romanova
Customer Relationship Management	K-Call	Private Sector	Irina Darovskaya
Architecture, Design and Engineering	Union of Architects, Individual Representative	Association/Private Sector	Pavle Maisuradze
Architecture, Design and Engineering	Designbureau	Private Sector	Nia Mgaloblishvili
Architecture, Design and Engineering	Individual Representative	Private Sector	Giorgi Inasaridze
Architecture, Design and Engineering	Green Studio	Private Sector	Sulkhan Sulkhanishvili
Architecture, Design and Engineering	Center of Contemporary Art (CCA) - Tbilisi	Private Sector	Wato Tsereteli
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Architecture, Design and Engineering	Multiverse Architecture (MUA)	Private Sector	Devi Kituashvili
Finance and Accounting	Georgian Federation of Professional Accountants and Auditors (GFPAA)	Association	Lavrenti Chumburidze
Finance and Accounting	LTD Accountant-Outsourcing	Private Sector	David Todua
Finance and Accounting	LTD Management and Accounting	Private Sector	Tedore Khomeriki
Finance and Accounting	LTD Business Consultation Center	Private Sector	Shorena Gogua

APPENDIX 4 - Focus group questionnaire

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

1. ბიზნეს საქმიანობა

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

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

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

3. კონკურენცია, კონკურენტული უპირატესობა (Competitiveness potential)

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

4. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

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

6. პროგნოზი

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

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

7. ბარიერები

ტოპ 3 ფაქტორი, რომელიც აფერხებს ბიზნეს საქმიანობას

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

8. შესაძლო გზები ამ პრობლემების აღმოსაფხვრელად?

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

APPENDIX 5 - 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 პოტენციური მომდევნო 3 თვეში? დაინტერესება საერთაშორისო კლიენტებისგან?		
ექსპორტის პოტენციური უფრო მაღალი ღირებულების საბაზრო სეგმენტზე გასვლისთვის?		
ძირითადი საერთაშორისო საბაზრო ტენდენციები? როგორ არის საქართველო პოზიციონირებული?		

12. სექტორის გაუმჯობესების/სრულყოფის შესაძლებლობები (Upgrading Potential)

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

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

ძირითადი შუალედური პროდუქტები. იმპორტზე დამოკიდებულება	ადგილობრივი წარმოების (და %)
	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
- Solid Waste Management and Recycling
- 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).